

China Construction Bank (Brasil)
Banco Múltiplo S/A

**Consolidated financial statements for the
years ended December 31, 2019**

China Construction Bank (Brasil) Banco Múltiplo S/A

Consolidated financial statements at December 31, 2019

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Management Report

Dear Shareholders,

The Senior Management of China Construction Bank (Brasil) Banco Múltiplo S.A. (“CCB Brasil” or “Bank”) hereby submits for your consideration the Bank’s Management Report, the Financial Statements and the corresponding Unqualified Independent Auditors’ Opinion and the Audit Committee Report related to the six-month period ended on December 31, 2019. All information contained in this Report, except where otherwise indicated, is presented in National Currency (Brazilian Reais – R\$), on a consolidated basis, and includes the Bank’s subsidiaries. The consolidated financial statements were prepared based on the international standard issued by the International Accounting Standards Board (IASB) and will be disclosed, within the legal term, at the electronic address www.br.ccb.com.

The China Construction Bank (Brasil) subsidiary

Since August 29, 2014, the Bank has been part of the Beijing-based China Construction Bank Corporation (CCB Group), which ranks as China's second largest commercial bank. With an operating history since 1954, CCB shares are traded on the Hong Kong Stock Exchange and the Shanghai Stock Exchange.

Economic Environment

The year of 2019 showed again low growth in the Brazilian economy. This time, the explanations come in part from the very optimistic expectations of the government and, on the other hand, from the very weak world growth, especially due to the course of the US-China trade war and the Argentine crisis.

In fact, world growth was below 3%, with some important countries like Germany in recession. Friction between China and the U.S. was the focus of attention throughout 2019, but with a preliminary agreement being made later in the year.

In the Brazilian case, in spite of the weak growth, last year was an evolution in important reforms, especially in social security. The government continued with some concessions and privatizations, approved the Economic Freedom MP and put into operation the positive registration of credit borrowers.

The highlight of last year was, again, retail, with car sales on the rise and the real estate market taking the first steps of recovery with the Selic's historical drop to 4.5% at the end of the year. This fall in interest rates did not affect inflation, remaining low throughout the year.

Overall, the Brazilian economy maintained the pace of recovery it had been seeing since 2016, with signs that it will be able to grow more in the coming years.

Human Resources and Service Centers

The Bank ended the period of 2019 with 471 employees (488 in 2018) and nine service centers.

Consolidated Results of Period

As a result of the adopted equations and the final adjustment measures in the value of its assets, CCB Brasil ended 2019 with a negative net result of R\$ 39.2 million (compared to R\$ 211.1 million in 2018). The result includes R\$ 40.6 million related to tax credits arising from tax losses written off in 2019.

At the end of 2019, loans and advances to customers reached R\$ 10,378.0 million, an increase of 17.39% compared to the portfolio of R\$ 8,840.5 million in the previous year. The expanded credit portfolio, which includes sureties and guarantees provided, is R\$ 11,824.9 million (R\$ 10,399.1 million in 2018).

Total funding reached R\$ 15,202.6 million, a volume 25.7% lower than the R\$ 20,463 million obtained in 2018. The Head Office provides resources to the Bank according to its operational need; at the end of 2019, these resources represented 23.9% of funding.

At the end of 2019, the Bank's shareholders' equity reached R \$ 1,659.8 million and the Basel ratio stood at 14.95% and level 1 at 11.65%.

Final considerations

We thank our shareholders, customers and suppliers for the support and trust in our management, and our employees, for the valuable contribution.

(Disclosure authorized at the Board of Directors' Meeting held on March 24, 2020).

(A free translation of the original in Portuguese)

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***China Construction
Bank (Brasil)
Banco Múltiplo S.A.
and its subsidiaries
Consolidated financial statements at
December 31, 2019
and independent auditor's report***





(A free translation of the original in Portuguese)

Report of independent auditor on the consolidated financial statements

To the Board of Directors and Shareholders
China Construction Bank (Brasil)
Banco Múltiplo S.A.

Opinion

We have audited the accompanying consolidated financial statements of China Construction Bank (Brasil) Banco Múltiplo S.A. ("Bank") and its subsidiaries ("Consolidated"), which comprise the consolidated balance sheet as at December 31, 2019 and the consolidated statements of operations, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of China Construction Bank (Brasil) Banco Múltiplo S.A. and its subsidiaries as at December 31, 2019, and their consolidated financial performance and their cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

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

Key audit matters

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





China Construction Bank (Brasil)
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Our audit for year ended December 31, 2019 was planned and performed considering that the Consolidated operations have not changed significantly in comparison to the previous year. In this context, the Key Audit Matters, as well as our audit approach, have remained in line with those of the previous year.

Why it is a Key Audit Matter	How the matter was addressed in the audit
Expected credit loss of loans and advances considering the implementation of IFRS 9 - Financial Instruments (Notes 2(c) ii, 7 and 37)	
The Bank and its subsidiaries adopted the IFRS 9 accounting standard, which establishes requirements about the methodology for measurement of credit loss of loans and advances. The determination of expected credit loss of loans and advances considering the requirements of IFRS 9, is an area that involves a high level of judgment by Management for the classification of credits by stage, as prescribed by IFRS 9, as well in the measurement of the expected loss amount necessary, through the application of a methodology and processes that use several assumptions and that consider internal and external factors, including default levels, the financial position of the counterparty, guarantees, renegotiation policy, current and prospective economic scenarios. Therefore, this is an area that we consider of focus in our audit.	We considered in our procedures an understanding of the relevant processes related to the determination of the expected credit loss, including the adherence to the policies applied to comply with IFRS 9 requirements. With the use of our specialists, we applied procedures related to the methodology and calculation of the expected credit loss related to (i) accounting policies analysis in comparison with the requirements of IFRS 9; (ii) understanding and recalculation, on a sample basis, of the expected credit loss that consider databases, models and assumptions adopted by Management; (iii) comparison of data and assumptions used with market data, when applicable; and (iv) analysis and consistency of the disclosures made by Management in the financial statements. We also performed tests on the classification of loans and advances in the stages prescribed by IFRS 9, which considers the level of credit risk of the debtor and, where applicable, the deterioration of the risk, as well as the financial difficulty of the debtor, delays in its contractual obligations, among other aspects. We considered that the criteria and assumptions adopted by Management to measure and record the expected credit loss of loans and advances are reasonable and consistent with the IFRS 9 and the disclosures in the notes to the financial statements.



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Why it is a Key Audit Matter

How the matter was addressed in the audit

Tax credits (Notes 2(o) e 22(c))

The Bank and its subsidiaries recognized tax credits arising from temporary differences, income tax and social contribution losses, recorded based on a study of the taxable profit projections regarding the realization of these tax credits. The taxable income projection involves judgments and assumptions of a subjective nature established by Management based on a study of the current and future scenarios.

Considering that the use of different assumptions in the future taxable profit projection could significantly modify the terms expected for the realization of tax credits, with consequent accounting impact, this is an area of critical estimation and was defined as a focus in our audit.

Our procedures considered the update of our understanding of the process of determination and recording of the tax credits in accordance with the tax and accounting standards.

With the assistance of our experts, we have analyzed the consistency of the relevant assumptions used in the study of tax credit realization with macroeconomic data disclosed in the market, when applicable, as well as the methodology used to estimate the taxable profits, and the logical and arithmetic consistency of the calculations.

We discussed with Management and confirmed the approval of the technical study that supports the realization of the tax credits by the proper management bodies.

Based on the audit procedures results and in the context of the inherent uncertainties of realization of the amounts registered as tax credits, we consider that the assumptions adopted by Management are reasonable and consistent with the disclosures in the financial statements.

Information technology environment

The Bank and its subsidiaries are dependent on their technology structure to manage and generate information used to process their operations and, consequently, to prepare the financial statements.

Therefore, if the technology structure and the respective general controls are not adequate, there could be an incorrect processing of critical information for decision-making or for their own operations.

Therefore, the information technology environment was considered as an area of focus in our audit.

Our procedures considered, among others, the understanding and testing of the information technology environment, including the automated controls or dependency of technology relevant to the preparation of the financial statements.

With the assistance of our technology experts, the main procedures performed involved tests of controls related to information security, linked to the processes of management and development of systemic changes, security of accesses to programs and database, physical security of the data processing center, including access management and segregation of duties.

We considered that the information technology environment and the controls established by Management have provided a reasonable basis to support the main business processes, which provide information used in the preparation of the financial statements.



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Other information accompanying the consolidated financial statements and the auditor's report

The Bank's management is responsible for the other information that comprises the Management Report.

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

In connection with the audit of the consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the 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 consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance are responsible for overseeing the financial reporting process of the Bank and its subsidiaries.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of the Bank and its subsidiaries.
- 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 auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

São Paulo, April 9, 2020

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Melissa Tuxen Wisnik
Contadora CRC 1SP221490/O-0

CONSOLIDATED BALANCE SHEETS
 At December 31
 (Amounts expressed in thousands of reais)

ASSETS	Note	2019	2018
CASH AND CASH EQUIVALENTS AND RESERVES AT THE CENTRAL BANK OF BRAZIL	3	98,587	46,943
SECURITIES	5	4,801,379	9,208,217
At amortized cost	5	81,088	1,725,747
At fair value of other comprehensive income	5	4,720,291	7,482,470
DERIVATIVE FINANCIAL INSTRUMENTS	6	431,281	450,720
OTHER FINANCIAL ASSETS AT AMORTIZED COST		10,963,359	11,819,762
Loans and advances to financial institutions	4	923,905	3,265,217
Loans and advances to clients	7	10,378,059	8,840,533
Other loans and receivables	8	28,833	27,431
Other financial assets		-	25,299
(-) Expected credit loss	7c	(367,438)	(338,718)
NON-FINANCIAL ASSETS HELD FOR SALE	9	196,765	247,138
INVESTMENTS	10	256	256
TANGIBLE ASSETS	11	106,995	42,739
INTANGIBLE ASSETS	12	108,082	109,181
TAX CREDITS		1,397,790	1,227,214
Current	22a	47,120	49,963
Deferred	22c	1,052,148	869,270
Presumed	22d	298,522	307,981
OTHER ASSETS	13	61,612	77,793
TOTAL ASSETS		18,166,106	23,229,963

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

CONSOLIDATED BALANCE SHEETS
At December 31
(Amounts expressed in thousands of reais)

LIABILITIES AND SHAREHOLDERS' EQUITY	Note	2019	2018
DERIVATIVE FINANCIAL INSTRUMENTS	6	21,834	27,173
OTHER LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		1,116,192	1,112,958
Subordinated debts	17	1,069,201	1,046,949
Foreign borrowings	19	46,991	66,009
FINANCIAL LIABILITIES AT AMORTIZED COST		14,088,666	17,582,978
Subordinated debts	17	694,983	1,154,621
Deposits from financial institutions	14	3,943,754	7,162,517
Deposits from clients	15	3,313,521	3,068,808
Securities issued	16	1,441,971	1,245,803
Domestic borrowings	18	216,833	133,770
Foreign borrowings	19	4,475,380	4,817,459
Other financial liabilities		2,224	-
HEDGE FINANCIAL LIABILITIES	19	-	1,767,532
PROVISIONS	21	1,001,379	883,492
TAX LIABILITIES			
Current		32,195	14,885
OTHER LIABILITIES	23	246,000	116,363
TOTAL LIABILITIES		16,506,266	21,505,381
SHAREHOLDERS EQUITY			
Capital stock	24	2,956,864	2,956,864
Capital reserve		899	899
Treasury shares		(55,105)	(55,105)
Accumulated losses		(1,247,569)	(1,208,312)
Other comprehensive income		4,751	30,236
TOTAL SHAREHOLDERS' EQUITY		1,659,840	1,724,582
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		18,166,106	23,229,963

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

STATEMENT OF OPERATIONS

Years ended December 31

(Amounts expressed in thousands of reais, except when indicated)

	Note	2019	2018
Interest and similar income	26a	1,399,193	1,875,645
Interest and similar expenses	26a	(823,557)	(820,792)
INTEREST AND SIMILAR INCOME (EXPENSES) (NET)		575,636	1,054,853
Foreign exchange variations (Net)	26b	(46,245)	(298,739)
Gains (losses) on financial assets and liabilities (net)	27	5,641	(314,791)
NET INTEREST INCOME		535,032	441,323
Equity income (loss)		(891)	(1,350)
Income from fee and commissions	28	36,924	48,011
Other net operating income (expenses)	29	(246,483)	(12,600)
TOTAL INCOME		324,582	475,384
Personnel expenses	30	(160,588)	(159,882)
Other administrative expenses	31	(92,926)	(115,188)
Tax expenses	32	(27,760)	(23,913)
Depreciation and amortization		(20,324)	(13,610)
Impairment on financial assets	7c	(192,919)	(214,308)
Losses on other assets (net)	33	(17,107)	(49,338)
LOSS BEFORE TAX		(187,042)	(100,855)
Current and deferred income tax and social contribution	22	147,785	(110,263)
LOSS FOR THE YEAR		(39,257)	(211,118)
Number of Shares Held (thousand)	24a	465,631	465,631
Loss on Share Capital - R\$		(0.084)	(0.45)

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Years ended December 31

(Amounts expressed in thousands of reais)

	<u>2019</u>	<u>2018</u>
LOSS FOR THE YEAR	(39,257)	(211,118)
OTHER COMPREHENSIVE RESULTS WHICH WILL BE RECLASSIFIED SUBSEQUENTLY FOR NET INCOME/(LOSS)		
Gains (losses) on assets at fair value from other comprehensive income	(9,305)	(771)
Tax charges on assets at the fair value of other comprehensive income	4,187	309
OTHER COMPREHENSIVE RESULTS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY FOR NET INCOME/(LOSS)		
Change in fair value attributable to credit risk from financial liabilities through profit or loss	(37,031)	(6,188)
Tax charges on financial liabilities at fair value through profit or loss	16,664	2,475
COMPREHENSIVE LOSS FOR THE YEAR	<u>(64,742)</u>	<u>(215,293)</u>

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

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31

(Amounts expressed in thousands of reais)

	Capital stock	Capital reserve (Goodwill on subscription of shares)	(-) Treasury shares	Other comprehensive income	Accumulated losses	Total
Balances at January 01, 2018	2,956,864	899	(55,105)	34,411	(997,194)	1,939,875
Liabilities at fair value (credit risk)	-	-	-	(3,713)	-	(3,713)
Fair value of other comprehensive income	-	-	-	(462)	-	(462)
Loss for the year	-	-	-	-	(211,118)	(211,118)
Balances at December 31, 2018	<u>2,956,864</u>	<u>899</u>	<u>(55,105)</u>	<u>30,236</u>	<u>(1,208,312)</u>	<u>1,724,582</u>
Balances at January 01, 2019	2,956,864	899	(55,105)	30,236	(1,208,312)	1,724,582
Liabilities at fair value (credit risk)	-	-	-	(20,367)	-	(20,367)
Fair value of other comprehensive income	-	-	-	(5,118)	-	(5,118)
Loss for the year	-	-	-	-	(39,257)	(39,257)
Balances at December 31, 2019	<u>2,956,864</u>	<u>899</u>	<u>(55,105)</u>	<u>4,751</u>	<u>(1,247,569)</u>	<u>1,659,840</u>

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

STATEMENT OF CASH FLOWS
Years ended December 31
(Amounts expressed in thousands of reais)

Cash flows from operating activities	2019	2018
Consolidated loss for the year	(39,257)	(211,118)
Depreciation and amortization	12,953	13,610
Depreciation and amortization – first time adoption IFRS 16	7,371	-
Equity in earnings of subsidiaries	891	1,350
Changes in tax credits and deferred tax liabilities	(182,878)	81,948
Provisions - Impairment of loans and receivables	192,919	214,308
Provisions constitution	134,227	71,842
Provision / (reversal) others	(11)	87
Loss (gain) on sale of available for sale assets	395	6,058
Exchange variation on cash and cash equivalents	(123,050)	(142,368)
Changes in assets and liabilities	(267,025)	1,260,076
Decrease (increase) in loans and advances to financial institutions	8,442	47,936
Decrease (increase) in financial assets at amortized cost	1,644,659	(474,642)
Decrease (increase) in financial assets at fair value through others comprehensive income	2,762,179	(395,824)
Increase (decrease) in derivatives	14,094	(131,253)
Decrease (increase) in loans and advances to clients	(1,758,564)	(2,858,661)
Decrease (increase) in other loans and receivables	(1,401)	27,033
Decrease (increase) in other financial assets	25,298	(5,725)
Decrease (increase) in non-financial asset	17,927	21,573
Decrease (increase) in other assets	35,445	34,751
Increase (decrease) in deposits from financial institutions	(3,218,763)	3,680,882
Increase (decrease) in deposits from clients	244,713	215,452
Increase (decrease) in subordinated debt	(161,621)	(94,863)
Increase (decrease) in securities issued	196,168	839,192
Increase (decrease) in domestic borrowings	83,063	92,070
Increase (decrease) in foreign borrowings	2,031,947	165,832
Increase (decrease) in other financial liabilities	153,520	(329,094)
Increase (decrease) in other liabilities	(25,899)	115,259
Increase (decrease) in hedged financial liabilities	(2,294,055)	(311,288)
Payment of interest	(370,811)	(188,785)
Receipt of Interest	427,650	810,231
First time adoption impact – IFRS 16	(81,016)	-
Cash provided by operating activities	(263,465)	1,295,793
Cash flows from investing activities		
Sale of tangible assets	194	3,905
Disposals of non-financial assets held for sale	32,052	6,732
Sales of investments	(26,375)	(5,400)
Purchase of tangible assets	(951)	(6,391)
Purchase of intangible assets	(1,697)	(2,349)
Cash provided by (used in) Investing activities	3,223	(3,503)
Cash flows from financing activities		
Increase in obligations for borrowings	17,811,752	18,857,942
Perpetual subordinated debt eligible for capital instruments level II	(275,765)	336,417
Payment of borrowings	(19,678,273)	(18,099,775)
Cash provided by financing activities	(2,142,286)	1,094,584
Cash flow (used in) provided by in the year	(2,402,528)	2,386,874
Cash and cash equivalents at the beginning of the year	2,866,293	337,051
Exchange variation on cash and cash equivalents	123,050	142,368
Cash and cash equivalents at the end of the year	586,815	2,866,293

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

1. Operations, presentation of consolidated financial statements, and other information

a. Operations

China Construction Bank (Brasil) Banco Múltiplo S/A, ("Company", "Institution", "CCB Brasil", "Bank" or "Consolidated") was incorporated on December 29, 1938 and authorized by the Brazilian Central Bank - BACEN to operate as a Multiple Bank, developing its operations through commercial, investments, mortgage and foreign exchange portfolios.

Through its subsidiaries, the Bank operates in the markets of Leasing, Credit, Financing and Investment, brokerage and dealing of securities and credit card administration. The Bank also has a 50% participation in a Joint Venture for operations in factoring and forfaiting markets.

The Board of Directors authorized the issuance of the financial statements on March 24, 2020.

b. Foreign currency transactions and functional currency

The individual financial statements of each entity are presented in the currency of the primary economic environment in which the entity operates (functional currency). For financial statements consolidation purposes, the results and the financial position of consolidated entities are expressed in Brazilian Reais, CCB Brasil's functional currency and the consolidated financial statements presentation currency. Monetary assets and liabilities are translated at the foreign exchange rate prevailing at the end of the year.

c. Presentation of consolidated financial statements

The consolidated financial statements of CCB Brasil for specific purposes were prepared in accordance with the International Accounting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and interpretations of the IFRS Interpretations Committee (current denomination of IFRIC) and provide evidence of all relevant information.

d. Consolidation basis

The Company consolidates all entities over which it holds control, which means, when it is exposed to or has right to variable returns of its involvement with the investee and/or has the ability to direct the significant activities of the investee.

The subsidiaries included in the consolidation are specified below:

Company name	Country of origin	Consolidation method	Interest
2019			
<u>Direct subsidiaries in the country</u>			
CCB Brasil Arrendamento Mercantil S/A	Brazil	Full	100%
CCB Brasil Distribuidora de Títulos e Valores Mobiliários S/A	Brazil	Full	100%

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Notes to the consolidated financial statements – December 31, 2019
(in thousands of reais unless otherwise stated)

CCB Brasil Informática S/A	Brazil	Full	100%
CCB Brasil Administradora de Cartões de Crédito Ltda.	Brazil	Full	100%
CCB Brasil S/A – Crédito, Financiamentos e Investimentos	Brazil	Full	100%
CCB Brasil Promotora de Vendas Ltda.	Brazil	Full	100%
CCB Brasil Cobrança Ltda.	Brazil	Full	100%

2. Accounting policies and measurement methods

The accounting policies and measurement methods used in the preparation of the consolidated financial statements are as follows:

a. Adoption of new standards and interpretations

IFRIC 23

Published in June 2017 by the IASB, IFRIC 23 - Uncertainty on the Treatment of Taxes on Profits is mandatory as of January 1, 2019 and aims to clarify the procedures for applying the recognition and measurement requirements set out in IAS 12 of Taxes on Profit when there is uncertainty about the treatments to be adopted for Profit Taxes.

CCB Brasil carried out analyzes on the procedures already adopted for accounting and presentation of Income Taxes in relation to the content of IFRIC 23 and it was possible to conclude that there are no impacts on disclosures since the adoption of the new standard on January 1, 2019.

IFRS 16 - Leases

As of January 1, 2019, the Bank adopted IFRS 16, which replaces IAS 17.

I. Transition

As permitted by the specific transition terms, the Bank chose to apply the rule in a modified retrospective manner which effects were applied on January 1, 2019.

The changes in accounting practices resulting from the adoption of IFRS 16 were applied to right-of-use assets as part of tangible assets and lease liabilities as other financial liabilities at amortized cost in the balance sheet.

II. Rental identification

In adopting IFRS 16, the Bank recognized those contracts that convey the right to control the identified use for a period in exchange for consideration.

For the initial application of the standard, the Bank used the following practical procedures allowed:

- The exclusion of initial direct costs for measuring the right-of-use asset on the initial application date;
- It did not separate the service provision component embedded in leasing contracts; and

- The Bank also decided not to apply IFRS 16 to contracts that were not identified as containing a lease under IAS 17 and IFRIC 4 - Determination of whether a Contract contains a Lease.

Additionally, the following recognition exemptions are being used:

- Accounting for operating leases whose underlying asset is of low value.

The Bank leases real estate and equipment. The assets that are the object of the lease agreements are real estate deals referring to the branches and headquarters of the Bank.

The Bank does not have right-of-use assets that fit the definition of investment properties.

III. Lease term

The lease agreements are formalized, analyzed and renegotiated individually and contain a wide range of different terms and conditions. The Bank assesses the term of the contract, as well as the intention to remain in the properties. Thus, the term estimates may vary according to the contractual conditions, considering extension options, and also according to legal provisions.

The Bank assumes that fines for contract termination collected before the due date do not make up a significant portion.

The lease agreements do not contain restrictive clauses, but the leased assets cannot be used as collateral for loans.

IV. Initial measurement

In their initial registration, leases are recognized as a right-of-use asset and a corresponding liability on the date that the leased asset becomes available for use by the Group.

The right-of-use to be recorded is measured at cost against the lease liability, which represents the present value of lease payments that have not been made until the date. Lease payments are discounted using the incremental interest rate on the lessee's loan. There is no onerous contract that required an adjustment to the usage rights to be recorded as assets on the date of initial adoption.

Usage rights are measured at amortized cost in accordance with the following:

- The value of the initial measurement of the leasing liability;
- Any lease payments made before or on the reduced start date of any incentives received;
- Any initial cost directly allocated; and
- Restoration costs, if the requirements of IAS 37 are met for the recording of Provisions, Contingent Liabilities and Contingent Assets.

The recognized right-of-use assets, related to each type of asset are shown below:

	12/31/2018	Adoption Effect IFRS 16	01/01/2019
Land and buildings (note 11)	-	81,016	81,016

CCB Brasil uses as an incremental rate the interest rate that it would have to pay when borrowing the necessary resource to obtain the asset with a value similar to the asset under the lease, for term, guarantee and similar economic scenarios, represented at CCB Brasil, by financing cost curve (funding) of 110% of the Selic rate, applied individually to each contract according to the projected estimates for the lease term.

The right-of-use are measured at amortized cost in accordance with the following:

- Reduced fixed payments for any incentive;
- Variable payments that are based on a rate or index;
- Amounts expected to be paid by the lessee based on the residual value of guarantees.

Effects on accounting for income for the years ended December 31, 2019 and 2018 due to the initial adoption (there were no impacts on the results of the comparative years generated by the initial adoption):

Effects on results resulting from the adoption of IFRS 16:	(7,606)
Rent expenses - Other administrative expenses (note 31)	8,762
Depreciation expenses for leased assets - intangible assets (note 11)	(7,371)
Interest expense on liabilities - Interest and similar expenses (note 26a)	(8,997)

V. Subsequent measurement

After the initial measurement, the values of the assets recorded as rights-of-use are being updated using the cost method, deducted monthly from the accumulated depreciation, according to the criteria of CPC 27 - Property, Plant and Equipment in the depreciation of the right of use assets and any remeasurement of the lease liability was corrected, when applicable.

The lease liability initially recorded is updated by monthly increasing the liability amount of the interest installment of each lease, reduced by the amount of monthly lease payments and adjusted for any lease remeasurements, when applicable.

The lease liability is remeasured, in the event of changes in the lease term or the contract value, the amount resulting from the new determination of the lease liability is recorded against the corresponding asset in use right.

b. Definitions and classification of financial instruments

i. Recognition date

All financial assets and liabilities are originally recognized on the trade date, that is, the date in which CCB Brasil becomes a party to the contractual instrument. This includes: Financial assets purchases or sales requiring the asset to be delivered within a determined period established by regulation or market standards.

ii. Initial recognition of financial instruments

As from January 1, 2018, the Bank applies IFRS 9 – Financial Instruments the classification of financial instruments on initial recognition depends on their characteristics and the purpose for which financial instruments were purchased by Management. All financial instruments are initially recognized at fair value and then recognized at amortized cost or at fair value.

iii. Classification of financial assets for measurement purposes

The Bank classified its financial assets in the following measurement categories:

- Amortized cost;
- Fair value through other comprehensive income;
- Fair value through profit or loss.

The classification and subsequent measurement of financial assets depend on:

- The business model under which they are administered;
- The characteristics of its cash flows (Solely Payment of Principal and Interest Test – SPPI Test).

Business model: represents how financial assets are managed to generate cash flows and does not depend on the Management's intention regarding an individual instrument. Financial assets may be managed with the purpose of: i) obtaining contractual cash flows; ii) obtaining contractual cash flows and sale; or iii) others. To assess business models, the Bank considers risks that affect the performance of business model; how business managers are compensated; and how the performance of business model is assessed and reported to Management. If cash flows are realized differently from CCB Brasil's expectations, the classification of remaining financial assets maintained in this business model is not changed.

When the financial asset is maintained in business models i) and ii) the application of the SPPI Test is required.

SPPI Test: assessment of cash flows generated by financial instrument with the purpose of checking whether they represent solely payments of principal and interest. To fit into this concept, cash flows should include only consideration for the time value of money and credit risk. If contractual terms introduce risk exposure or cash flow volatilities, such as exposure to

changes in prices of equity instruments or prices of commodities, the financial asset is classified at fair value through profit or loss. Hybrid contracts should be assessed as a whole, including all embedded characteristics. The accounting of a hybrid contract that contains an embedded derivative is performed on a joint basis, i.e. the whole instrument is measured at fair value through profit or loss.

Based on these factors, the Bank applies the following criteria to each classification category:

- Amortized Cost
 - Assets managed to obtain cash flows constituted of solely payments of principal and interest (SPPI Test);
 - Initially recognized at fair value plus transaction costs;
 - Subsequently measured at amortized cost, using the effective interest rate;
 - Interest, including amortization of premiums and discounts, are recognized in the Consolidated Statement of Operations in the heading Interest and similar income.
- Financial Assets at Fair Value through Other Comprehensive Income
 - Assets managed both to obtain cash flows constituted of solely payments of principal and interest (SPPI Test), and for sale;
 - Initially and subsequently recognized at fair value plus transaction costs;
 - Unrealized gains and losses (except for expected credit loss, foreign Exchange differences, dividends and interest income) are recognized, net of applicable taxes, in the heading “Other comprehensive income”.
- Financial Assets at Fair Value through Profit or Loss and Financial Assets Designated at Fair Value
 - Assets that do not meet the classification criteria of previous categories; or assets designated in the initial recognition at fair value through profit or loss to reduce “accounting mismatches”;
 - Initially and subsequently recognized at fair value;
 - Transaction costs are recorded directly in the Consolidated Statement of Operations;
 - Gains and losses resulting from changes in the fair value are recognized in the heading “Gains (losses) on financial assets and liabilities (net)”.

c. Measurement of financial assets and liabilities and recognition of changes in fair value

In general, financial assets and liabilities are initially recognized at fair value, which is considered equivalent to the transaction price, unless otherwise proven. Financial instruments not measured at fair value through profit or loss are adjusted at transaction costs.

Financial assets and liabilities are later measured, at the end of each year, as follows:

i. Amortized cost

Amortized cost is the amount at which the financial asset or liability is measured at the initial recognition, plus actuals made using the effective interest method, less amortization of principal and interest effective interest rate.

The "effective interest rate" is the discount rate that corresponds exactly to the initial value of the financial instrument in relation to the totality of its estimated cash flows over its remaining useful life. In the case of fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate defined at the contracting date, added, as the case may be, to commissions and transaction costs that, by their nature, form part of their financial return. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return in effect in all commitments up to the next interest rate renewal date.

ii. Expected Credit Loss

The Bank began to evaluate prospectively the expected credit loss associated with financial assets measured at amortized cost or at fair value through other comprehensive income. The recognition of the provision for expected credit loss is made monthly in the Consolidated Statement of Operations.

In the case of financial assets measured at fair value through other comprehensive income, the Bank recognizes the provision for losses in the Consolidated Statement of Operations, with no effect on the gross carrying amount of the financial asset.

At each reporting period, the Bank assesses whether the credit risk of a financial asset has increased significantly through reasonable and sustainable information that is relevant and available at no cost or undue expense, including qualitative, quantitative and prospective information. Forward-looking information is based on macroeconomic scenarios that are revalued monthly or when market conditions require.

The Bank applies the three-stage approach to measuring the expected credit loss, in which financial assets migrate from one stage to another in line with changes in credit risk.

They are considered financial assets with low credit risk and, therefore, remain in stage 1, securities of the Brazilian government, according to a study carried out by the Bank.

The Bank assesses whether credit risk has increased significantly individually or collectively. For collective valuation purposes, financial assets are grouped based on shared credit risk characteristics, taking into account the type of instrument, credit risk classifications, the date of initial recognition, the remaining term, branch, geographical location of the counterparty and other relevant factors.

iii. Financial liabilities at fair value through profit or loss

Fair value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in a normal transaction between market players on the measurement date.

Classification applied to derivatives and other financial liabilities designated at fair value through profit or loss to reduce "accounting mismatches". The Bank designates financial liabilities, irrevocably, at fair value through profit or loss on initial recognition (fair value option), when the option significantly reduces or eliminates measurement or recognition inconsistencies.

Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income that will not be reclassified to net income or loss (the change in the fair value of the financial liability is attributed to changes in the risk premium liabilities), and partly as a result of the year (the remaining amount of the change in the fair value of the liability).

Fair value valuation techniques

The methods used by CCB Brasil to calculate the fair value of financial instruments are rated in three different levels, as follows:

- Level 1: Uses public quotations and prices available in the active market as references. This level includes, mainly, securities issued by the national treasury, private securities with an "active" secondary market, and equity instruments (shares) of other entities.
- Level 2: In the absence of public quotations, CCB Brasil, through internal models, makes its best estimate of the price that would be determined by the market for trading of the instrument. For this, it uses data based on observable market inputs. Derivative financial instruments, which are measured using curves determined through rates disclosed by B3 S.A. - Brasil, Bolsa, Balcão, are assigned to this level, including the issuances abroad with prices available in the secondary market.
- Level 3: If there is no available data based on observable market inputs, Management uses internal information and models to determine the best fair value of financial assets and liabilities. As of December 31, 2019 and 2018, there were no financial instruments qualifying for this level.

There were no reclassifications between level 1 and level 2 in the years ended December 31, 2019 and 2018.

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	2019			2018		
	Published price quotations in active markets (Level 1)	Internal models (Level 2)	Total	Published price quotations in active markets (Level 1)	Internal models (Level 2)	Total
Derivatives (note 6)	6,156	425,125	431,281	5,218	445,502	450,720
Financial assets at fair value of other comprehensive income (note 5)	4,720,291	-	4,720,291	7,482,470	-	7,482,470
Derivatives (Note 6)	6,945	14,889	21,834	5,210	21,963	27,173
Other liabilities at fair value through profit or loss (note 17 and note 19)	1,069,201	46,991	1,116,192	1,046,949	66,009	1,112,958
Hedge financial liabilities (nota 19)	-	-	-	-	1,767,532	1,767,532

The main techniques used by CCB Brasil internal models (level 2) to determine the fair value of financial instruments detailed in the chart below are as follows:

	Fair values calculated using internal models		Valuation techniques	Main assumptions
	2019	2018		
Derivatives assets	425,125	445,502		
Swap contracts	424,886	444,960	Present value method	Observable market data (discount rates and interest)
Forward transactions	239	542	Present value method	Observable market data and liquidity (exchange rates and interest)
Derivatives liabilities	14,889	21,963		
Swap contracts	11,118	20,970	Present value method	Observable market data (discount rates and interest)
Purchase/Sale obligation of share option	3,771	993	Black-Scholes model	Observable market data and liquidity (exchange rates and interest)
Other liabilities at fair value through profit or loss	46,991	1,833,541		
Hedge financial liabilities	-	1,767,532	Present value method	Observable market data (discount rates and interest)
Foreign borrowings	46,991	66,009	Present value method	Observable market data (discount rates and interest)

d) Fair value of financial assets and liabilities not measured at fair value

The financial assets are measured at fair value in the consolidated balance sheet, except for loans and receivables and securities at amortized cost. In the same sense, financial liabilities, except for financial liabilities measured at fair value through profit or loss, are measured at amortized cost.

The purpose of the chart below is to demonstrate the fair value of financial assets and liabilities not measured at fair value.

	2019				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
SECURITIES					
At amortized cost (note 5)	81,088	81,088	-	81,088	-
LOANS AND RECEIVABLES					
Loans and advances to clients (note 7)	10,378,059	11,075,128	-	11,075,128	-
FINANCIAL LIABILITIES AT AMORTIZED COST					
Deposits from financial institutions (note 14)	3,943,754	3,943,856	-	3,943,856	-
Deposits from clients (note 15)	3,313,521	3,316,444	-	3,316,444	-
Bonds and securities (note 16)	1,441,971	1,444,037	-	1,444,037	-
Subordinated debts (note 17)	694,983	818,352	-	818,352	-
Domestic loan obligations (note 18)	216,833	196,487	-	196,487	-
Obligations for loans abroad (note 19)	4,475,380	4,641,369	-	4,641,369	-
	2018				
	Carrying amount	Fair value	Level 1	Level 2	Level 3
SECURITIES					
At amortized cost (note 5)	1,725,747	1,826,567	-	1,826,567	-
LOANS AND RECEIVABLES					
Loans and advances to clients (note 7)	8,840,533	9,526,527	-	9,526,527	-
FINANCIAL LIABILITIES AT AMORTIZED COST					
Subordinated debts (note 17)	1,154,621	1,398,894	314,200	1,084,694	-
Deposits from financial institutions (note 14)	7,162,517	7,162,522	-	7,162,522	-
Deposits from clients (note 15)	3,068,808	3,099,854	-	3,099,854	-

e. Write-off of financial assets and liabilities

Financial assets, or part of them, are derecognized when the contractual rights to receive the cash flow of the assets expire or when they are transferred and the Group transfers substantially all the risks and benefits of the property or the Group does not substantially transfer or retain all the risks and benefits of participation.

The consolidated engages in transactions where it retains the contractual rights to receive the cash flow of the assets but assumes a contractual obligation to pay those cash flows to other entities and substantially transfers all the risks and benefits. These transactions are accounted for as 'forward' transfers that result in derecognition if the group:

- (i) has no obligation to make payments, unless it receives equivalent amounts of the assets;
- (ii) It is prohibited to sell or offer the assets; and

(iii) it has the obligation to remit all the money that it collects of the assets without material delay

f. Net reporting of financial instruments

Financial assets and liabilities and their respective income and expenses are presented net in the financial statements if, and only if, there is a current legal and enforceable right to offset the recognized amounts and if there is intention of offsetting, or realizing the asset and settling the liability simultaneously.

g. Non-financial assets held for sale

Non-financial assets held for sale include the carrying amount of individual items, or groups of assets for disposal or items making part of a business unit held for disposal ("Discontinued Operations"), the sale of which in their present condition is highly likely and which shall probably occur within one year as of the base date of financial information. Non-financial assets held for sale are generally measured at the lower of the fair value less the sale cost and the carrying amount on the date in which they are classified in such category. Non-financial assets held for sale are not depreciated, provided that they remain in such category.

Impairment losses on an asset or disposal group as a result of a write-down in their carrying amount to the fair value (less sales cost) are recognized in "Losses on other assets (net)" in the consolidated statement of operations. Gains on non-financial assets held for sale arising from subsequent increases in fair value (less sales costs) increase their carrying amount and are recognized in the consolidated statement of operations up to the amount equivalent to the impairment losses previously recognized.

h. Hedge operations

i. Fair Value Hedge

For these operations, the following practices are applied:

- a) The gain or loss resulting from the remeasurement of the hedge instrument at fair value must be recognized in the statement of operations; and
- b) The gain or loss resulting from the hedged item attributable to the effective portion of the designated risk shall adjust the carrying amount of the hedged item to be recognized in the statement of operations.

When the derivative expires or is sold and the accounting hedge criteria are no longer met or if the designation is revoked the accounting hedge should be discontinued prospectively. In addition, any adjustment to the carrying amount of the hedged item should be amortized in the statement of operations.

The Bank has no accounting hedge of foreign investment cash flow.

i. Tangible assets

Tangible assets include the value of furniture, vehicles, hardware and other accessories owned by consolidated entities, being presented at acquisition cost less the respective accumulated depreciation and any impairment losses (net carrying amount higher than the recoverable amount).

Depreciation is calculated under the straight-line method, based on the acquisition cost of assets less its residual value.

Depreciation expense of tangible assets is recognized in the consolidated statement of operations and basically calculated utilizing the following depreciation rates (based on average years of estimated useful life of different assets):

Type of asset	Annual rate
Buildings for own use	4%
Furniture	10%
Fixtures	10%
Automobiles	20%
Office and IT equipment	20%
Leasehold improvements	10% to 25% (according to contract)

Consolidated entities evaluate, on the base date of financial information, if there is any indication that an asset may or may not be recoverable (that is, their carrying amount exceeds its recoverable amount. If impairment of a tangible asset is identified, the value determined and respective reversals (as the case may be) are recorded in income for the period in the account "Gains (Losses) on other assets (net)".

Similarly, in the event of indication of impairment of a tangible asset, consolidated entities recognize the reversal of the impairment recognized in prior periods and adjust future depreciation expenses accordingly. Under no circumstances, the reversal of the impairment of an asset may increase its carrying amount above the amount it would have had no impairment been recognized in previous years.

Conservation and maintenance expenses related to fixed assets for own use are recognized as expenses in the period they were incurred.

j. Lease accounting

Finance leases are operations that transfer substantially to lessee all risks and rewards associated to the ownership of the leased asset.

Whenever consolidated entities act in the capacity of lessors with respect to an asset, the sum the present value of the lease payments to be received from the lessee plus the guaranteed residual value - which, in general, is the strike price of the purchase option of the lessee at the

end of the lease term - is recognized as loan to third parties and, therefore, included in the account “loans and advances to clients” in the consolidated balance sheet.

k. Intangible assets

Intangible assets represent identifiable non-monetary assets (separated from other assets) without physical substance resulting from a legal transaction or which are internally developed by consolidated entities. Assets the costs of which may be reliably estimated, and from which consolidated entities shall deem likely that future economic benefits will be generated are recognized.

Intangible assets are initially recognized at the acquisition or production cost and are subsequently measured at the acquisition cost less any accumulated amortization and any losses due to non-recovery (net carrying amount higher than the recoverable value).

Goodwill arising on acquisition of subsidiaries. represents the surplus of acquisition cost in view of the entity's interest in the fair value of the identifiable assets, liabilities and contingent liabilities in the company acquired on the date of acquisition. When such surplus is a negative one (negative goodwill), it is immediately recognized in income. Goodwill is classified as an intangible asset with indefinite useful life, hence, it is not subject to amortization for the term of the expected future economic benefit.

Impairment of goodwill (that is, a reduction in its recoverable amount below its carrying amount) is assessed at the end of each period presented, and any impairment is written-off and charged to the account "Gains (losses) on other assets (net) - in the consolidated statement of operations.

Management did not identify any impairment of intangibles as of December 31, 2019 and 2018.

l. Provisions, contingent assets and liabilities

Provisions, contingent assets and contingent liabilities are assessed, recognized and disclosed in accordance with IAS 37 - Provisions, Contingent Liabilities and Contingent Assets. Contingent assets and contingent liabilities are potential rights and obligations arising from past events whose occurrence depends on uncertain future events.

Contingent assets: these assets are not recognized in the accounts, except when there is a favorable judicial decision, on which no appeals are admitted, characterized as virtually certain. Assets with probable probability of success are only disclosed in explanatory notes (note 21). CCB Brasil does not have contingent assets of probable success.

Provisions: are recognized in the accounting when the Management, advised by legal counsel, assesses the likelihood of loss as probable. The cases with chances of loss classified as possible are only disclosed in an explanatory note (note 21).

Contingent liabilities: In accordance with CPC 25, the term "contingent" is used for liabilities and assets that are not recognized because their existence will only be confirmed by the occurrence or not of one or more uncertain future events not wholly under the control of the entity. The term contingent liability is used for liabilities that do not meet the recognition criteria, since they are considered as possible losses and should only be disclosed in explanatory notes, when relevant. Obligations classified as remote are neither provisioned nor disclosed; and

Legal obligations: are recognized and provisioned in the balance sheet, regardless of the assessment of the chances of success in the course of the judicial process.

m. Recognition of income and expenses

The most significant criteria used by CCB Brasil to recognize its income and expenses are summarized as follows:

i. Interest and similar income and expenses

Interest and similar income and expenses are recognized on the accrual basis, using the effective interest method.

ii. Commissions, fees and similar items

Commissions income and expenses are recognized in the consolidated statement of operations, using varying criteria according to their nature. The main criteria are the following:

- Income and expenses on fees and commissions, related to financial assets and liabilities measured at fair value through profit or loss, are recognized upon payment.
- Those arising from transactions or services performed during a period of time are recognized throughout the life of such transactions or services.
- Those related to services rendered in one time are recognized upon execution thereof.

iii. Non-financial income and expenses

Are recognized for accounting purposes on the accrual basis of accounting.

n. Financial guarantees

Financial guarantees are defined as agreements through which an entity undertakes to make specific payments on behalf of a third party in case the third party does not make it, independently of the several legal forms they might take, such as, guarantees, irrevocable documentary credits issued or guaranteed by the entity, etc.

CCB Brasil initially recognizes the financial guarantees rendered in liabilities in the consolidated balance sheet at fair value, which is generally the present value of fees, commissions and interest receivable from these agreements during the term thereof, and concurrently it recognizes in assets in the consolidated balance sheet the amount of fees, commissions and interest receivable at present value.

Financial guarantees, independently of guarantor, instruments or other circumstances, are periodically revised for determination of the credit risk to which they are exposed to, and, as the case may be, to consider if a provision is required. The credit risk is determined by application of criteria similar to those established for quantification of impairment of loans and receivables measured at amortized cost.

o. Income taxes and social contribution on net profit

On November 12, 2019, Constitutional Amendment No. 103 was enacted, which among other aspects established the increase in the Social Contribution on Net Income (CSLL) rate, from 15% to 20%, effective from the 1st. March 2020, whose estimated effects on the stock of tax credits recorded at the Bank on December 31, 2019 are R\$ 140,799, while in deferred tax liabilities it is R\$ 35,928.

Corporate Income Tax expense is recognized in the consolidated statement of operations, except when resulting from a transaction directly recognized in shareholders' equity, and, in this event, the tax effect is also recognized in shareholders' equity.

Current income tax expense is calculated as the sum of current tax resulting from the application of the appropriate tax rate to the taxable income for the year (net of any deductions permitted for tax purposes), and changes in deferred tax assets and liabilities recognized in the consolidated statement of operations.

Deferred tax assets and liabilities include temporary differences, identified as the amounts expected to be paid or recovered on the differences between the carrying amounts of the assets and liabilities and their respective calculation bases, in addition to accumulated tax losses. These amounts are measured at the rates that are expected to be applied in the period in which the asset is realized or the liability is settled.

Deferred tax assets are only recognized for temporary differences in the extent it shall be deemed likely that consolidated entities will have sufficient future taxable income against which deferred tax assets might be utilized.

p. Critical accounting estimates

Consolidated income and the determination of consolidated shareholders equity are impacted by accounting policies, assumptions, estimates and measurement methods used by CCB Brasil Management in the preparation of financial statements. All estimates and assumptions

emphasized below, applied by Management in conformity with IFRS, are the best estimates in accordance with the applicable standard.

Consolidated financial statements include estimates and assumptions, such as the fair value measurement of financial assets and liabilities, assessment of impairment of financial and non-financial assets and the recognition and measurement of deferred taxes.

These estimations, made with the best available information, are basically the following:

i. Fair value measurement of certain financial instruments

The fair value of a financial instrument in a certain date is interpreted as the amount by which it could be acquired or sold on that date by two well-informed parties, acting deliberately and with prudence, in a transaction under regular market conditions. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it in an active, transparent and active, transparent and meaningful market ("quoted price" or "market price").

If there is no market price available for a financial instrument, its fair value will be estimated based on the price established in recent transactions involving the same instrument or similar instruments and, in the absence of those, based on valuation techniques normally used by the financial market, considering, when applicable, observable market data.

In addition to the methodology for discount to present value of financial instruments (mainly applicable to debt instruments, swaps and forward transactions); where the expected future cash flows are discounted to the present value using the curves calculated based on observable market data (PU Anbima, DIs and Futures DDIs etc.).

ii. Impairment of financial assets

CCB Brasil recognizes the losses inherent to financial assets not measured at fair value taking into account the historical experience of impairment and other circumstances known at the time of the measurement.

iii. Goodwill

The recorded goodwill is subject to a recoverability test at least once a year or more often, if there is any indication of asset impairment.

The basis used for the recoverability test is the value in use, and for this purpose Management estimates the cash flow for a determined period. The cash flow was prepared considering several factors, such as: (i) macroeconomic projections of the interest rate, inflation, foreign exchange rate and others; (ii) national financial system's behavior and growth estimates; (iii) increased costs, returns, synergies and investment plan; (iv) customer behavior, and (v) growth rates and adjustments applied to perpetuity flows. The adoption of these estimates involves the

probability of the occurrence of future events and changes in one of these factors could have a different result.

iv. Assessment of impairment of tangible and intangible assets

At the end of the reporting period, CCB Brasil assesses the existence of objective evidence of impairment of non-financial assets. This measurement may involve subjective assessment criteria, such as the technical and operational obsolescence analysis or the expected replacement of the asset by another asset that generates higher future economic benefits.

v. Recognition and measurement of deferred taxes

Deferred tax assets are recognized in respect to temporary differences and tax losses to be offset to the extent it is probable that the Bank will generate future taxable income that will allow the utilization of deferred tax assets.

Estimates regarding the determination of future taxable income are based on the technical study of realization of tax credits, which includes estimates and projections of future events and trends, which may affect the consolidated financial statements.

vi. Provisions, Contingencies and Other Commitments

CCB Brasil periodically reviews its contingencies. Such contingencies are assessed based on best Management estimates, taking into consideration the opinion of legal advisors, whenever it is probable that funds will be required to settle obligations and when the amount of the obligations may be reasonably estimated.

Contingencies classified as "Probable Losses" are recognized in the Balance sheet as "Provisions".

Contingency amounts are defined using models and criteria that allow proper measurement, despite uncertainties inherent to terms and amounts, as detailed in **Note 21**.

The sensitivity analysis is detailed in **Note 37** - "Risks Management".

vii. Provision for Guarantees Provided

The methodology for calculating of provisions for surety bonds is based on the probability of disbursement as defined by the Central Bank, which establishes this assessment through a model developed with verifiable information and criteria.

In addition, legal disputes related to guarantees whose probability of disbursement is considered probable are included in this provision.

3. Cash and cash equivalents and reserves at the Central Bank of Brazil

	2019	2018
Cash	283	595
FI's bank deposits with no reserve account	153	206
Foreign currency deposits	93,381	39,626
Compulsory deposits at the Central Bank of Brazil	4,770	6,516
	<u>98,587</u>	<u>46,943</u>
Currency:		
Real	5,206	7,317
USD	93,381	39,626
	<u>98,587</u>	<u>46,943</u>
Term:		
Current	98,587	46,943

4. *Loans and advances to financial institutions*

The breakdown by rating, type, and currency of the balances in the item "Loans and advances to financial institutions" in the consolidated balance sheets is as follows:

	2019	2018
Classification:		
Loans and receivables	923,905	3,265,217
Type:		
<i>Financial assets amortized cost (stage 1):</i>		
Purchase and sale commitments	229,998	2,654,994
Judicial, fiscal and labor deposits	425,460	433,948
Interbank deposits	268,447	176,275
	<u>923,905</u>	<u>3,265,217</u>
Currency:		
Real	660,907	3,094,346
USD	262,998	170,871
	<u>923,905</u>	<u>3,265,217</u>
Term:		
Current	480,461	2,830,360
Non-current	443,444	434,857
	<u>923,905</u>	<u>3,265,217</u>

5. Securities

The breakdown by rating, type, and currency of the balances in the item "Securities" is as follows:

	2019	2018
Financial assets amortized cost	81.088	1.725.747
Financial assets at fair value through other comprehensive income	4.720.291	7.482.470
	<u>4.801.379</u>	<u>9.208.217</u>
Type:		
Financial assets amortized cost (stage 1):	81.088	1.725.747
Brazilian government bonds – Global Bonds	-	1.665.848
Quotas of FIDC	81.088	44.709
Debentures	-	15.190
Financial assets at fair value through other comprehensive income (stage 1):		
Brazilian government securities (*)	4.720.291	7.482.470
Currency:		
Real	4.801.379	7.542.369
Dolar	-	1.665.848
Term:		
Current	3,420,025	160,729
Non-current	1,381,354	9,047,488
	<u>4,801,379</u>	<u>9,208,217</u>

(*) The book balance of R\$ 47,047 (R\$ 90,797 in 2018) includes R \$ 25,651 (R \$ 77,213 in 2018) referring to the margin deposited in guarantee for operations with derivative financial instruments (note 6f), R\$ 13,956 (R\$ 13,170 in 2018) related to lawsuits and R\$ 440 (R\$ 414 in 2018) related to other guarantees.

6. Derivatives

a) The adopted policy

As a result of the Volcker Rule, applicable to the CCB Group globally, the operations of CCB Brasil's trading portfolio were suspended. CCB Brasil carried out traditional derivative operations aiming its clients needs, as well as executing its risk management policy in order to minimize risks arising from its own financial operations. Its objective was to obtain the mitigation of exposure to market variables that impairs assets and liabilities of the conglomerate.

b) Hedge of foreign exchange exposures

CCB Brasil carries out Swap, NDF and Future Market operations for purposes of hedging of its obligations with securities issued abroad and foreign currency loans, in order to hedge against the risk of exchange variation and the coupon of operations, thus hedging against exchange rates variations by the use of economic and accounting hedge, when applicable, for these operations.

c) Portfolio's Hedge with pre-fixed interest rates

The Bank adopts the strategy of acquiring future DI contracts, assessing the relationship between the duration of DI futures contracts and the duration of the credit portfolio. The cover of hedging is quarterly assessed and meets criteria that consider the total portfolio less delays and prepayment. The replacement of DI futures contracts is periodic, as the opening of new futures contracts is identified and its liquidity is detected. The Consolidated's treasury assesses the need to purchase or sell new DI futures contracts to offset the adjustment to fair value of the hedged item. The objective is to ensure the hedging effectiveness in the range of 80% to 125% considering the market variation of the hedged layer and the market variation of DI futures contracts.

d) Risk management

CCB Brasil operates with derivative financial instruments as part of the range of products offered to its clients and to meet its own necessity related to the management of market risks which arise, principally, due to the normal mismatches between currencies, interest rates, indices and terms of its asset and liability operations.

The main risk factors of the derivatives contracted at December 31, 2019 are related to exchange rate, interest rate and dollar coupon, which aim to maximize the return-risk ratio, even in circumstances of high volatility. The risk management control of the portfolios is performed through the use of systems, such as: VaR, (for trading portfolio), EVE and NII (for the banking and global portfolios), Profitability and Liquidity Risk.

e) Criteria for fair value measurement

To obtain these fair values the following criteria are adopted:

- **Futures and Forward:** quotations on stock exchanges;
- **Swap:** it is estimated the cash flow of each of its tranches discounted to the present value, according to the corresponding interest curves, obtained through of B3 SA - Brasil, Bolsa, Balcão (a clearing company) prices, and /or market prices of government securities for Brazilian operations, and in the prices of international exchanges for operations abroad, when applicable;

f) Recording of the values

The Outstanding Operations at December 31, 2019 and 2018 have the following characteristics:

			Notional value – 2019			
	Differential		Net position of asset contracts and (Liabilities)			Total
	Receivable	Payable	Falling due – up to 3 months	Falling due from 3 to 12 months	Falling due for more than 12 months	
Swap contracts:						
Interbank market	7,446	2,130	83,471	(132,377)	(19,977)	(68,883)
Foreign currency	405,673	7,374	(187,454)	97,838	19,977	(69,639)
Pré	3,479	1,371	103,983	34,539	-	138,522
Adjustment to market value	8,288	243	-	-	-	-
Subtotal - Swap	424,886	11,118				
Forward contracts/Non-deliverable forwards – NDF						
Forward purchase/NDF	60	3,540	53,978	66,747	7,029	127,754
Forward sale/NDF	179	231	(26,231)	(28,864)	-	(55,095)
Subtotal Forward/Non-Deliverable Forward	239	3,771				
Futures contracts:						
Purchase - Interbank market	4	1	-	75,575	10,896	86,471
Sale - Interbank market	9	753	(96,998)	(783,356)	(1,007,887)	(1,888,241)
Purchase - DDI - For. cur. coupon	-	1,697	173,774	81,114	-	254,888
Sale - DDI - For. cur. coupon	418	-	-	(49,746)	(9,752)	(59,498)
Purchase - Foreign currency	-	4,493	-	659,681	-	659,681
Sale - Foreign currency	5,725	1	-	(848,814)	-	(848,814)
Subtotal Futures	6,156	6,945				
Total	431,281	21,834				
Term:						
Current	394,113	13,545				
Non-current	37,168	8,289				
	431,281	21,834				

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			Notional value - 2018			
	Differential		Net position of asset contracts and (Liabilities)			
	Receivable	Payable	Falling due - up to 3 months	Falling due from 3 to 12 months	Falling due for more than 12 months	Total
Swap contracts:						
Interbank market	11,113	2,876	6,618	(491,081)	(229,525)	(713,988)
Foreign currency	430,802	18,094	(6,618)	464,708	229,525	687,615
Fixed rate	3,045	-	-	26,373	-	26,373
Subtotal - Swap	444,960	20,970				
Forward contracts/Non-deliverable forwards - NDF						
Forward purchase/NDF	2	59	1,237	1,258	-	2,495
Forward sale/NDF	540	934	(5,203)	(33,942)	-	(39,145)
Subtotal Forward/Non-Deliverable Forward	542	993				
Futures contracts:						
Sale - Interbank market	-	575	(176,913)	(586,063)	(1,407,997)	(2,170,973)
Buy - DDI - For. cur. coupon	-	4,607	11,619	1,334,355	-	1,345,974
Purchase - Foreign currency	-	28	6,788	-	-	6,788
Sale - Foreign currency	5,218	-	(1,285,584)	-	-	(1,285,584)
Subtotal Futures contracts:	5,218	5,210				
Total	450,720	27,173				
Term:						
Current	74,043	19,939				
Non-current	376,677	7,234				
	450,720	27,173				

7. Loans and advances to clients

a) Breakdown

The breakdown by rating of the balances in the item "Loans and advances to clients" in the consolidated balance sheets is as follows:

				2019
	Stage 1	Stage 2	Stage 3	TOTAL
Individuals	2,207,818	283,938	224,502	2,716,258
Consigned personal credit	2,192,641	283,756	123,692	2,600,089
Others	15,177	182	100,810	116,169
Entities	7,333,477	226,269	102,055	7,661,801
Working capital	3,022,572	16,585	7,574	3,046,731
Export/ Import financing	2,239,376	68,421	11,751	2,319,548
Others	2,071,529	141,263	82,730	2,295,522
Total	9,541,295	510,207	326,557	10,378,059

Term:

Current	4,658,708
Non-current	5,719,351
	<u>10,378,059</u>

				2018
	Stage 1	Stage 2	Stage 3	TOTAL
Individuals	1,961,641	104,870	166,401	2,232,912
Consigned personal credit	1,805,304	90,939	106,631	2,002,874
Others	156,337	13,931	59,770	230,038
Entities	5,932,276	472,744	202,601	6,607,621
Working capital	2,966,124	311,492	18,886	3,296,502
Export/ Import financing	1,552,351	111,058	77,959	1,741,368
Others	1,413,801	50,194	105,756	1,569,751
Total	7,893,917	577,614	369,002	8,840,533

Term:

Current	2,416,005
Non-current	6,424,528
	<u>8,840,533</u>

b) Gross book value (loan portfolio)

Reconciliation of the gross portfolio of "Loans and advances to clients" segregated by stages:

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Stage 1	Open balance 12/31/2018	Transfer to stage 2	Transfer to stage 3	Transfer from stage 2	Transfer from stage 3	Other Movements *	End Balance 12/31/2019
Individuals	1,961,641	(5,658)	(160,382)	2,503	15,322	394,392	2,207,818
Consigned personal credit	1,805,304	(5,646)	(60,618)	2,503	4,777	446,321	2,192,641
Others **	156,337	(12)	(99,764)	-	10,545	(51,929)	15,177
Entitles	5,932,276	(18,233)	(10,565)	-	-	1,429,999	7,333,477
Working capital	2,966,124	(4,911)	(336)	-	-	61,695	3,022,572
Export/ Import financing	1,552,351	(13,322)	-	-	-	700,347	2,239,376
Others **	1,413,801	-	(10,229)	-	-	667,957	2,071,529
Total	7,893,917	(23,891)	(170,947)	2,503	15,322	1,824,391	9,541,295

Stage 2	Open balance 12/31/2018	Transfer to stage 1	Transfer to stage 3	Transfer from stage 1	Transfer from stage 3	Other Movements *	End Balance 12/31/2019
Individuals	104,870	(2,503)	(13,113)	5,658	310	188,716	283,938
Consigned personal credit	90,939	(2,503)	(5,751)	5,646	310	195,115	283,756
Others	13,931	-	(7,362)	12	-	(6,399)	182
Entitles	472,744	-	-	18,233	19,769	(284,477)	226,269
Working capital	311,492	-	-	4,911	-	(299,818)	16,585
Export/ Import financing	111,058	-	-	13,322	19,769	(75,728)	68,421
Others **	50,194	-	-	-	-	91,069	141,263
Total	577,614	(2,503)	(13,113)	23,891	20,079	(95,761)	510,207

Stage 3	Open balance 12/31/2018	Transfer to stage 1	Transfer to stage 2	Transfer from stage 1	Transfer from stage 2	Write-off	Other Movements *	End Balance 12/31/2019
Individuals	166,401	(15,322)	(310)	160,382	13,113	(100,052)	290	224,502
Consigned personal credit	106,631	(4,777)	(310)	60,618	5,751	(38,746)	(5,475)	123,692
Others	59,770	(10,545)	-	99,764	7,362	(61,306)	5,765	100,810
Entitles	202,601	-	(19,769)	10,565	-	(64,147)	(27,195)	102,055
Working capital	18,886	-	-	336	-	-	(11,648)	7,574
Export/ Import financing	77,959	-	(19,769)	-	-	-	(46,439)	11,751
Others **	105,756	-	-	10,229	-	(64,147)	30,892	82,730
Total	369,002	(15,322)	(20,079)	170,947	13,113	(164,199)	(26,905)	326,557

Consolidated of 3 stages			Open Balance 12/31/2018	Write-off	Other Movements *	End Balance 12/31/2019
Individuals			2,232,912	(100,052)	583,398	2,716,258
Consigned personal credit			2,002,874	(38,746)	635,961	2,600,089
Others **			230,038	(61,306)	(52,563)	116,169
Entitles			6,607,621	(64,147)	1,118,327	7,661,801
Working capital			3,296,502	-	(249,771)	3,046,731
Export/ Import financing			1,741,368	-	578,180	2,319,548
Others **			1,569,751	(64,147)	789,918	2,295,522
Total			8,840,533	(164,199)	1,701,725	10,378,059

* "Other Movements" include settled transactions and new operations, credit assignments and foreign exchange variation of operations indexed in foreign currency.

** "Others" includes other types of credit (Advances on Foreign Exchange Contracts, Rural and Agribusiness Financing, Machinery and Heavy Vehicle Financing, Debtors for the purchase of assets and liabilities and receivables).

Stage 1	Open balance 12/31/2017	Transfer to stage 2	Transfer to stage 3	Transfer from stage 2	Transfer from stage 3	Other Movements *	End Balance 12/31/2018
Individuals	2,531,597	(62,934)	(82,992)	18,546	4,300	(446,876)	1,961,641
Consigned personal credit	2,253,415	(54,130)	(55,524)	9,238	3,151	(350,847)	1,805,304
Others **	278,182	(8,804)	(27,468)	9,308	1,149	(96,029)	156,337
Entitles	3,475,270	(431,098)	(8,360)	36,630	-	2,859,834	5,932,276
Working capital	1,982,365	(303,570)	-	9,964	-	1,285,726	2,966,124
Export/ Import financing	902,518	(127,528)	-	26,009	-	751,352	1,552,351
Others **	590,387	-	(8,360)	657	-	822,756	1,413,801
Total	6,006,867	(494,032)	(91,352)	55,176	4,300	2,412,958	7,893,917

Stage 2	Open balance 12/31/2017	Transfer to stage 1	Transfer to stage 3	Transfer from stage 1	Transfer from stage 3	Other Movements *	End Balance 12/31/2018
Individuals	97,551	(18,546)	(11,171)	62,934	1,462	(27,360)	104,870
Consigned personal credit	57,587	(9,238)	(5,531)	54,130	1,065	(7,074)	90,939
Others	39,964	(9,308)	(5,640)	8,804	397	(20,286)	13,931
Entitles	293,939	(36,630)	(44,387)	431,098	-	(171,276)	472,744
Working capital	80,714	(9,964)	(9,365)	303,570	-	(53,463)	311,492
Export/ Import financing	92,962	(26,009)	-	127,528	-	(83,423)	111,058
Others **	120,263	(657)	(35,022)	-	-	(34,390)	50,194
Total	391,490	(55,176)	(55,558)	494,032	1,462	(198,636)	577,614

Stage 3	Open balance 12/31/2017	Transfer to stage 1	Transfer to stage 2	Transfer from stage 1	Transfer from stage 2	Write-off	Other Movements *	End Balance 12/31/2018
Individuals	139,325	(4,300)	(1,462)	82,992	11,171	(121,827)	60,502	166,401
Consigned personal credit	82,325	(3,151)	(1,065)	55,524	5,531	(45,234)	12,701	106,631
Others	57,000	(1,149)	(397)	27,468	5,640	(76,593)	47,801	59,770
Entitles	185,732	-	-	8,360	44,387	(45,556)	9,678	202,601
Working capital	21,229	-	-	8,360	9,365	-	(20,068)	18,886
Export/ Import financing	82,244	-	-	-	-	-	(4,285)	77,959
Others **	82,259	-	-	-	35,022	(45,556)	34,031	105,756
Total	325,057	(4,300)	(1,462)	91,352	55,558	(167,383)	70,180	369,002

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Consolidated of 3 stages	Open Balance 12/31/2017	Write-off	Other Movements *	End Balance 12/31/2018
Individuals	2,768,473	(121,827)	(413,734)	2,232,912
Consigned personal credit	2,393,327	(45,234)	(345,219)	2,002,874
Others **	375,146	(76,593)	(68,515)	230,038
Entitles	3,954,941	(45,556)	2,698,236	6,607,621
Working capital	2,084,308	-	1,212,193	3,296,502
Export/ Import financing	1,077,724	-	663,644	1,741,368
Others **	792,909	(45,556)	822,399	1,569,751
Total	6,723,414	(167,383)	2,284,502	8,840,533

* "Other Movements" include settled transactions and new operations, credit assignments and foreign exchange variation of operations indexed in foreign currency.

** "Others" includes other types of credit (Advances on Foreign Exchange Contracts, Rural and Agribusiness Financing, Machinery and Heavy Vehicle Financing, Debtors for the purchase of assets and liabilities and receivables).

c) Expected credit loss

Composition of expected credit loss of "Loans and advances to clients and securities":

	2019	2018
Individuals	223,405	168,357
Consigned personal credit	172,390	130,539
Others	51,015	37,818
Entitles	143,677	163,628
Working capital	29,489	29,267
Export/ Import financing	47,483	68,798
Others	66,705	65,563
SubTotal	367,082	331,985
Securities	356	6,733
Total	367,438	338,718

Reconciliation of the expected credit loss from "Loans and advances to clients" segregated by stages:

Stage 1	Open balance 12/31/2018	Transfer to stage 2	Transfer to stage 3	Transfer from stage 2	Transfer from stage 3	Other Movements	End Balance 12/31/2019
Individuals	57,829	(171)	(7,504)	197	8,045	3,550	61,946
Consigned personal credit	50,096	(171)	(1,774)	197	3,441	9,609	61,398
Others	7,733	-	(5,730)	-	4,604	(6,059)	548
Entitles	34,470	(184)	(18)	-	-	30,156	64,424
Working capital	16,328	(74)	(3)	-	-	7,936	24,187
Export/ Import financing	13,082	(110)	-	-	-	17,658	30,630
Others	5,060	-	(15)	-	-	4,562	9,607

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Total		92,299	(355)	(7,522)	197	8,045	33,706	126,370	
Stage 2		Open balance 12/31/2018	Transfer to stage 1	Transfer to stage 3	Transfer from stage 1	Transfer from stage 3	Other Movements	End Balance 12/31/2019	
Individuals		6,121	(197)	(1,099)	171	218	18,826	24,040	
Consigned personal credit		5,095	(197)	(427)	171	218	19,163	24,023	
Others		1,026	-	(672)	-	-	(337)	17	
Entitles		6,304	-	-	184	13,632	(12,176)	7,944	
Working capital		963	-	-	74	-	(765)	272	
Export/ Import financing		5,023	-	-	110	13,632	(11,728)	7,037	
Others		318	-	-	-	-	317	635	
Total		12,425	(197)	(1,099)	355	13,850	6,650	31,984	
Stage 3		Open balance 12/31/2018	Transfer to stage 1	Transfer to stage 2	Transfer from stage 1	Transfer from stage 2	Write-off	Other Movements	End Balance 12/31/2019
Individuals		104,407	(8,045)	(218)	7,504	1,099	(100,052)	132,724	137,419
Consigned personal credit		75,348	(3,441)	(218)	1,774	427	(38,746)	51,825	86,969
Others		29,059	(4,604)	-	5,730	672	(61,306)	80,899	50,450
Entitles		122,854	-	(13,632)	18	-	(64,147)	26,216	71,309
Working capital		11,976	-	-	3	-	-	(6,949)	5,030
Export/ Import financing		50,693	-	(13,632)	-	-	-	(27,245)	9,816
Others		60,185	-	-	15	-	(64,147)	60,410	56,463
Total		227,261	(8,045)	(13,850)	7,522	1,099	(164,199)	158,940	208,728
Consolidated of 3 stages				Open Balance 12/31/2018	Write-off	Other Movements	End Balance 12/31/2019		
Individuals				168,357	(100,052)	155,100	223,405		
Consigned personal credit				130,539	(38,746)	80,597	172,390		
Others				37,818	(61,306)	74,503	51,015		
Entitles				163,628	(64,147)	44,196	143,677		
Working capital				29,267	-	222	29,489		
Export/ Import financing				68,798	-	(21,315)	47,483		
Others				65,563	(64,147)	65,289	66,705		
Total				331,985	(164,199)	199,296	367,082		
Securities				6,733	-	(6,377)	356		
Total				338,718	(164,199)	192,919	367,438		
Stage 1		Open balance 12/31/2017	Transfer to stage 2	Transfer to stage 3	Transfer from stage 2	Transfer from stage 3	Other Movements	End Balance 12/31/2018	
Individuals		69,754	(2,172)	(3,245)	1,491	2,628	(10,627)	57,829	
Consigned personal credit		54,331	(1,617)	(1,440)	672	2,126	(3,976)	50,096	
Others		15,423	(555)	(1,805)	819	502	(6,651)	7,733	
Entitles		9,686	(978)	(136)	1,246	-	24,652	34,470	

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Working capital	2,931	(80)	(136)	163	-	13,450	16,328
Export/ Import financing	5,579	(898)	-	1,073	-	7,328	13,082
Others	1,176	-		10	-	3,874	5,060
Total	79,440	(3,150)	(3,381)	2,737	2,628	14,025	92,299

Stage 2	Open balance 12/31/2017	Transfer to stage 1	Transfer to stage 3	Transfer from stage 1	Transfer from stage 3	Other Movements	End Balance 12/31/2018
Individuals	6,737	(1,491)	(894)	2,172	880	(1,283)	6,121
Consigned personal credit	3,749	(672)	(414)	1,617	707	108	5,095
Others	2,988	(819)	(480)	555	173	(1,391)	1,026
Entitles	8,014	(1,246)	(4,516)	978	-	3,074	6,304
Working capital	1,474	(163)	(567)	80	-	139	963
Export/ Import financing	2,161	(1,073)	-	898	-	3,037	5,023
Others	4,379	(10)	(3,949)	-	-	(102)	318
Total	14,751	(2,737)	(5,410)	3,150	880	1,791	12,425

Stage 3	Open balance 12/31/2017	Transfer to stage 1	Transfer to stage 2	Transfer from stage 1	Transfer from stage 2	Write-off	Other Movements	End Balance 12/31/2018
Individuals	79,916	(2,628)	(880)	3,245	894	(121,827)	145,687	104,407
Consigned personal credit	56,937	(2,126)	(707)	1,440	414	(45,234)	64,624	75,348
Others	22,979	(502)	(173)	1,805	480	(76,593)	81,063	29,059
Entitles	112,064	-	-	136	4,516	(45,556)	51,694	122,854
Working capital	9,437	-	-	136	567	-	1,836	11,976
Export/ Import financing	56,379	-	-	-	-	-	(5,686)	50,693
Others	46,248	-	-	-	3,949	(45,556)	55,544	60,185
Total	191,980	(2,628)	(880)	3,381	5,510	(167,383)	197,381	227,261

Consolidated of 3 stages	Open Balance 12/31/2017	Write-off	Other Movements	End Balance 12/31/2018
Individuals	156,407	(121,827)	133,777	168,357
Consigned personal credit	115,017	(45,234)	60,756	130,539
Others	41,390	(76,593)	73,021	37,818
Entitles	129,764	(45,556)	79,420	163,628
Working capital	13,842	-	15,425	29,267
Export/ Import financing	64,119	-	4,679	68,798
Others	51,803	(45,556)	59,316	65,563
Total	286,171	(167,383)	213,197	331,985
Securities	5,622	-	1,111	6,733
Total	291,793	(167,383)	214,308	338,718

d) Assignment of loans to credit securitization companies (unrelated companies)

In the years ended December 31, 2019 there was no assignment of loans to unrelated credit securitization companies.

In the year ended December 31, 2018, there were assignments to unrelated credit securitization companies of loans for working capital and other assets classified as "operations with substantial transfer of risks and rewards", which were fully covered by allowances for loan losses, resulting in the amount of R\$ 25,972.

Furthermore, loan operations previously written-off were also assigned to unrelated credit securitization companies, resulting in the amount of R\$ 73,984. The assignments were made considering internal evaluations as regards the perspectives of recovery of the loans, which served as the pricing basis for the assignments, and analyses of a specialized company regarding the situation of the debtors and the conditions of the loans, utilized as a source of information for the evaluation of the perspectives of the recovery of the loans (note 29).

8. *Other loans and receivables*

All the balances of counterparties that are not clients or financial institutions are considered "Other Loans and Receivables." As of December 31, 2019, this item is composed basically of balances outstanding with stock exchanges (under usual market terms) and credits granted and not typified as loans classified as amortized cost, totaling the sum of R\$ 28,833 (R\$ 27,431 in 2018) .

	2019	2018
Term:		
Current	17,039	15,567
Non-current	11,794	11,864
	<u>28,833</u>	<u>27,431</u>

9. *Non-financial assets held for sale*

Non-financial assets classified are recorded in the balance sheet when actually appropriated or intended for sale. These assets mainly refer to real estate property available for sale and received as payment for debt, which were initially stated at the lowest value between carrying amount and fair value, less sales costs.

CCB Brasil's policy consists in having control of a real property (though it is not yet in possession) when it obtains the adjudication order or writ of public bid or payment in kind (control of asset), and in the case of vehicles / others this will be based on the definite sentence (control of asset). At the moment the asset is owned, credit agreement is written off and accounted for in "Non-financial Assets" at the amount included in an appraisal report prepared by an expert accredited by CCB Brasil conglomerate, limited to the debt amount.

The report should specify the appraisal criteria and the comparison parameters employed to arrive at the value. The asset should be reassessed following the regulatory term (1 year) plus extensions and the mandatory public auction. A provision for loss should be created or increased whenever the fair value (assessment) is below the carrying amount.

Subsequent reductions to book value related to the reduction to fair value or loss of ownership or control of the asset, in addition to the gains and losses arising from the disposal of non-financial assets are recorded under "Gains (losses) on other assets (net)" in the Statement of Operations for the year.

a) Breakdown

	2019	2018
Rating:		
Assets held for sale	196,765	247,138
Type:		
Real estate	336,345	371,061
Machinery and equipment	27,114	27,122
Vehicles	13,559	11,271
Other	630	743
Provision for impairment	(180,883)	(163,059)
	196,765	247,138

b) Changes

	2019	2018
Cost:		
Balances on December 31, 2018	410,198	423,308
Assets seized	15,198	43,953
Disposals	(47,748)	(57,063)
Balance at the end of the period	377,648	410,198

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	2019	2018
Accumulated provision:		
Balances on December 31, 2018	(163,060)	(142,882)
Period reversal	10,752	21,460
Provisions for the period	(28,575)	(41,638)
Total provision at the end of the period	(180,883)	(163,060)
Net balance of non-financial assets held for sale	196,765	247,138

10. Investments

The breakdown of this item's balances is as follows:

	<u>2019</u>	<u>2018</u>
Equity securities	233	233
Shares and quotas	14	14
Other financial assets	<u>9</u>	<u>9</u>
Total	256	256

11. Tangible assets

CCB Brasil's tangible assets consist in fixed assets in use. CCB Brasil has no tangible assets stated as investment property or leased under operating lease conditions.

Details by types of assets, of the tangible assets in the consolidated balance sheets are as follows:

	Cost	Accumulated depreciation	Impairment	Net balance
Land and buildings	85,629	(50,015)	-	35,614
Data processing systems	10,124	(9,786)	(15)	323
Facilities, furniture and equipment in use	20,585	(12,761)	(1,458)	6,366
Other	2,450	(1,967)	(47)	436
Balances at December 31, 2018	118,788	(74,529)	(1,520)	42,739
Land and buildings	85,950	(58,250)	-	27,700
Initial adoption IFRS 16 (note 2a)	81,016	(7,371)	-	73,645
Data processing systems	10,323	(9,879)	(15)	429
Facilities, furniture and equipment in use	20,630	(14,240)	(1,447)	4,943
Other	2,298	(1,973)	(47)	278
Balances at December 31, 2019	200,217	(91,713)	(1,509)	106,995

The changes in the "Tangible assets" item in the consolidated balance sheets are as follows:

	2019	2018
Cost:		
Balances on December 31, 2018	118,788	126,444
Initial adoption IFRS 16 (Note 2a)	81,016	-
Additions	951	6,391
Disposals	(538)	(14,047)
Balances at the end of the year	200,217	118,788
Impairment	(1,509)	(1,520)
Accumulated depreciation:		
Balances at the beginning of the year	(74,529)	(73,235)
Initial adoption IFRS 16 (Note 2a)	(7,371)	-
Additions	(10,157)	(10,393)
Disposals	344	9,099
Total depreciation at yearend	(91,713)	(74,529)
Net balance of Tangible Assets	106,995	42,739

12. Intangible assets

The breakdown of the item "Intangible assets" is as follows:

	Estimated useful life	2019	2018
With defined useful life:			
Expenses on software acquisition and development	Other	23,068	21,371
Accumulated amortization	Up to 5 years	(20,176)	(17,380)
Without defined useful life:			
Goodwill - CCB Brasil Financeira		105,190	105,190
		108,082	109,181

The changes in the item "Intangible assets" are as follows:

	2019	2018
Opening balances	109,181	110,082
Additions / (write-off) of costs	1,697	2,204
Amortizations	(2,796)	(3,217)
Amortizations write-off	-	112
Balances at the end of the year	108,082	109,181

CCB Brasil assessed the existence of impairment for the intangible assets groups. No impairment of these assets was identified on the analyzed base date.

The recorded goodwill is subject to impairment test once a year, or more often if there is an indication of impairment of the asset, and was allocated to cash generating units identified in accordance with operating segments (note 35).

The basis used for the impairment test is the value in use, and for this purpose Management estimates the cash flow that is subject to several factors, such as: (i) macro-economic projections of the interest rate, inflation, and others; (ii) National financial system's behavior and growth estimates; (iii) increased costs, returns, synergies and investment plan; (iv) client behavior and (v) growth rates and adjustments applied to perpetuity flows. The adoption of these estimates involves the probability of the occurrence of future events and changes in one of these factors could have a different result.

Based on the aforementioned assumptions, no impairment of goodwill was identified in the year ended on December 2019.

	<u>2019</u>	<u>2018</u>
CCB Brasil S.A. Crédito, Financiamentos e Investimentos	<u>105,190</u>	<u>105,190</u>
Operating segment:		
Retail	<u>105,190</u>	<u>105,190</u>
	<u>Retail</u>	<u>Retail</u>
Main assumptions:		
Assessment basis	Value in use: cash flows	Value in use: cash flows
Cash flow projection period ⁽¹⁾	10 years	10 years
Growth rate in perpetuity	6.1% p.a.	6.2% p.a.
Discount rate	14.4%	13.0%

⁽¹⁾ Cash flow projections are based on internal budget and on management's growth plans, taking into account historical data, expectations and market conditions such as industrial growth, interest rate and inflation indexes. The 10-year period used for the projection of cash flows adequately reflects the long-term business cycle of the unit, since it carries out credit operations with maturities that can reach up to 96 months (60 months in 2018) with an average term of 48 months.

13. Other assets

Breakdown of “Other assets” balance is as follows:

	<u>2019</u>	<u>2018</u>
Other receivables (*)	31,429	28,552
Sundry receivables	19,345	19,531
Prepaid expenses	9,514	27,926
Sundry accounts	<u>1,324</u>	<u>1,784</u>
	61,612	77,793
 Term:		
Current	30,211	67,447
Non-current	<u>31,401</u>	<u>10,346</u>
	61,612	77,793

(*) Substantially refer to assets with social housing programs in the amount of R\$ 21,247 (R\$ 19,508 in 2018).

14. Deposits from financial institutions

The breakdown by rating, counterpart, type, and currency of the balances in these items is as follows:

	2019	2018
Rating:		
Financial liabilities at amortized cost	3,943,754	7,162,517
Type:		
Obligations related to purchase and sale agreements (LFT)	3,603,526	7,028,902
Interbank deposits	340,228	133,615
	3,943,754	7,162,517
Currency:		
Real	3,943,754	6,774,454
	-	388,063
	3,943,754	7,162,517
Term:		
Current	3,925,982	6,940,972
Non-current	17,772	221,545
	3,943,754	7,162,517

15. Deposits from clients

The breakdown by rating, type, in the item “Deposits from clients” is as follows:

	<u>2019</u>	<u>2018</u>
Rating:		
Financial liabilities at amortized cost	3,313,521	3,068,808
Type:		
Time deposits	3,157,944	2,920,568
Demand deposits	86,581	84,316
Savings deposits	2,977	3,241
Other deposits (*)	66,019	60,683
	<u>3,313,521</u>	<u>3,068,808</u>
Currency:		
Real	3,247,515	3,037,624
USD	66,006	31,184
	<u>3,313,521</u>	<u>3,068,808</u>
Term:		
Current	2,561,844	2,783,199
Non-current	751,677	285,609
	<u>3,313,521</u>	<u>3,068,808</u>

(*) Refers substantially to the account of foreign currency payment orders in the amount of R\$ 66,006 (R\$ 31,184 in 2018).

16. Securities issued

The breakdown by rating, type, and currency of the balances in the item "Securities issued" is as follows:

	2019	2018
Rating:		
Financial liabilities at amortized cost	1,441,971	1,245,803
Type:		
<i>Financial liabilities at amortized cost</i>		
Obligations from issue of financial bills	754,625	541,933
Obligations from issue of agribusiness real estate credit bills	610,297	604,022
Obligations from securities issued abroad	55,066	55,066
Obligations from issue of real estate credit bill	21,983	44,782
	1,441,971	1,245,803
Currency:		
Real	1,386,905	1,190,737
USD	55,066	55,066
Balances at the end of the year	1,441,971	1,245,803
Term:		
Current	1,080,239	744,609
Non-current	361,732	501,194
	1,441,971	1,245,803

17. Capital Instruments

Details of the balance of "Subordinated debts" are as follows:

	2019	2018
Rating:		
Other liabilities at fair value through profit or loss (*)	1,069,201	1,046,949
Financial liabilities at amortized cost	694,983	1,154,621
	<u>1,764,184</u>	<u>2,201,570</u>
Type:		
Other liabilities at fair value through profit or loss		
Eurobonds (*)	1,069,201	1,046,949
Financial liabilities at amortized cost		
Subordinated CDB	412,834	883,385
Perpetual Debt	282,149	271,236
	<u>694,983</u>	<u>1,154,621</u>
Currency:		
USD	1,764,184	1,318,185
Real	-	883,385
	<u>1,764,184</u>	<u>2,201,570</u>
Term:		
Current	1,071,629	512,922
Non-current	692,555	1,688,648
	<u>1,764,184</u>	<u>2,201,570</u>

(*) Includes credit risk premium in the amount of R\$ 6,981 (R\$ 47,316 in 2018).

18. Domestic borrowings

The breakdown of the item "Domestic borrowings" is as follows:

	<u>2019</u>	<u>2018</u>
Rating:		
Financial liabilities at amortized cost	216,833	133,770
With:		
Onlendings - Ministry of Agriculture	213,670	129,579
Other funds and programs	2,194	3,222
Onlendings - Ministry of Cities	969	969
	<u>216,833</u>	<u>133,770</u>
Currency:		
Real	216,833	133,770
Term:		
Current	194,635	128,887
Non-current	22,198	4,883
	<u>216,833</u>	<u>133,770</u>

19. Foreign borrowings

The breakdown of the balances in the item "Foreign borrowings" is as follows:

	2019	2018
Rating:		
Financial liabilities at amortized cost	4,475,380	4,817,459
Other liabilities at fair value through profit or loss (*)	46,991	66,009
Hedged financial liabilities (nota 20)	-	1,767,532
	<u>4,522,371</u>	<u>6,651,000</u>
With:		
Financial liabilities at amortized cost:		
Import/export financing	4,475,380	4,817,459
Other liabilities at fair value through profit or loss		
Foreign onlendings	46,991	66,009
Hedged financial liabilities		
Foreign borrowings	-	1,765,976
Fair value adjustment	-	1,556
	<u>-</u>	<u>1,767,532</u>
Currency:		
USD	4,522,371	6,651,000
Term:		
Current	4,451,670	6,522,441
Non-current	70,701	128,559
	<u>4,522,371</u>	<u>6,651,000</u>

(*) Includes credit risk premium in the amount of R\$ 1,174 (R\$ 4,058 in 2018).

20. Hedge accounting

Loans to Individuals

CCB Brasil holds payroll loan portfolios of public servants and retirees, and vehicle financing operations. Those credits are assigned at pre-fixed rates, exposing the Institution to the market risk arising from fluctuations in the reference rate of interbank deposits (CDI), an index in which the Institution's cost of funding and risk management are controlled. Thus, to hedge the risk of the pre-fixed rate to the CDI oscillations, since January 2017, the Bank's treasury dept acquires future DI contracts in a ratio of amounts x maturities that offset the adjustment effect to fair value of the hedged item, and the effects of this hedge of fair value are recorded exclusively in the Consolidated Financial Statements.

2019	Hedge Object			Hedge Instrument	
	Curve value	Fair value	Value of Ineffectiveness	Variation in value Recognized in income	
Interest Rate Risk	Assets	Assets		Value Nominal	
Hedge of Credit Operations	1,337,367	1,439,810	10,331	1,660,140	92,112

2018	Hedge Object				Hedge Instrument	
	Curve value		Fair value		Value of Ineffectiveness	Variação do valor reconhecido em resultado
Risco de Taxa de Juros	Assets	Liabilities	Assets	Liabilities		
Hedge de Operações de Crédito	1,822,671	-	1,919,155	-	6,704	89,781
Hedge de Captações CCB	-	1,765,976	-	1,767,532	753	803
Total	1,822,671	1,765,976	1,919,155	1,767,532	7,457	90,584

21. Provisions

CCB Brasil and its subsidiaries are parties to legal and / or administrative proceedings arising from the normal course of business, involving matters of a civil, labor, tax and social security nature.

a) Contingent assets

Contingent assets are not recognized.

b) Provision classified probable losses and legal obligations

Based on information obtained from its legal advisors on the analysis of pending legal proceedings and, as regards labor claims, from previous experience Management recorded provisions at amounts considered sufficient to cover probable losses from the lawsuits in progress:

b.1) Social Contribution on Revenues (COFINS) Law No. 9,718/98 – amount involved R\$ 557,244 (R\$ 539,751 in 2018). The Group requests the payment of the contribution, from November 2005 to December 2014 on the basis of the calculation stipulated by Complementary Law No. 7/70, in view of the unconstitutionality of the increase of the calculation basis determined in Law No. 9,718/98. Part of the amount involved, R\$ 31,381 (R\$ 30,136 in 2018), has been deposited in Court.

b.2) Social Integration Program (PIS) Law No. 9,718/98 – amount involved R\$ 88,503 (R\$ 85,731 in 2018). The Group requests the payment of the contribution, from November 2005 to December 2014, on the basis of the calculation stipulated by Complementary Law No. 7/70, in view of the unconstitutionality of the increase of the calculation basis determined in Law No. 9,718/98. Part of the amount involved, R\$ 106,393 (R\$ 94,781 in 2018), has been deposited in Court.

b.3) PIS - Constitutional Amendment No. 10/96 - amount involved R\$ 18,925 (R\$ 18,275 in 2018). The Group requests the rejection of the requirement of the retroactive contribution for PIS, for the period of 90 days between 03/07/1996 and 06/07/1996, in observance of the principles of "retroactivity" and "90 day holding period", as well as to ensure the right to calculate and collect as from 06.07.1996 the contribution to PIS on the gross operating income, understood as that arising solely from the provision of services and sales of goods as defined in Art. 44 of Law No. 4,506/64, in Art.12 of Decree-Law No. 1,587/77 and Art. 226 Decree No. 1,041/94. The amount involved was deposited in Court.

b.4) Service Tax (ISS) - Taxed Services - Taxation of the List of Services Attached to Complementary Law (LC) No. 56/87 – amount involved R\$ 1,336 (R\$ 1,272 in 2018): The Group requests the deconstitution of the ISS debit entry on alleged revenues for the provision of taxable services, not expressly foreseen in the list of services annexed to LC No. 56/87 (assuming the list as explanatory), in disagreement with the jurisprudence of the

Superior Court of Justice, considering its unrestricted nature. The amount involved was deposited in Court.

b.5) Labor lawsuits

CCB Brasil has lawsuits assessed by the legal advisors as probable losses, which were fully covered by provisions totaling R\$ 86,757 (R\$ 58,884 in 2018). The provisions are related to lawsuits in which alleged labor is discussed, related to specific labor legislation in the professional category, such as overtime, salary equalization, transfer allowance and others.

b.6) Civil lawsuits

CCB Brasil has lawsuits, assessed as probable losses, which were fully covered by provisions totaling R\$ 235,513 (R\$ 179,579 in 2018). Provisions are, in general, due to contract review and indemnity for material and moral damage, mostly from the Special Civil Court.

c) Tax and social security proceedings classified as possible losses

The contingent liabilities classified as possible losses are monitored by the Institution, and the evaluation of the possible outcome is based on the opinion of the legal advisors in relation to each judicial and administrative proceeding. Therefore, in compliance with the existing norms in Brazil, there is no accounting recognition of the contingencies classified as possible losses, which mainly refer to the following issues:

ISS - List of Taxable Services (Attachment to Circular Letter (LC) No. 56/87) - Amount involved R\$ 23,094 (R\$ 21,707 in 2018). The Group requests the extinguishing of the ISS on alleged taxable revenue service, not expressly covered in the list of services attached to LC No.56/87, based on the argument that this Circular Letter is merely illustrative, which is not in accordance with the jurisprudence of the Superior Court. The amount involved has been deposited in Court.

Allowance for doubtful debts/1994 - Amount involved R\$ 26,357 (R\$ 25,525 in 2018). The Group requests that in the calculation of income tax and social contribution for the fiscal year 1994, a deduction be permitted for the expense on the allowance for doubtful debts under the terms determined by the National Monetary Council and the Brazilian Central Bank regulations, pursuant to Resolution No. 1,748/90 and subsequent changes, thereby considering as unconstitutional and illegal pursuant to the provisions of art. 43, paragraph 4, of Law No. 8,981/95. The amount involved has been deposited in Court.

IRF on Remittance of Interest Abroad - amount involved R\$ 14,229 (R\$ 13,803 in 2018): seeks to offset amounts unduly withheld as income tax at source on remittances of interest abroad, with the same income tax legal entities, pursuant to art. 39 of Law No. 9,250/96, removing the restrictions contained in Circular Letters No. 2,269 / 92 and No. 2,372/93 and Communiqué No. 2,747/92, which conditioned the application of zero

income tax rate to compliance with minimum repayment terms, for flagrant violation of the principle of legality. The amount involved was deposited in court.

IRPJ / 2008 - amount involved R\$ 20,071 (R\$ 19,268 in 2018): awaiting approval of the adhesion to the Installment of Law No. 12,996/2014 (REFIS of COPA), whose analysis of the RQA - Request for Early Discharge (article 33 of Law No. 13,043 / 2014) is suspended pending judgment of the disallowance of tax losses and negative basis of CSLL for the years 2012 and 2014 (see IRPJ / CSLL).

INSS - Management's profit sharing - Amount involved R\$ 124,376 (R\$ 118,835 in 2018): The Group requests the reversal of the alleged INSS debit, relating to the base periods from 2006 to 2011, assessed through an assessment notice, because of the fact that (i) the debits relating to facts generated up to October 10, 2006 are time barred and, (ii) because there should be no levy of INSS on profit sharing, as established in the Federal Constitution, in Art. 7 item XI, and Law No. 8,812/1991, in Art. 28, § 9.

IRPJ / CSLL - Amount involved R\$ 168,154 (R\$ 88,567 in 2018). The Group requests the extinguishing of the IRPJ /CSLL debit, related to the base period of 2012, assessed through an assessment notice, arising from the disallowance of the deductibility of credit losses, because of the alleged non-compliance with the procedures set forth in Law No. 9,430/96.

Financial Operations Tax (IOF) and Withholding Income Tax (IRRF) - amount involved R\$ 1,485 (R\$ 1,439 in 2018). CCB Brasil as joint and several liability claims for the elimination of the launch of the alleged IRRF / IOF debt on seven exchange operations for foreign exchange remittances.

Deductibility of the PLR Expense from the CSLL Calculation Base - amount involved R\$ 1,978 (R\$ 2,251 in 2018): pleads the unconstitution of the disallowance of the expense with payment of Profit Sharing to the Administrators, in the 2012 calendar year, which reduced the negative CSLL tax base in the period, due to alleged non-compliance with the procedures provided for in Law No. 7,689 / 1988.

IOF on Credit Assignment - amount involved R\$ 2,578 (R\$ - in 2018): pleads for the decommissioning of the IOF debt entry on the alleged incidence on credit assignment contracts with recourse, for the period from 03/2014 to 12/2014, for alleged breach of Decree No. 6,306/2007.

Unapproved Compensation - amount involved R\$ 4,388 (R\$ 3,298 in 2018): pleads in the administrative sphere with the RFB to ratify tax compensations with credits arising from overpayment or undue payment.

Labor lawsuits

CCB Brasil has lawsuits for which are classified as 'possible losses' and for which no provision was recorded. According to the legal advisors, the maximum amount of possible indemnities for these lawsuits is R\$ 12,019 (R\$ 8,319 in 2018). The contingencies are related to lawsuits in which labor issues are discussed, in relation to the specific labor legislation, such as overtime, salary parity, additional remuneration for transfers and related matters.

Civil lawsuits

CCB Brasil has lawsuits, for which are classified as possible losses and therefore no provision was recorded. According to the estimates of the legal advisors, the maximum amount of indemnities in respect of these lawsuits is R\$ 229,628 (R\$ 306,414 in 2018). The contingencies generally originate from a review of contracts and indemnities for material and moral damages, the major part being discussed in the Special Civil Court.

d) Changes in provisions for "legal obligations" and "contingent liabilities" classified as probable losses.

Description	2018	Additions	Reversals	Restatement	Written off	2019
Civil	74,674	16,921	(18,373)	12,094	(11,562)	73,754
Labor	58,884	6,470	(4,249)	30,430	(4,778)	86,757
Guarantee	104,905	81,415	(11,460)	-	-	174,860
Subtotal	238,463	104,806	(34,082)	42,524	(16,340)	335,371
Tax and social security	2018	Additions	Reversals	Restatement	Written off	2019
PIS - Gross Operating Revenue - EC 10/96 and EC 17/97	18,275	-	-	650	-	18,925
PIS - Expansion of Calculation Basis - Law No. 9,718/98	85,731	-	-	2,772	-	88,503
COFINS - Expansion of Calculation Basis - Law No. 9,718/98	539,751	-	-	17,493	-	557,244
ISS - Services not taxed - LC No.56/87	1,272	-	-	64	-	1,336
Subtotal	645,029	-	-	20,979	-	666,008
Total	883,492	104,806	(34,082)	63,503	(16,340)	1,001,379

For the above contingencies, CCB Brasil has deposited the amount of R\$ 109,056 for civil lawsuits, R\$ 22,775 for labor lawsuits and R\$ 311,613 for tax lawsuits.

Description	2017	Additions	Reversals	Restatement	Written off	2018
Civil	71,006	9,990	(14,418)	33,524	(25,428)	74,674
Labor	45,608	11,678	(6,426)	9,778	(1,754)	58,884
Guarantee	104,905	-	-	-	-	104,905
Subtotal	221,519	21,668	(20,844)	43,302	(27,182)	238,463

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Tax and social security	2017	Additions	Reversals	Restatement	Written off	2018
CSLL – Equal Treatment in Rates – 2008 onwards	149,299	-	-	5,385	(154,684)	-
PIS - Gross Operating Revenue - EC 10/96 and EC 17/97	17,583	-	-	692	-	18,275
PIS - Expansion of Calculation Basis - Law No. 9,718/98	82,782	-	-	2,949	-	85,731
COFINS - Expansion of Calculation Basis - Law No. 9,718/98	521,134	-	-	18,617	-	539,751
ISS - Services not taxed - LC No.56/87	1,199	-	-	73	-	1,272
Subtotal	771,997	-	-	27,716	(154,684)	645,029
Total	993,516	21,668	(20,844)	71,018	(181,866)	883,492

For the above contingencies, CCB Brasil has deposited the amount of R\$ 117,859 for civil lawsuits, R\$ 25,025 for labor lawsuits and R\$ 291,064 for tax lawsuits.

22. Current income tax and deferred taxes

a) Statement of calculation of income tax and social contribution charges

Total charges for the fiscal year may be reconcile with book profits as follows:

	2019		2018	
	Income tax	Social contribution	Income tax	Social contribution
Result before taxes, contributions and interest	(187,042)	(187,042)	(100,855)	(100,855)
(-) Interest on own capital ⁽¹⁾	-	-	(15,343)	(15,343)
(-) Profit Sharing ⁽²⁾	-	-	15,343	15,343
Calculation basis	(187,042)	(187,042)	(100,855)	(100,855)
Temporary differences	678,867	667,671	838,269	826,737
Permanent differences ⁽³⁾	578,270	578,270	270,835	270,835
Exclusions	(1,009,215)	(1,005,263)	(1,057,880)	(1,044,705)
Tax loss and calculation basis for income tax and social contribution	60,880	53,636	(49,631)	(47,988)
(+) Negative taxable result of consolidated companies	33,613	37,119	57,773	57,872
(-) Offset of tax loss - negative calculation basis of social contribution	(27,129)	(27,129)	(2,208)	(2,208)
Profit and income tax and social contribution calculation basis	67,364	63,626	6,033	7,676
Charges at the rates of 15% for Income Tax and Social Contribution	10,105	9,549	905	1,523
10% income tax surcharge	6,673	-	530	-
Current taxes	16,778	9,549	1,435	1,523
Reconciliation with results				
Current taxes	16,778	9,549	1,435	1,523
Income tax abroad	(13,021)	-	-	-
Deferred Income Tax and Social Contribution	12,250	43,849	80,499	46,561
Provision for Income Tax and Social Contribution – Adjustments of previous year	-	-	(2,510)	(2,008)
(=) Provision for Income Tax and Social Contribution	16,007	53,398	79,424	46,076
Constitution of tax credits on temporary additions	(174,042)	(180,695)	(210,173)	(113,761)
Constitution of tax credits (on tax losses and CSLL negative calculation basis)	(11,338)	(48,189)	-	-
Realization of tax credit (Reversal of temporary additions)	87,366	52,416	107,104	68,694
Realization of tax credit (compensation of tax losses and CSLL negative calculation basis)	11,012	5,602	14,626	11,593
Write-off of tax credits on tax losses and negative calculation basis of CSLL	23,600	17,078	63,679	43,001
(=) Net effect of tax credit	(63,402)	(153,788)	(24,764)	9,527
Total	(47,395)	(100,390)	54,660	55,603
Income Tax and Social Contribution expenses (incomes)		(147,785)		110,263

- (1) As of 2019, under the terms of CMN Resolution No. 4,706/18, art. 2, the amounts relating to capital remuneration, declared or proposed, must be recognized in liabilities, in return for the appropriate account of retained earnings or reserves.
- (2) As of 2019, under the terms of CMN Resolution No. 4,706/18, art. 4, the remuneration for capital earned on investments valued by the equity method, must be recognized in assets, with a corresponding entry to the respective investment.
- (3) The amount of permanent additions includes R\$ 16,000 received as interest on own capital from CCB Brasil Arrendamento S.A.

b) Effective tax rate calculation

Effective tax rates are as follows:

	2019	2018
Income (loss) before taxes	(187,042)	(100,855)
Current income tax (note 22a)	147,785	(110,263)
Effective rate	-79,01%	109,33%

The effective tax rate differs from the current rate applied to the calculation of income tax, as per additions and exclusions presented below:

	2019	Rate
Net Income before taxes	(187,042)	
Income tax at current rates	84,169	45%
Additions and exclusions in the calculation		
Write-off of tax credit - no expected realization	(40,678)	
Equity Income	146,676	
Goodwill on investment and acquisition	4,734	
Permanent additions and exclusions	(126,466)	
Differences of rates CSLL 15% x 20%	64,171	
Other non-deductible permanent additions	15,179	
Income tax for the year	147,785	79%
	2018	Rate
Net Income before taxes	(100,855)	
Income tax at current rates	(40,342)	40%
Additions and exclusions in the calculation		
Write-off of tax credit - no expected realization	116,160	
Equity Income	10,519	
Goodwill on investment and acquisition	(10,976)	
Permanent additions and exclusions	40,383	
Differences of rates CSLL 15% x 20%	(5,481)	
Income tax for the year	110,263	109%

c) Deferred taxes

Balances of "Deferred taxes" Assets/ (Liabilities) is as follows:

	2019	2018
Deferred tax assets	1,140,676	935,328
Deferred tax liabilities		
Income and social contribution taxes on MTM positive adjustment	(50,924)	(61,265)
Other Temporary Differences	(34,622)	-
Income tax on excess depreciation	(2,982)	(4,793)
	(88,528)	(66,058)
Total deferred taxes	1,052,148	869,270

The changes in the balances of “Deferred tax assets” and “Deferred tax liabilities” are as follows:

	Opening Balance on 12/31/2018	Achievement	Additions	Adjustments CSLL 15% - 20%	Final Balance on 12/31/2019
Deferred tax assets	935,328	(187,391)	250,136	142,603	1,140,676
Impairment losses on financial assets	150,592	(53,716)	78,310	41,425	216,611
Provisions	434,730	(119,615)	196,392	60,316	571,823
Tax loss	217,010	(14,060)	(755)	-	202,195
CSLL Negative Base	132,996	-	(23,811)	40,862	150,047
Deferred Tax Liabilities	(66,058)	(22,470)	-	-	(88,528)
Monetary adjustment judicial deposits	(25,427)	(9,197)	-	-	(34,624)
Hedge Accounting	(38,593)	(7,506)	-	-	(46,099)
Fair value through other comprehensive income	12,850	(5,500)	-	-	7,350
Temporary differences	(14,888)	(267)	-	-	(15,155)
Total	869,270	(209,861)	250,136	142,603	1,052,148

	Opening Balance on 12/31/2017	Impact of adoption IFRS 9	Achievement	Additions	Adjustments CSLL 15% - 20%	Write-off	Final Balance on 12/31/2018
Deferred tax assets	984,797	43,915	(311,970)	347,815	(22,549)	(106,680)	935,328
Impairment losses on financial assets	72,803	43,915	(85,070)	123,823	(4,879)	-	150,592
Provisions	358,605	-	(65,953)	159,748	(17,670)	-	434,730
Tax loss	295,315	-	(14,626)	-	-	(63,679)	217,010
CSLL Negative Base	187,590	-	(11,593)	-	-	(43,001)	132,996
Temporary differences	70,484	-	(134,728)	64,244	-	-	-
Deferred Tax Liabilities	(77,494)	-	18,425	(6,989)	-	-	(66,058)
Monetary adjustment judicial deposits	(20,536)	-	-	(4,891)	-	-	(25,427)
Hedge Accounting	(36,495)	-	-	(2,098)	-	-	(38,593)
Fair value through other comprehensive income	(1,789)	-	14,639	-	-	-	12,850
Temporary differences	(18,674)	-	3,786	-	-	-	(14,888)
Total	907,303	43,915	(293,545)	340,826	(22,549)	(106,680)	869,270

d) Presumed Tax Credits

In view of high level of inventory of “temporary differences” arising from credit losses which occurred after 2014, the Bank decided to compute a "Presumed Tax Credit" in the amount of R\$380,662, according to criteria established by Law No. 12,838/2013 and Circular Letter No. 3,624/2013 of BACEN, which require determination of tax losses and credits deriving from temporary differences originating from allowance for doubtful loans computed and existing in the previous calendar year.

According to Law No. 12,838/13, the Federal Revenue Service can verify the accuracy of the computed presumed tax credits for a period of 5 (five) years, as from the date of the request for offset, which could be in cash or in federal public debt securities, and also utilized as a deduction from tax or non-tax amounts due to the National Treasury.

During the year of 2019, the Bank recovered R\$ 830 (R\$ 63,299 in 2018), resulting from credit operations that are part of the calculation basis for presumed tax credit, whose deferred taxes, in the amount of R\$ 9,459 (R\$ 25,320 in 2018) , were recorded as a reduction of the presumed credit originally recorded, given that these amounts will be taxed when the credit is reimbursed by the National Treasury.

Management believes that, considering the macroeconomic scenario and the expectation of the generation of future taxable income by the Institution, the option for Presumed Tax Credit represents the best alternative to reduce the time of realization of temporary differences arising from the allowance for doubtful accounts.

	2018	2018
Presumed tax credit		
Year 2014	78,983	78,983
Year 2015	107,450	107,450
Year 2016	194,229	194,229
Year 2017	(47,361)	(47,361)
Year 2018	(25,320)	(25,320)
Year 2019	(9,459)	-
Total presumed credit	298,522	307,981

e) Tax credits not recorded

As a result of the history of tax losses in recent years and uncertainties related to long-term projections, the Management decided not to record portion of its tax credits in its balance sheet according to the practices established by IFRS, effective as from May 31, 2017.

The Consolidated' s books have tax credits not recorded arising from tax losses and negative basis of social contribution in the amount of R\$ 773,991 (R\$ 617,583 in 2018) for which there is no expectation for realization.

23. Other liabilities

The breakdown of the balance of "Other liabilities" is as follows:

	<u>2019</u>	<u>2018</u>
Properties payable - IFRS 16	81,252	-
Sundry payables - domestic - Country	51,778	26,068
Bonuses and profit sharing to be paid	39,677	19,211
Commissions on deferred securities	15,814	11,808
Other payments	14,717	28,339
Other administrative expenses	14,623	9,271
Personnel expenses	12,104	14,429
Operations payable with credit card	419	7,237
Other	<u>15,616</u>	<u>-</u>
	246,000	116,363

24. Shareholders' equity

a) Shares

The Bank's capital is R\$ 2,956,864 (R\$ 2,956,864 in 2018) represented by 465,631,466 nominative shares (465,631,466 in 2018), of which 297,223,908 are common shares (297,223,908 in 2018) and 168,407,558 preferred shares (168,407,558 in 2018), without par value.

The CCB Brasil shareholders structure was as follows:

Shareholder	Interest (%)	<u>Common Shares</u>		<u>Preferred Shares</u>		<u>Total</u>	
		Quantity	Amount	Quantity	Amount	Quantity	Amount
CCB Holding	100%	297,223,908	1,794,511	168,407,558	1,162,353	465,631,466	2,956,864

b) Treasury shares

Up to December 31, 2019, 6,879,540 preferred shares were acquired for R\$ 58,593 of this amount, 481,022 shares were transferred to managers as variable remuneration in the years 2013 and 2014.

The minimum, average and maximum cost per share (in Reais) were R\$ 6.96, R\$ 8.52 and R\$ 9.70 respectively. There is no fair value for these shares.

Therefore, the number of treasury shares at December 31, 2019 corresponds to 6,398,518 shares in the amount of R\$ 55,105 (R\$ 55,105 in 2018).

c) Dividends and interest on capital

According to the bylaws, a minimum dividend corresponding to 25% of the net income for the period is ensured according to the accounting practices established by the Central Bank of Brazil, under the terms of the applicable corporate law.

d) Reserves

Because of the losses incurred, there were no constitution of reserves.

25. Guarantees provided

CCB Brasil offers many guarantees for their clients to improve their credit position and become competitive. The following table shows all the guarantees as of December 31, 2019 and 2018.

Maximum potential amount of future payments	2019	2018
Guarantees provided		
Sureties and guarantees	1,446,936	1,558,654
Export Performance	3,424,471	4,554,191
Standby letter	94,375	88,894
Export Billing	3,330,096	4,465,297
Total guarantees provided	4,871,407	6,112,845

On December 31, 2019, based on its disbursement estimates made in accordance with recognized credit risk management practices, the Bank estimated that the probability of future disbursements linked to financial guarantees provided is R\$ 174,860 (R\$ 93,445 in 2018). This estimate considers the history of disbursements to honor guarantees over the past few years, as well as legal discussions whose probability of disbursement is considered probable by the Bank's legal advisors (note 21d).

26. Interest and similar income and expenses and net exchange differences

a) Interest and similar income and expenses

Interest and similar income in the consolidated statement of operations comprise of interest accrued in the year on all financial assets with implicit or explicit return, calculated using the effective interest method, regardless of the fair value measurement and of the income due to the hedge accounting. Interest is recognized for the gross amount, without the deduction of tax withheld at source.

Interest and similar expenses in the consolidated statement of operations comprise interest accrued in the year on all financial liabilities with implicit or explicit return, including compensation in cash, calculated using the effective interest method, regardless of the fair value measurement.

	2019	2018
Interest and similar income	1,399,193	1,875,645
Loans and advances to financial institutions	42,428	63,761
Loans and advances to clients	716,738	1,065,717
Financial assets at amortized cost	52,497	286,353
Financial assets at fair value through other comprehensive income	587,530	459,814
Interest and similar income	(823,557)	(820,792)
Deposits from financial institutions		
- Interbank deposits	(9,689)	(20,129)
- Money market funding	(302,928)	(276,939)
Deposits from clients		
- Savings	-	(262)
- Time	(177,048)	(207,666)
Securities issued	(58,484)	(49,360)
Domestic borrowings	(81,397)	(53,765)
Foreign borrowings	(185,014)	(212,671)
Interest expense on liabilities IFRS 16	(8,997)	-
Net interest income	575,636	1,054,853

b) Net foreign exchange variations

Foreign exchange variations basically show the differences that arise in the conversion of monetary items into foreign currency into functional currency and do not consider the foreign exchange hedge contracted by the Bank through derivative financial instruments, whose impacts are presented in "Gains (Losses) on financial assets and liabilities (net)".

	2019	2018
Net Exchange variation	(46,245)	(298,739)
Credit operations	105,116	569,147
Net Currency Securities	2,799	(9,471)
Foreign Exchange Operations	117,755	164,448
Loans, assignments and onlendings	(273,444)	(1,022,863)
Others	1,529	-

27. Gains on financial assets and liabilities (Net)

Gains (losses) on financial assets and liabilities are composed of the amounts of adjustments from the measurement of financial instruments, except for those attributed to interest accrued as results after the application of the effective interest method and provisions, and of gains (or losses) on the sale or purchase of financial instruments.

The breakdown of the balance of this line, by type of instrument, is shown below:

	<u>2019</u>	<u>2018</u>
Gains (losses) on:		
Financial Assets at fair value through profit or loss	(3,264)	(3,067)
Financial assets at fair value through other comprehensive income	1,134	(2,600)
Other liabilities at fair value through profit or loss	(54,914)	(51,783)
Other hedged financial liabilities	1,556	(9,140)
Derivatives	<u>61,129</u>	<u>(248,201)</u>
Total	5,641	(314,791)

28. Income from fee and commissions

The "Income from fee and commissions" line comprises all fees and commissions accumulated on behalf of the Bank in the year, except for those that make up the effective interest rate on financial instruments.

The breakdown of the balance related to this line is shown below:

	<u>2019</u>	<u>2018</u>
Income from guarantees	32,603	41,847
Other Income from bank fees – Legal entities	973	4,963
Income from other services	3,330	1,164
Bank fee income - Individuals	<u>18</u>	<u>37</u>
	36,924	48,011

29. Other net operating income (expenses)

In this line of the consolidated statement of operations (loss) are:

	2019	2018
Other operating income		
Recovery of charges and expenses	25,347	22,920
Monetary restatement of deposits for guarantees	19,105	18,931
Income from financed sale of assets not for own use	5,872	5,269
Income from acquisition of receivables	5,204	7,833
Provision for losses of guarantees and sureties	-	94,113
Credit assignment	-	73,984
Other operating income	3,027	3,233
Total other operating income	58,555	226,283
Other operating expenses		
Provisions for civil lawsuits	(69,197)	(99,176)
Employee compensation program	(39,533)	(48,962)
Severance expenses	(39,304)	(21,381)
Provisions for labor lawsuits	(27,961)	(13,476)
Tax expenses	(20,981)	(27,716)
Other provisions	(15,594)	-
Guarantees provided	(13,101)	(4,328)
Commissions on collection	(12,866)	(4,894)
Credit card expenses	(1,664)	(1,401)
Expenses with fees and commissions	(22)	(633)
Other operating expenses	(64,815)	(16,916)
Total other operating expenses	(305,038)	(238,883)
Other net Operating Income /(Expenses)	(246,483)	(12,600)

30. Personnel expenses

The breakdown of the "Other Personnel Expenses" line is shown below:

	<u>2019</u>	<u>2018</u>
Salaries	(93,635)	(90,784)
Social charges	(30,595)	(29,826)
Benefits	(19,919)	(20,572)
Directors' fees	(14,458)	(16,831)
Other	<u>(1,981)</u>	<u>(1,869)</u>
	(160,588)	(159,882)

31. Other administrative expenses

The breakdown of the balance of this line is as follows:

	<u>2019</u>	<u>2018</u>
Third-party services	(35,110)	(42,174)
Real estate property, facilities and materials	(18,091)	(20,247)
Technology and systems	(17,943)	(16,808)
Expenses on lawsuits	(7,406)	(9,226)
Expenses of the financial system	(6,944)	(8,964)
Reimbursement and travel expenses	(2,070)	(2,051)
Insurance premiums	(2,012)	(1,537)
Communications	(1,431)	(1,598)
Advertising	(1,418)	(1,362)
Transportation system	(446)	(748)
Other administrative expenses	(8,817)	(10,473)
Rent expenses IFRS 16	<u>8,762</u>	<u>-</u>
	(92,926)	(115,188)

32. Tax expenses

Refer mainly to federal contributions to PIS and COFINS which amounted to R\$ 27,760 (23,913 in 2018).

	<u>2019</u>	<u>2018</u>
COFINS expenses	(15,090)	(13,404)
Tax expenses	(7,877)	(5,883)
ISS expenses	(2,338)	(2,445)
PIS/PASEP expenses	<u>(2,455)</u>	<u>(2,181)</u>
Total	(27,760)	(23,913)

33. Gains (losses) on other assets (net)

Refer basically to the results obtained from the sale of own assets and provisions for adjustment to realizable value of assets or other non-operating assets.

	<u>2019</u>	<u>2018</u>
Results from the sale of goods	199	(4,786)
Revenues from rents	496	600
Constitution of provision for realization of assets held for sale	(17,822)	(45,228)
Others	<u>20</u>	<u>76</u>
	(17,107)	(49,338)

34. Other disclosures

a) Third-party securities held in custody

As of December 31 2019 and 2018, the Bank held no third-party debt bonds or securities under its custody.

b) Cash and cash equivalents for the cash flow

	2019	2018
Cash and cash equivalents	93,818	40,427
Money market repurchase commitments (purchase and sale commitments)	229,999	2,654,995
Investments in foreign currency	262,998	170,871
	586,815	2,866,293

c) Commitments assumed for guarantees received and funding from international bodies

CCB Brasil is a debtor for loans from the Proparco (Société de Promotion et de Participation pour la Coopération Economique.) for lending to Brazilian companies, the contracts of which require maintenance of minimum financial ratios (financial covenants), beside requirement of social and environmental responsibilities & obligations.

The financial ratios are calculated based on the financial information prepared in accordance with Brazilian law and standards of the Central Bank of Brazil. These are monitored and assessed by the aforementioned creditors.

Description	Required
Capitalization	≥ 11%
20 largest debtors on PR	≤ 300%
Concentration of risk by market segment	≤ 25%
D-H Loans + Goods – Provisions on PR	≤ 25%
Operating Expenses to Operating Result	≤ 85%
Liquidity Gap (90 days) in R\$	> 0

d) Insurance contracts

The Bank adopts the policy of contracting insurance coverage for assets subject to risks for amounts considered to be sufficient to cover eventual claims, considering the nature of its activity.

35. Operating segments

According to the international accounting standards, an operating segment is a component of an entity:

- (a) That operates activities which may generate income and incur expenses (including income and expenses related operations with other components of the same entity).
- (b) Whose operating results are regularly reviewed by the person in charge of making the entity's operating decisions related to the allocation of funds to the segment and the evaluation of its performance.
- (c) For which the individual financial information is available.

The Bank has identified, based on these instructions, the following business segments as being its operating segments:

- Wholesale
- Retail

The Bank maintains as main strategic focus the operations in the Wholesale segment. This segment basically includes the granting of loans and receivables with guarantee of receivables, and the Working Capital is the most profitable product of this segment. A significant portion of the wholesale portfolio is represented by short-term loans that provide higher liquidity and greater risk control to the Bank. Additionally, the Bank participates actively in the foreign exchange market, whose funding is carried out with international banks.

The Retail segment includes loans and receivables of Payroll loans for civil servants and vehicle financing for individuals.

The condensed statements of income and other significant data are listed as follows.

	Wholesale	Retail	2019	Wholesale	Retail	2018
Interest and similar income	1,010,534	388,659	1,399,193	1,411,307	464,338	1,875,645
Interest and similar expenses	(687,966)	(135,591)	(823,557)	(479,713)	(341,079)	(820,792)
Interest and similar income (net)	322,568	253,068	575,636	931,594	123,259	1,054,853
Foreign exchange differences (Net)	(46,245)	-	(46,245)	(298,739)	-	(298,739)
Gains (losses) on financial assets and liabilities (net)	72,679	(67,038)	5,641	(314,791)	-	(314,791)
NET INTEREST INCOME	349,002	186,030	535,032	318,064	123,256	441,323
Equity income (loss)	(908)	17	(891)	(1,339)	(11)	(1,350)
Income from fee and commissions	36,814	110	36,924	47,839	172	48,011
Other operating income (expenses)	(243,911)	(2,572)	(246,43)	(31,417)	18,817	(12,600)
TOTAL INCOME	140,997	183,585	324,582	333,147	142,237	475,384

China Construction Bank (Brasil) Banco Múltiplo S/A
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Personnel expenses	(143,313)	(17,275)	(160,588)	(143,239)	(16,643)	(159,882)
Other administrative expenses	(54,236)	(38,690)	(92,926)	(85,524)	(29,664)	(115,188)
Tax expenses	(12,869)	(14,891)	(27,760)	(13,917)	(9,996)	(23,913)
Depreciation and amortization	(19,593)	(731)	(20,324)	(12,881)	(729)	(13,610)
Impairment of financial assets	(48,159)	(144,760)	(192,919)	(48,326)	(165,982)	(214,308)
Gains (losses) on other assets (net)	(17,005)	(102)	(17,107)	(50,072)	734	(49,338)
ILOSS BEFORE TAXES	(154,178)	(32,864)	(187,042)	(20,812)	(80,043)	(100,855)
Current and deferred income tax and social contribution	102,383	45,402	147,785	(132,554)	22,291	(110,263)
NET LOSS FOR THE YEAR	(51,795)	12,538	(39,257)	(153,366)	(57,752)	(211,118)
Total assets	15,599,502	2,566,604	18,166,106	21,131,141	2,098,822	23,229,963
Main asset line:						
Loans and advances to clients	7,859,096	2,518,963	10,378,059	6,810,914	2,029,619	8,840,533
Total liabilities	13,962,673	2,543,593	16,506,266	19,464,705	2,040,676	21,505,381
Main liability line:						
Deposits from clients	797,785	2,515,736	3,313,521	5,149,248	2,013,269	7,162,517

The Bank has an agency in the Cayman Islands whose total assets are R\$ 4,979,499 (R\$ 6,093,261 in 2018) and net worth in the amount of R\$ 562,579 (R\$ 438,154 in 2018).

36. Related party transactions

CCB Brasil's related parties should include parties with joint control over the entity, joint ventures in which the entity is an investor and post-employment benefit plans to benefit workers of an entity or any other entity qualified as a related party to this entity.

CCB Brasil and its direct subsidiaries carry out transactions between themselves, which were eliminated in the consolidated statement.

The Bank's balances related to transactions with direct and indirect subsidiaries, related companies and key management personnel are shown below:

	Assets / (liabilities)		Income / (expenses)	
	2019	2018	2019	2018
Available financial resources in foreign currencies	16,680	9,388	-	-
China Construction Bank Corporation (d)	16,680	9,388	-	-
Investment fund quotas	81,088	44,709	3,880	1,700
FDIC BRASILFactors (b)	81,088	44,709	3,880	1,700
Demand deposits	(498)	(603)	-	-
BRASILFactors (a)	(2)	(2)	-	-
CCB Brazil Holding Ltda. (e)	(169)	(36)	-	-
Key management personnel and Controlling shareholders (c)	(327)	(565)	-	-
Time deposits	(206,431)	(174,625)	(10,629)	(10,834)
BRASILFactors (a)	(219)	(116)	(9)	(18)
FDIC BRASILFactors (b)	(10,669)	(3,684)	(475)	(619)
CCB Brazil Financial Holding Ltda. (e)	(195,222)	(168,463)	(10,127)	(10,153)
Key management personnel and Controlling shareholders (c)	(321)	(2,362)	(18)	(44)
LCA	(3,537)	(6,597)	(125)	(397)
Key management personnel and Controlling shareholders (c)	(3,537)	(6,597)	(125)	(397)
LCI	(1,850)	(697)	(80)	(17)
Key management personnel and Controlling shareholders (c)	(1,850)	(697)	(80)	(17)
NDF	535	(689)	282	1,861
BRASILFactors (a)	535	(689)	282	1,861
Borrowings	(3,812,733)	(5,779,755)	(176,637)	(1,176,811)
China Construction Bank Corporation (d)	(3,812,733)	(5,779,755)	(176,637)	(1,176,811)

- (a) Direct associated companies;
- (b) Indirect associated companies;
- (c) Controlling shareholders and key management personnel;
- (d) Indirect parent company headquartered overseas;
- (e) Direct parent company.

Related party transactions due dates and rates:

The LCA operations were carried out at rates of 95.6% of CDI (96% of CDI in 2018) and have a final maturity of up to 01 year (up to 2 years in 2018). The LCI operations were carried out at rates of 95.4% of CDI (96% of CDI in 2018) and have a final maturity of up to 01 year (up to 1 year). Term deposits are remunerated at the average rate of 91.77% of CDI (101% of CDI in 2018), directly related to the amount applied, with final maturity in up to 02 years (up to 02 years in 2018). Loan obligations were carried out at the average rates of 3.14% p.a. (3.05% p.a. in 2018) and exchange variation with final maturity in up to 07 year (1 year in 2018).

Management remuneration

The maximum aggregate remuneration intended to the members of the Board, the Senior Management, the Executive Board and the Audit Committee, as well as the maximum Statutory Profit sharing of the fiscal year is set at the Annual General Meeting of Shareholders, when applicable, in compliance with the limitations established by CMN Resolution No. 3.921/10.

During the years ended on December 31, 2019 and 2018 the Board of Directors did not approve payments of profit sharing to the Senior Management due to the generation of loss of negative accounting results.

i) Short-term benefits

Remuneration of the Board of Directors, Executive Board and of the Audit Committee of CCB Brasil:

	<u>2019</u>	<u>2018</u>
Fixed compensation	14,458	16,831
Other	<u>912</u>	<u>1,059</u>
Total	15,370	17,890

ii) Long-term benefits

CCB Brasil does not have long-term benefits for termination of employment for key management personnel.

37. Risk management

The Bank's risk management ensures that risks are properly identified, measured, mitigated and managed, to support the sustainable development of the activities and the continuous improvement of the risk management of the Institution.

The Bank has centralized the management of the Socio-Environmental, Market, Credit, Liquidity, Operational and Capital Management Risks in order to maximize the effectiveness of its controls. This results in a global view of the exposures to which the Bank is subject by the nature of its activities, thereby enabling it to improve and become more agile in making strategic decisions, ensuring compliance with established policies and procedures and improving the identification of risks that could affect the business strategy and achievement of objectives. It complies with Resolution 4,557/17 from the National Monetary Council (CMN). The unaudited "Risk Management Report" in compliance with Circular Letter No. 3,678, which provides for the disclosure of information related to risk management, is available on the site <http://www.br.ccb.com/menu/Institucional/Relacoes-com-Investidores/Governanca-Corporativa/Gestao-de-Riscos/Relatorios-de-Gerenciamento-de-Risco-109>.

In compliance with CMN Resolution 4,557 / 17, the CRO was appointed and approved by the Central Bank, the Risk Committee was redefined in accordance with the resolution and the risk management structure was published on the bank's website.

The Risk Management Policy establishes the principles that guide the institutional strategy to control and manage risks in all operations. Administratively, the actions are evaluated in the various committees to ensure the adequacy of management, considering the complexity of products, the exposure to risk and the risk-return relationship involving all business decisions of the Bank. The risk management is in line with the guidelines established by the Brazilian Central Bank and covers all the Bank's subsidiaries.

The risk management policies of CCB Brasil are designed to support the formulation of risk appetite, guide employees and provide procedures to monitor, control, and measure and report the risks to the Bank's Executive Board. The involvement of the Senior Management with issues of risk management occurs through deliberations of its management bodies, defined statutorily as the Board of Directors, Executive Board and the Committees. The Corporate Governance structure ensures an effective management of risks. The risk management is carried out by the Institution through collegiate decisions, supported by specific committees. The Corporate Governance Area comprises, among others, departments directed towards the management of market risk, social and environmental risk, credit risk, operational risk and liquidity and capital management. These areas support the Risk, Internal Controls, Operational and ALM (Assets and Liabilities Management) Committees which analyze and define strategies and actions within their area of operations.

The committees and departments for the management and control of risks support development and seek to minimize losses by adopting an integrated centralized outlook, aiming at the

automation and creation of a database for the management and modelling of risks, based on historical data of losses and evolution of the controls.

The mitigating controls for risks permit the definition of limits in advance, taking into consideration the profile and the strategic and operational aspects of each unit.

In compliance with Resolution 4,557/17, the bank drafted and published its risk appetite statement, in line with its strategic planning, the bank's capacity, the conditions of competitiveness, the regulatory environment and limiting the risks and levels of risks that the institution is willing to take over.

The limits to risk consider in ample form the values that the Bank is willing to admit in achieving its objectives and is reflected in the philosophy of corporate risk management, which in turn influence the culture and manner of operation of the Bank. This tolerance is influenced by several factors, including the evaluation of the consistency of risk with corporate strategy.

Risk management

The Risk Management Policy of CCB Brasil defines a set of controls, processes, tools, systems and reporting standards required for the adequate control and management of risks.

Market risk management

The Market Risk Management Department is responsible for maintaining and annually updating the Policy and structure of the area. It operates independently of the business and is responsible for the monitoring and analysis of market risks arising from trading activities and liquidity of the Bank. It is also responsible for ensuring that the levels of risk exposure are consistent with the limits adopted by the Financial Committee, as well as monitoring appropriate levels of capitalization, consistent with those risks.

Market Risk can be characterized by some main types of measures: positions (stale positions), sensitivity (DV01), stress tests and "Value-at-Risk (including compliance tests and validations) and EVE- Economic Value of Equity e NII- Net Interest Income..

All risk metrics are continuously monitored in an integrated manner with the objective of providing an overview of the risk profile of CCB Brasil. The monitoring and control of the positions of the Bank are not limited to the calculation of its fair value, but recognize the adequate sensitivity of the Bank's actual exposure to various risk factors. The complementing of these measures with other tools of risk control improves the monitoring and analysis of exposures.

Credit risk management

CCB Brasil has an independent area for managing the Credit Risk, in accordance with best governance practices. This area operates independently from the structure of credit approval, calculates the ratings of clients based on metrics that consider client behavior in the market, in addition to those deriving from the Institution's operations. It, therefore, differs from the concepts utilized by the area of credit approval, whose structure is based on thorough analysis procedures developed from the expertise the Bank has gained over the years.

In its process of granting credit, the Bank permanently enhances the methodologies and tools used to evaluate the social and environmental variables to mitigate risks associated with a client's payment capacity and default of investments. Therefore, the Bank has established policies and procedures that enable the suspension of an operation, the anticipation of contract payments and the application of penalties.

In line with the practices of market benchmark, the Bank continues to improve its controls and analytical models in compliance with CMN Resolution No. 4557/17 and the Basel agreement.

Maximum exposure to credit risk:

Descrição	2019			2018		
	Brazil	Abroad	Total	Brazil	Abroad	Total
Cash and cash equivalents and reserves at the central bank of Brazil	5,206	93,381	98,587	7,317	39,626	46,943
Derivatives	431,281	-	431,281	450,720	-	450,720
Financial assets at amortized cost	81,088	-	81,088	59,899	1,665,848	1,725,747
Financial assets at fair value through other comprehensive income	4,720,291	-	4,720,291	7,482,470	-	7,482,470
Loans and advances to financial institutions	660,907	262,998	923,905	3,094,346	170,871	3,265,217
Loans and advances to clients	5,738,998	4,639,061	10,378,059	4,786,682	4,053,851	8,840,533
Other loans and receivables	26,150	2,683	28,833	24,610	2,821	27,431
Other financial assets	-	-	-	377,803	-	377,803
Other financial liabilities	-	2,224	2,224	-	-	-
Co-obligations and risks in guarantees provided						
Credits open for export	94,375	-	94,375	88,894	-	88,894
Guarantee	1,420,959	25,977	1,446,936	1,534,874	23,780	1,558,654
Export collection	2,880,622	449,474	3,330,096	3,064,690	1,400,606	4,465,296
Total	16,059,877	5,475,798	21,535,675	20,972,305	7,357,403	28,329,708

Expected credit loss

The Bank assesses, on a prospective basis, the expected credit loss associated with financial assets measured at amortized cost or at fair value through other comprehensive income, with loan commitments and with financial guarantee agreements. The recognition of the provision for expected credit losses is made monthly in a contra entry to the Consolidated Statement of Operations.

Regarding financial assets measured at fair value through other comprehensive income, the Bank recognizes the provision for losses in the Consolidated Statement of Operations.

Significant judgments are required in adopting the accounting requirements for measuring the expected credit loss, such as:

- **Deadline for evaluating the expected credit loss:** the Bank considers the maximum contractual period over which it will be exposed to the financial instrument credit risk. However, assets without a fixed maturity have their expected life estimated based on the period of exposure to credit risk. Furthermore, all contractual terms are considered upon determining the expected life, including prepayment and rollover options.
- **Forward-looking information:** IFRS 9 requires a weighted and unbiased credit loss estimate that considers forecasts of future economic conditions. The Bank uses forward-looking macroeconomic information and public information with projections prepared internally to determine the impact of such estimates in determining the expected credit loss.
- **Probability-weighted loss scenarios:** the Bank uses weighted scenarios to determine the expected credit loss over an appropriate observation horizon.
- **Determination of criteria for significant increase or decrease in credit risk:** in each period of the Consolidated Financial Statements, the Bank assesses whether the credit risk on a financial asset has increased significantly using relative and absolute triggers (indicators) by product and country.

These are considered financial assets with low credit risk and, thus, bonds of national and international governments remain in stage 1, according to a study carried out by the Bank.

Significant increase in credit risk: the Bank evaluates several factors to determine a significant credit risk increase, such as the counterparty, type and characteristics of the product and the region in which it was contracted, considering at least the following objective criteria:

- Stage 1 to stage 2: amounts overdue for more than 30 days;
- Stage 2 for Stage 3: amounts overdue for more than 90 days.

The approach of this evaluation in CCB Brasil takes into account criteria compatible with IFRS 9 that also adopts the measures:

- the occurrence of a significant increase in the credit risk of the operation in the loc from the date of initial recognition to the date of calculation of the expected loss.
- the change in the risk pattern since the initial recognition;
- the expected maturity of the financial instrument;
- other reasonable and endurable information for which an effort is made to obtain it.

The classification of contracts in stage 1 indicates that such assessments do not identify significant increases in risk between the recognition and reporting dates. the classification in stage 2 indicates that elements were found that initiate a significant increase in risk. In stage 3 the assets with objective evidence of losses are classified (default).

The Bank assesses whether credit risk has increased significantly on an individual or collective basis. For collective assessment purposes, financial assets are grouped based on shared credit risk characteristics, considering the type of instrument, credit risk ratings, the date of initial recognition, the remaining term, area, geographical location of the counterparty and other relevant factors.

Macroeconomic Scenarios: Such information involves inherent risks, market uncertainties and other factors that may produce other than expected results, including changes in market conditions and in economic policy, recessions or fluctuations in indicators that are different from the forecasts.

The concepts of IFRS 9, consider a financial reporting standard that mainly addresses the classification and impairment of financial assets, whose assumption for the recognition of expected loss is based on principles and not only on rules with different measurement methods, waiving the occurrence of actual delays and losses, thus anticipating them.

Thus, it considers the evaluation of the significant increase in the credit risk of the financial instrument, considering the following three major aspects:

- i) basic indicator, ii) quantitative factors, and iii) qualitative factors.

The basic indicator consists in the verification of the delay time of contractual payments. It is considered a significant increase in credit risk in a financial asset if contractual payments are overdue for more than 30 days, unless the institution has reasonable and supporting information without undue costs or efforts that these risks have not actually increased.

To assess such risk changes, CCB Brasil uses the rating scales to define the quality of the portfolio based on the breakdown of the best ratings (lower risk) and to determine the “investment grade” or “non-investment grade” ranges as a starting measure for analysis.

In practice, the stages follow selective criteria that overlap, such as (i) management's decision (ii) delay time; (iii) significant risk increase; (iv) definitions of problematic credits, and (v) ratings.

The Probability of Default (PD) indicates the probability of loss for a certain time horizon (in the next 12 months), for exposures belonging to stage 1, or until the final contract expiration for exposures classified in stage 2 maturing in over a year, providing a probabilistic estimate of a customer not fulfilling his/her obligations. The probabilities of default are associated with scales or rating levels that may vary. Thus, the comparison of PD's may indicate significant increases in the credit risk for the operations.

CCB Brasil adopted the practice of calculating the 12-month PD as an indicator of credit risk, which is a well-established practice within the local and international financial industry. International and domestic rating agencies generally represent the credit risk of a counterparty associating a probability of default for a fixed assessment horizon, and the 12-month horizon is commonly used for estimating occurrences of credit losses in corporate and retail loans.

PD lifetime is the estimated probability of default for the remaining validity period, or maturity of the operation, if it is over (or less than) one year. PD lifetime is mainly used to calculate the expected credit loss of exposures classified in stage 2 after the forward-looking adjustments described below.

The Loss Given Default (LGD) indicates the actual loss of the customer. At Bank, this is a data estimated by means of statistical modeling and considers the historical recovery behavior of loans written-off as losses in the retroactive period of five years in number of contracts by sufficiently significant type for the consistency of the statistical study, both for the Retail and the Corporate portfolio.

The Exposure at Default (EAD) can be defined as the gross amount of a debtor's default exposure, including principal and interest repayment under the contract, as well as the reasonable expectation of future payment of the underlying debt, represented by the cash flow of the operation.

Calculation of Impairment or Expected Credit Loss (ECL). In Bank, the expected loss is finally calculated based on the following equation: $ECL = EAD \times PD \times LGD$.

Sensitivity analysis - ECL forward looking

We have included the scenario-based macroeconomic analysis because it presents a forward-looking view because of its variety of possible scenarios. The objective of estimating expected credit losses does not mean estimating a worse or better scenario, but calculating that the credit loss occurs within the most probable scenario. Understanding credit loss by incorporating the probability that a scenario occurs using weighted probability, even if the probability is low, can help to inform the probability of incurring losses.

The increased complexity of the ECL approach, as well as the longer time horizons on which credit losses are modeled, increases the effort required to estimate credit loss subsidies and their potential volatility.

It should be noted that the expected 12-month credit losses used for regulatory purposes are normally based on the probability of default 'through the cycle' (ie the probability of default on cyclical-neutral economic conditions). In turn, the PD used for IFRS 9 should be 'point in time' (ie the probability of default under current economic conditions) and contain no adjustments. This can lead to some inaccuracy when measuring past loss and projecting it into the future. However, regulatory PDs may be a good starting point, it being known in advance that PD estimates will change as an entity moves through the business cycle. In normative models, as the PD is calculated by the cycle, the estimates are less sensitive to changes in economic conditions. Therefore, regulatory PDs reflect long-term trends in PD behavior. As a consequence, during a more recessionary economic cycle, the Default Probabilities under IFRS9 will be higher than the Regulatory Default Probabilities. In addition, when using the PD through the cycle the responses over time may not vary significantly between origination and reporting dates because PD reflects the long-term average default rate.

Scenario-based analysis incorporates forward-looking information using various macroeconomic scenarios. The table below shows three scenarios and the estimate of expected credit losses. In assessing the impact of portfolio credit losses against shocks on key macroeconomic indicators (eg unemployment and GDP), each scenario implies a different path for credit losses. These losses were aggregated by estimating the probability of occurrence of each scenario. Adjustments to prospective scenarios (Forward Looking Adjustments) by macroeconomic variables were considered to ensure that the estimated loss of credit meets the required prospective requirements.

CCB Brasil - Consolidated

IFRS9 - Expected loss calculation - 12.31.2019

Portfolio	EAD	Optimistic	Neutro	Pessimistic
On balance	10,378,059	364,175	367,082	369,989

The prospective adjustment is based on predictive information provided by a developed model, considering macroeconomic data, shock processes and scenario design in three confidence levels: i) negative or pessimistic bias (25%), ii) neutral (50%), and iii) positive or optimistic (25%) that are, after all, inputs from CCB Brazil's ECL calculation system and characterize the neutral scenario. On the other hand, the pessimistic scenario considers that only the macroeconomic variables of the pessimistic scenario will act. The optimist, that only the variables of the optimistic scenario will be present.

Macroeconomic variables of wide disclosure in the financial market are used, which better adjust to the variation and dynamics of default rates. The projections of these indices and their

probability of occurrence are taken from the Market Focus report of the Central Bank of Brazil, as well as from economists and specialized consultants hired by the institution.

Liquidity risk management

The Bank's Liquidity Risk management is to measure, evaluate and control the bank's ability to honor its financial commitments through mathematical estimates and modeling of its own base of operations. These models have complementary characteristics and are described below:

- I. Backward Looking: historical analysis of movements, repurchases, customer operations renewals to estimate the potential of cash insufficiency to honor the bank's commitments.
- II. Forward Looking: analysis of the projected portfolio, considering budget scenarios and expected portfolio growth.

The results of the liquidity calculations carried out over the next three years, following these models, demonstrate that the Institution has and will have sufficient resources to meet its obligations and present a position with a large margin of safety in the short and long term.

CCB Brasil has an area for managing liquidity risk for the identification, monitoring and control of events that may impact the bank's liquidity both in the short term and in the long term.

Liquidity risk management provides:

- I. Elaboration of cash flow for evaluation and monitoring of liquidity in the short and long term.
- II. Statistical models to estimate unforeseen cash flow outflows such as CDB redemption anticipation, derivative adjustments payments and additional collateral deposits at B3.
- III. Stress testing to monitor financial health in adverse liquidity scenarios.

Events that indicate an inadequate liquidity capacity for the institution's future obligations are reported to the Treasury Committee, semiannually, for corrective and preventive action.

Assets and liabilities according to the remaining contractual maturities, considering their undiscounted flows, are presented below:

Undiscounted Future Flows

Financial Assets	0 - 30 days	31 - 365 days	366 - 720 days	> 720 days	Total
Cash and Cash Equivalents	355,748	-	-	-	355,748
Investment in Financial Institutions	232,094	3,448	-	-	235,542
Investment in Money Market – Own Portfolio	230,038	-	-	-	230,038
Investment in Interbank Deposits	2,056	3,448	-	-	5,504

China Construction Bank (Brasil) Banco Múltiplo S/A
Notes to the consolidated financial statements – December 31, 2019
(in thousands of reais unless otherwise stated)

Securities	-	3,520,600	733,768	718,108	4,972,476
Securities	-	3,520,600	733,768	718,108	4,972,476
Credit Operations and Lease	997,244	5,364,273	2,103,852	3,458,510	11,923,879
National Currency Credits	115,346	821,685	475,623	451,630	1,864,284
Foreign Currency Credits	743,409	3,392,645	774,131	427,006	5,337,191
Retail Operations	57,889	764,699	758,983	2,507,328	4,088,899
Rural Credit	78,275	347,805	70,699	36,919	533,698
Leasing Operations	2,325	37,439	24,416	35,627	99,807
Total	1,585,086	8,888,321	2,837,620	4,176,618	17,487,645
Financial Liabilities	0 - 30 days	31 - 365 days	366 - 720 days	> 720 days	Total
Deposits	427,640	2,960,186	1,616,854	200,165	5,204,845
Demand deposits	91,489	-	-	-	91,489
Savings deposits	2,993	-	-	-	2,993
Time deposits	240,080	2,725,841	1,597,356	200,165	4,763,442
Interbank deposits	93,078	234,345	19,498	-	346,921
Money market funding	3,524,056	244,623	7,007	17,630	3,793,316
Securities	3,524,056	244,623	7,007	17,630	3,793,316
Borrowings	584,987	3,859,361	-	-	4,444,348
Subordinated debts	-	1,191,629	29,424	825,881	2,046,934
Total	4,536,683	8,255,799	1,653,285	1,043,676	15,489,443
Gap	(2,951,597)	632,522	1,184,335	3,132,942	1,998,202

The above information was prepared based on the nominal maturities of CCB Brasil's financial assets and liabilities, however, the Conglomerate has bonds and securities classified in the Financial Assets category at fair value through other comprehensive income in the amount of R\$ 4,720,291, whose maturity is greater than one year, which represent highly liquid investments in government bonds issued by the National Treasury. In addition, part of the financial liabilities are loans made to the parent company in China in the total amount of R\$ 3,812,733, with a maturity of less than one year, which have been systematically renewed.

Sensitivity analysis

The sensitivity analysis shows the impact that a change in a certain risk factor has on the institution's portfolio. The sensibility analyses are a particularly important metric to manage the institution's market risk, since small changes in risk factors may lead to significant losses/gains if we take into account all portfolios.

The Institution has conducted a sensitivity analysis using the scenario of 10% for foreign exchange appreciations or depreciation, interest rates and shares (Scenario I), 25% (Scenario

II) and 50% (Scenario III). It is necessary to disclose the demonstrative table of sensitivity analysis for each type of relevant market risk arising from financial instruments that expose the Institution on the closing date for each period. For its preparation, we identified the types of risks that could generate material losses, including transactions with derivative financial instruments in a more probable scenario, as well as two (2) scenarios that could generate adverse results for the Institution. In the definition of the scenarios, the situation considered probable by management had as reference an independent external source: B3 S.A. - Brasil, Bolsa, Balcão and a situation, with depreciation or appreciation of 25% and 50% in the risk variable was considered.

We present in the sensitivity analysis table the set of operations involving financial instruments recorded in equity accounts that CCB Brasil has with the purpose of managing its exposure to market risks and that aims to protect it, especially in periods of historical records. This valuation is systematically carried out by the risk management area and evaluated by the Treasury Committee, which gathers to define a set of scenarios in a crisis environment. A scenario, in this context, is regarded as a certain combination of prices and interest rates. The preparation of the table followed the procedure below:

- (i) In each scenario, the amounts of the trading portfolio (Trading Book) and the structural transactions from several of the Institution's business lines and their respective hedges (Banking Book) were calculated;
- (ii) For each one of the risk factors, we chose the calculation that incurred in the highest loss and, based on it, applied the defined increase or decrease;
- (iii) Finally, we obtained the losses, corresponding to the related hypothetical scenario.

The following scenarios do not necessarily reflect the market risk management of the Institution neither is it associated with the accounting practices. The stress models may represent extreme situations that are distant from a day-to-day situation.

Below is the summary of the premises for each one of the scenarios.

It was chosen for each portfolio the trend (increase or decrease) that maximizes loss for each risk factor. The parallel dislocations of the curve were maintained, that is, a dislocation of + 1,000 basis means that in all future curves there was a 10% increase to the current rates.

For each scenario, the expected loss of the portfolio in relation to the marked-to-market position was measured.

Scenarios are described as follow

Scenario 1: Lower oscillation situation. Assumptions used: Parallel shock of 10% in risk variables, based on market conditions seen on December 31, 2019, and considering the most significant losses from risk factor, not including the relationship dynamics between the macroeconomic variables.

Scenario 2: Potential situation. Assumptions used: Parallel shock of 25% in risk variables, based on market conditions seen on December 31, 2019, and considering the most significant losses from risk factor, not including the relationship dynamics between the macroeconomic variables.

Scenario 3: Potential situation. Assumptions used: Parallel shock of 50% in risk variables, based on market conditions seen on December 31, 2019, and considering the most significant losses from risk factor, not including the relationship dynamics between the macroeconomic variables.

Once CCB Global is a signatory of the Paul Volcker Law and does not operate in a Trading portfolio in the subsidiary CCB Brasil, the scenarios for December 2019 are only adopted for the Banking Portfolio and shown in the table below, which also reflects deterioration of the macroeconomic expectations in the sense that maximizes the loss for each risk factor of this portfolio. For this, interest rates (pre) rise sharply (10%, 25%, and, 50%); there is a substantial parallel shift of exchange coupon curves, the exchange rate increases, the Brazilian stock market falls, and inflation has considerably high, which is reflected in indexed indicators and contracts.

The risk factors are presented as follows:

- Includes all the products that have price variations pegged to dollar variations and interest rates in dollars.
- Fixed rate in real – Includes all products that have price variations pegged to dollar variations and interest rates in Real.
- Shares and Indices – Comprises the shares and indices of stock exchanges, shares and options pegged to share indices.
- Inflation – Refers to all products that have price variations pegged to inflation coupon variations and inflation rates.

For calculation purposes, we adopted as premise a 99% confidence interval to calculate VaR and a time frame of 10 days to leave this position.

The sensitivity analysis Table has limitations and the economic impact on a potential fluctuation in interest rates might not represent necessarily a profit or a material accounting loss for the institution. The specific combination of prices which determine each scenario is an arbitrary decision, though possible. The signs of historical correlations between the assets were not necessarily respected and the scenarios chosen were analyzed according to a past time frame.

The accounting of the "Banking" Portfolio instruments, at a large extent, is made by the contract curve, which is different from the derivative financial instruments in the "Trading"

Portfolio that are subject to fluctuations in the respective accounting record due to mark-to-market.

The results presented in the chart referring to the banking portfolio may, at first glance, give the impression of high sensitivity to volatility. For a better analysis of results obtained in this portfolio, the management chart below - which includes derivatives, assets and others - indicates the mismatching of the Institution's operations. It shows that there is substantial mismatching of prefixed positions, which would produce a negative impact on results, if there were an increase in interest rates. Nevertheless, the sensitivity chart presented does not consider correlations between and among the different risk factors. This means that the analysis disregards the correlation between the prefixed and CDI factors, that is, losses of prefixed rates are not offset by gains in CDI.

Likewise, in the sensitivity chart, interest rates and foreign exchange were considered unrelated. The limitations of the analysis of scenarios also involve the marking to market of all positions, which contradicts the Institution's determination in taking operations (especially foreign currency funding operations) to maturity, which may lead readers to make a mistake in judging that the losses presented in the scenarios will materialize, even if the oscillations provided for in the risk factors are verified.

Basel agreement

The table below shows the calculation of the minimum reference equity required for risk-weighted assets (RWA), which attained 8.0% plus the additional principal capital of 2.5%, (totaling 10.50%), comparing the years of December 31, 2019 and December 31, 2018.

<u>Calculation of Basel Index</u>	Basel III	
	2019	2018
Tier I Referential Equity	1,449,867	1,394,175
- Main Capital	1,167,718	1,122,939
- Perpetual bonuses	282,149	271,236
Tier II Referential Equity	410,406	596,764
- Subordinated debt	410,406	596,764
REFERENTIAL SHAREHOLDERS' EQUITY	1,860,273	1,990,939
Credit Risk	877,746	768,548
Market Risk	14,187	100,711
Operating risk	103,424	78,242
RISK-WEIGHTED ASSETS - RWA	995,357	947,501
Basel Ratio (%)	14.95	18.12
Capitalization Index - Level I (**)	11.65	12.69
Capitalization Index - Level II	3.30	5.43

38. Subsequent events

The management of the Bank has been following the evolution of COVID-19, as well as the impacts on the markets, especially the slowdown in the global economy. Up to the time of the disclosure of the financial statements, there were no significant measurable impacts related to the quality of loans to customers, nor in the Institution's liquidity indicators, nor were there any discontinuities in the services provided. Although it is not possible to predict, at this moment, the extent, severity and duration of the impacts, there is no evidence that this situation will change the business structure.

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