

BANK BRADESCO  
Form 20-F  
April 30, 2018

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

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# PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, the terms "Bradesco," the "Company," the "Bank," the "Bradesco Group," "we," the "Organization," "our" and "us" refer to Banco Bradesco S.A. *sociedade anônima* organized under the laws of Brazil and, unless otherwise indicated, its consolidated subsidiaries.

All references herein to "real," "reais" or "R\$" refer to the Brazilian Real, the official currency of Brazil. References herein to "U.S. dollars," "dollar" and "US\$" refer to United States dollars, the official currency of the United States of America (USA).

Our audited consolidated financial statements as of and for the years ended December 31, 2017, 2016 and 2015 and the corresponding notes, which are included under "Item 18. Financial Statements" of this annual report, were prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

We use accounting practices adopted in Brazil for financial institutions authorized to operate by the Central Bank of Brazil (Banco Central do Brasil), or the "Central Bank," for certain purposes, such as performance assessment, decision-making, preparation of reports for Brazilian shareholders, filings with the Brazilian Securities and Exchange Commission (CVM) and determining dividend and federal income tax payments.

Some data related to economic sectors presented in this annual report was obtained from the following sources: B3 (*Brasil, Bolsa, Balcão*) or ("B3"); Brazilian Association of Credit Card Companies and Services (*Associação Brasileira das Empresas de Cartão de Crédito e Serviços*), or ("ABECS"); Brazilian Association of Leasing Companies (*Associação Brasileira de Empresas de Leasing*), or ("ABEL"); Brazilian Association of Financial and Capital Markets Entities (*Associação Brasileira das Entidades dos Mercados Financeiros e de Capitais*), or ("ANBIMA"); Brazilian Health Insurance Authority (*Agência Nacional de Saúde Suplementar*), or ("ANS"); Central Bank; Brazilian Bank of Economic and Social Development (*Banco Nacional de Desenvolvimento Econômico e Social*), or ("BNDES"); National Association of Private Pension Plans and Life (*Federação Nacional de Previdência Privada e Vida*), or ("FENAPREVI"); Getulio Vargas Foundation (*Fundação Getulio Vargas*), or ("FGV"); and Private Insurance Superintendence (*Superintendência de Seguros Privados*), or ("SUSEP").

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

References in this annual report to the "common shares" and "preferred shares" are to our common shares and preferred shares, respectively, and together our "shares." References to "preferred share ADSs" in this

annual report are to preferred share American Depositary Shares, each representing one preferred share. The preferred share ADSs are evidenced by preferred share American Depositary Receipts, or preferred share ADRs, issued pursuant to an Amended and Restated Deposit Agreement, dated as of December 11, 2015, by and among us, The Bank of New York Mellon, as depositary, and the holders and beneficial owners of preferred share ADSs evidenced by preferred share ADRs issued thereunder (the "Preferred Share ADS Deposit Agreement").

References to "common share ADSs" in this annual report are related to common share American Depositary Shares, with each common share ADS representing one common share. The common share ADSs are evidenced by common share American Depositary Receipts, or common share ADRs, issued pursuant to an Amended and Restated Deposit Agreement dated as of December 11, 2015, by and among us, The Bank of New York Mellon, as depositary, and the holders and beneficial owners of common share ADSs evidenced by common share ADRs issued thereunder (the "Common Share ADS Deposit Agreement" and, together with the "Preferred Share ADS Deposit Agreement," the "Deposit Agreements").

References throughout this annual report to "ADSs" are to our preferred share ADSs and common share ADSs, together.

Throughout this annual report, we may indicate that certain information is available at different websites operated by us. None of the information on the websites referred to or mentioned in this annual report is part of or is incorporated by reference herein.

This annual report translates certain real amounts into U.S. dollars solely for the convenience of the reader. Unless otherwise noted in this annual report, all such real amounts have been translated at the rate of R\$3.3238 per US\$1.00, which was the Central Bank rate published on March 29, 2018. Such conversion

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**FORWARD-LOOKING STATEMENTS**  
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should not be construed as a representation that the real amounts correspond to, or have been or could be converted into, U.S. dollars at that rate or any other rate.

## **FORWARD LOOKING STATEMENTS**

This annual report contains forward looking statements as defined in Section 27A of the Securities Act of 1933, as amended, or the "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or the "Exchange Act." These statements are based mainly on our current expectations and projections of future events and financial trends that affect or might affect our business. In addition to the items discussed in other sections of this annual report, there are many significant factors that could cause our financial condition and results of operations to differ materially from those set out in our forward-looking statements, including, but not limited to, the following:

- current weakness in Brazilian macroeconomic conditions;
- global economic conditions;
- economic, political and business conditions in Brazil and in the other markets in which we operate;
- risks of lending, credit, investments and other activities;
- our level of capitalization;
- cost and availability of funds;
- higher levels of delinquency by borrowers, credit delinquency and other delinquency events leading to higher impairment of loans and advances;
- the synergies of the business that we acquired from HSBC Bank Brasil and HSBC Serviços e Participações ("HSBC Brasil");
- loss of customers or other sources of income;
- our ability to execute our investment strategies and plans as well as to maintain and improve our operating performance;
- our revenues from new products and businesses;
- adverse claims, legal or regulatory disputes or proceedings;

- inflation, fluctuations in the value of the *real* and/or interest rates, which could adversely affect our margins;
- competitive conditions in the banking, financial services, credit card, asset management, insurance sectors and related industries;
- the market value of securities, particularly government securities; and
- changes by the Central Bank and others in laws and regulations, applicable to us and our activities, including, but not limited to, those affecting tax matters.

Words such as "believe," "expect," "continue," "understand," "estimate," "will," "may," "anticipate," "should," "intend," and other similar expressions identify forward looking statements. These statements refer only to the date on which they were made, and we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information or any other event.

In light of these risks and uncertainties, the forward looking statements, events and circumstances discussed in this annual report may not be accurate, and our actual results and performance could differ materially from those anticipated in our forward-looking statements. Investors should not make investment decisions based solely on the forward-looking statements in this annual report.



**PART I**  
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## **PART I**

### **ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT, AND ADVISERS**

Not applicable.

### **ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

### **ITEM 3. KEY INFORMATION**

#### **3.A. Selected Financial Data**

We present below our selected financial data derived from our consolidated financial statements as of and for the years ended December 31, 2017, 2016, 2015, 2014 and 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and audited by KPMG Auditores Independientes, an independent registered public accounting firm. The data as of and for the years ended December 31, 2017, 2016 and 2015 is derived from our consolidated financial statements included in this annual report. The data for the years ended December 31, 2014 and 2013 is derived from our consolidated financial statements, which are not included herein.

The following selected financial data should be read together with the "Presentation of Financial and Other Information" and "Item 5. Operating and Financial Review and Prospects."

#### ***Selected Financial Data***

Year ended December 31,	US\$ in	R\$ in thousands				
	thousands (1)	2017	2016	2015	2014	2013
<b>Data from the Consolidated Statement of Income</b>						
Interest and similar income	37,978,316	126,232,328	147,700,375	127,048,252	103,893,096	90,682,625
Interest and similar expenses	(22,741,866)	(75,589,415)	(91,037,386)	(71,412,210)	(53,847,329)	(41,382,142)
<b>Net interest income</b>	<b>15,236,450</b>	<b>50,642,913</b>	<b>56,662,989</b>	<b>55,636,042</b>	<b>50,045,767</b>	<b>49,300,483</b>
Fee and commission income	6,844,223	22,748,828	20,341,087	17,856,873	16,759,980	14,535,723
Fee and commission expenses	-	-	(36)	(36,203)	(20,724)	(36,041)
<b>Net fee and commission income</b>	<b>6,844,223</b>	<b>22,748,828</b>	<b>20,341,051</b>	<b>17,820,670</b>	<b>16,739,256</b>	<b>14,499,682</b>
Net gains/(losses) on financial instruments classified as held for trading	2,895,213	9,623,108	16,402,770	(8,252,055)	(1,933,003)	(5,790,089)
Net gains/(losses) on financial instruments classified as available for sale	171,598	570,358	(1,341,400)	(671,810)	(991,894)	(6,100,782)
Losses on investments held-to-maturity	(16,403)	(54,520)	-	-	-	-
Net gains/(losses) on foreign currency transactions	428,111	1,422,957	150,757	(3,523,095)	(1,244,680)	(1,093,597)
Net income from insurance and pension plans	1,877,366	6,239,990	4,155,763	5,497,505	5,411,845	6,933,680
Impairment of loans and advances	(5,072,759)	(16,860,835)	(15,350,278)	(14,721,152)	(10,291,386)	(9,623,870)
Personnel expenses	(6,234,811)	(20,723,265)	(17,003,783)	(14,058,047)	(13,667,639)	(12,354,418)
Other administrative expenses	(5,079,265)	(16,882,461)	(16,149,563)	(13,721,970)	(12,971,521)	(12,151,537)
Depreciation and amortization	(1,374,501)	(4,568,568)	(3,658,413)	(2,942,003)	(2,932,687)	(2,740,830)
Other operating income/(expenses)	(3,048,726)	(10,133,357)	(14,004,162)	(12,988,553)	(10,223,083)	(7,622,240)
<b>Income before income taxes and share of profit of associates and joint ventures</b>	<b>6,626,496</b>	<b>22,025,148</b>	<b>30,205,731</b>	<b>8,075,532</b>	<b>17,940,975</b>	<b>13,256,482</b>
Share of profit of associates and joint ventures	517,002	1,718,411	1,699,725	1,528,051	1,389,816	1,062,687
<b>Income before income taxes</b>	<b>7,143,498</b>	<b>23,743,559</b>	<b>31,905,456</b>	<b>9,603,583</b>	<b>19,330,791</b>	<b>14,319,169</b>
Income tax and social contribution	(1,934,219)	(6,428,956)	(13,912,730)	8,634,322	(3,914,313)	(1,833,031)
<b>Net income for the year</b>	<b>5,209,279</b>	<b>17,314,603</b>	<b>17,992,726</b>	<b>18,237,905</b>	<b>15,416,478</b>	<b>12,486,138</b>
<b>Attributable to shareholders</b>						

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Controlling shareholders	5,141,514	17,089,364	17,894,249	18,132,906	15,314,943	12,395,920
Non-controlling interest	67,766	225,239	98,477	104,999	101,535	90,218

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R\$3.3238 per US\$1.00, the Central Bank exchange rate on March 29, 2018. Such translations should not be construed as a representation that the Brazilian *real* amounts presented were or could be converted into U.S. dollars at that rate.

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Year ended December 31,	R\$, except for number of shares			
	2017	2016	2015	2014
Data on Earnings and Dividends per Share <sup>(1)</sup>				
Earnings per share <sup>(2)</sup>				
Common	2.67	2.80	2.84	2.39
Preferred	2.94	3.08	3.12	2.64
Dividends/interest on equity per share <sup>(3)</sup>				
Common	1.13	1.09	0.95	0.79
Preferred	1.24	1.20	1.04	0.86
Weighted average number of outstanding shares <sup>(1)</sup>				
Common	3,049,448,563	3,049,448,563	3,050,040,493	3,050,272,329
Preferred	3,035,625,047	3,035,625,047	3,035,625,047	3,041,434,763

<sup>(1)</sup> Adjusted for corporate events occurred in the periods. For more information about the company events, see "Item 10.A. Description of Capital Structure and Listing Details;"

<sup>(2)</sup> None of our outstanding liabilities are exchangeable for or convertible into equity securities. Therefore, our diluted earnings per share do not differ from our earnings per share. Accordingly, our basic and diluted earnings per share are equal in all periods presented; and

<sup>(3)</sup> Holders of preferred shares are entitled to receive dividends per share in an amount 10.0% greater than the dividends per share paid to common shareholders. For purposes of calculating earnings per share according to IFRS, we used the criteria adopted for dividends per share. For a description of our two classes of shares, see "Item 10.B. Memorandum of Association."

Year ended December 31,	In US\$				
	2017	2016	2015	2014	2013
<b>Dividends/interest on equity per share <sup>(1)</sup></b>					
Common	0.34	0.37	0.27	0.33	0.30
Preferred	0.38	0.41	0.29	0.36	0.33

<sup>(1)</sup> Amounts stated in U.S. dollars have been translated from Brazilian *reals* at the exchange rate disclosed by the Central Bank at the end of each fiscal year.



Table of Contents**3.A. Selected Financial Data**  
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As of December 31,	US\$ in thousands (1)		R\$ in th
	2017	2017	2016
<b>Data from the Consolidated Statement of Financial Position</b>			
<b>Assets</b>			
Cash and cash equivalents	24,593,222	81,742,951	72,554,651
Financial assets held for trading	72,720,994	241,710,041	213,139,846
Financial assets available for sale	47,960,985	159,412,722	113,118,554
Investments held to maturity	11,735,399	39,006,118	43,002,028
Financial assets pledged as collateral	55,350,855	183,975,173	155,286,577
Loans and advances to banks, net of impairment	9,702,065	32,247,724	94,838,136
Loans and advances to customers, net of impairment	104,325,801	346,758,099	367,303,034
Non-current assets held for sale	457,601	1,520,973	1,578,966
Investments in associates and joint ventures	2,484,320	8,257,384	7,002,778
Premises and equipment	2,536,998	8,432,475	8,397,116
Intangible assets and goodwill, net of accumulated amortization	4,867,714	16,179,307	15,797,526
Taxes to be offset	3,166,428	10,524,575	7,723,211
Deferred income tax assets	13,157,203	43,731,911	45,116,863
Other assets	15,299,954	50,853,987	47,170,370
<b>Total assets</b>	<b>368,359,540</b>	<b>1,224,353,440</b>	<b>1,192,029,656</b>
<b>Liabilities</b>			
Deposits from banks	86,033,296	285,957,468	301,662,682
Deposits from customers	78,827,982	262,008,445	232,747,929
Financial liabilities held for trading	4,294,783	14,274,999	13,435,678
Funds from issuance of securities	40,668,539	135,174,090	151,101,938
Subordinated debt	15,096,998	50,179,401	52,611,064
Technical provisions for insurance and pension plans	71,932,604	239,089,590	215,840,000
Other reserves	5,563,129	18,490,727	18,292,409
Current income tax liabilities	726,983	2,416,345	2,130,286
Deferred income tax assets	376,631	1,251,847	1,762,948
Other liabilities	29,429,215	97,816,824	96,965,515
<b>Total liabilities</b>	<b>332,950,158</b>	<b>1,106,659,736</b>	<b>1,086,550,449</b>
<b>Shareholders' equity</b>			
Capital	17,780,853	59,100,000	51,100,000
Treasury shares	(132,533)	(440,514)	(440,514)
Capital reserves	10,823	35,973	35,973
Profit reserves	14,886,945	49,481,227	50,027,816
Additional paid-in capital	21,209	70,496	70,496
Other comprehensive income	546,862	1,817,659	(398,708)
Retained earnings	2,208,012	7,338,990	4,907,381

<b>Equity attributable to controlling shareholders</b>	<b>35,322,171</b>	<b>117,403,831</b>	<b>105,302,444</b>
<b>Non-controlling interest</b>	<b>87,211</b>	<b>289,873</b>	<b>176,763</b>
<b>Total equity</b>	<b>35,409,382</b>	<b>117,693,704</b>	<b>105,479,207</b>
<b>Total liabilities and equity</b>	<b>368,359,540</b>	<b>1,224,353,440</b>	<b>1,192,029,656</b>

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R\$3.3238 per US\$1.00 rate on March 29, 2018. Such translations should not be construed as a representation that the Brazilian *real* amount converted into U.S. dollars at that rate.

### **Exchange Rate Information**

Over the past years, the exchange rate between the *real* and the U.S. dollar has experienced significant variation:

In 2013, the *real* depreciated 14.6% against the U.S. dollar, reaching R\$2.3426 as of December 31, 2013. In 2014, the *real* depreciated 13.4% against the U.S. dollar, reaching R\$2.6562 as of December 31, 2014. In 2015, the *real* depreciated 47.0% against the U.S. dollar, reaching R\$3.9048 as of December 31, 2015. In 2016, the *real* appreciated 16.5% against the U.S. dollar, reaching R\$3.2591 as of December 31, 2016. In 2017, the *real* depreciated 1.5% against the U.S. dollar, reaching R\$3.3080 as of December 31, 2017.

On March 29, 2018, the exchange rate was R\$3.3238 per US\$1.00, a depreciation of 0.5% of the *real* against the U.S. dollar, when compared to December 31, 2017. Under the current floating exchange-rate system, the *real* may be subject to fluctuations and depreciation or appreciation against the U.S. dollar and other currencies.

The following table sets forth the period end, average and high and low selling rates reported by the Central Bank at closing, for the periods and dates indicated:

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### 3.B. Capitalization and Indebtedness

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Period	Period-End	2017 Average <sup>(1)</sup>	High <sup>(1)</sup>	Low <sup>(1)</sup>
<b>2013</b>	2.3426	2.1641	2.3725	1.9754
<b>2014</b>	2.6562	2.3586	2.6562	2.2025
<b>2015</b>	3.9048	3.3314	3.9729	2.6562
<b>2016</b>	3.2591	3.4849	4.0428	3.1811
<b>2017</b>				
October	3.2769	3.1933	3.3082	3.0993
November	3.2616	3.1990	3.3082	3.0993
December	3.3080	3.2074	3.3082	3.0993
<b>2018</b>				
January	3.1624	3.2352	3.3080	3.1624
February	3.2449	3.2384	3.3080	3.1624
March	3.3238	3.2598	3.3238	3.1624

<sup>(1)</sup> Average, high and low month end rates from December of the previous period.

Source: Central Bank.

## 3.B. Capitalization and Indebtedness

Not applicable.

## 3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

## 3.D. Risk Factors

### *Macroeconomic risks*

*The current weakness in Brazilian macroeconomic conditions and the market perception of certain economic and political risks alongside uncertainties relating to Brazil, including high-profile anti-corruption investigations, may have a material adverse effect on our financial condition and on*



***the results of operations.***

The vast majority of our operations are conducted in Brazil and, accordingly, our results are significantly impacted by macroeconomic conditions in Brazil. The reorientation of the Brazilian economic policy, initiated in 2016, enabled the advancement of measures aimed at minimizing imbalances and raising the potential for growth. The anchoring of inflation expectations allowed the Central Bank to reduce the basic interest rate to the lowest level in history. From the fiscal perspective, despite advancements such as the approval of the Long Term Index (*Taxa de Longo Prazo*) or ("TLP") and the recovery of revenues, concern regarding sustainability of Brazil's national debt remained present, especially in light of the lack of progress in relation to pension reform.

The executive branch of the Brazilian government (or Federal Government) sought a vote on pension reform by Congress during the first half of 2018, which could only be achieved through an amendment to the Brazilian Federal Constitution (the "Brazilian Constitution"). However, due to the upcoming presidential, governors, senators and congressman elections in October 2018 and other political matters, the pension reform voting was postponed until after the elections or in 2019.

On February 16, 2018, President Michel Temer, by means of Decree No. 9,288/18 approved by the National Congress, determined a federal intervention in the State of Rio de Janeiro until December 31, 2018. The Brazilian Constitution cannot be amended during a federal intervention, pursuant to article 60, paragraph 1. On this basis, we believe that pension reform can only be voted on in 2019. However, it is important to highlight that, in accordance with the Brazilian Constitution, the intervention period may be reduced if the reasons for the intervention cease.

If pension reform is not voted by the end of 2018, we cannot predict if this will be pursued by the next president.

In 2014, the Brazilian Federal Police and the Prosecution Office commenced a series of anti-corruption investigations called "Operation Car Wash" ("*Operação Lava Jato*") in which, among other

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### 3.D. Risk Factors

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matters, certain officers and employees of *Petróleo Brasileiro S.A.* ("Petrobras"), a Brazilian state-controlled company, were accused of accepting illegal payments in order to wrongly influence commercial decisions of Petrobras. During the course of 2014, 2015 and 2016, these anti-corruption investigations have expanded and have given rise to various criminal proceedings involving not only senior officers and employees of Petrobras but also senior officers of companies in Brazil, notably in the construction sector and some politicians. In the U.S., the SEC and the Department of Justice are also conducting their own investigations into a number of these allegations. The high-profile nature of these investigations may have momentarily harmed the reputation of Brazil, which could reduce investor confidence, making it more difficult for companies located in Brazil to obtain funding. We cannot predict how long the anti-corruption investigations will continue, or how significant the effects of the anti-corruption investigations may be for the Brazilian economy. If uncertainty surrounding the Brazilian economy continues, or if there is a material reduction in investor confidence as a result of these investigations, the results of our operations may be adversely affected.

In addition, our subsidiary *Banco Bradesco BBI S.A.* ("Bradesco BBI") is a party to certain legal and administrative proceedings filed against Petrobras and other defendants, due to its role as underwriter in a note offering of Petrobras. An agreement in principle was reached to settle those proceedings in January 2018, though it must be ratified by a judge before coming into effect. We or our subsidiaries may become a party to other legal and/or administrative proceedings against Petrobras or other companies which have not yet been filed. A negative outcome of these ongoing legal proceedings or any new legal proceedings may harm our reputation and may adversely affect our financial condition and our results of operations.

On December 2, 2015, the Brazilian House of Representatives opened impeachment proceedings against the then-President Dilma Rousseff, alleging non-compliance with the fiscal responsibility law. The Brazilian House of Representatives and the Brazilian Senate voted in favor of the admissibility of the impeachment proceedings on April 17, 2016 and on May 12, 2016, respectively. Due to the favorable vote of the Senate, President Rousseff was removed from the presidency for up to 180 days to defend herself in her impeachment trial. During the 180-day trial period, the Vice-President of Brazil acted as President. On August 10, 2016, the Brazilian Senate approved the report of its special impeachment committee which recommended that President Dilma Rousseff should be brought to trial by the upper house of the Brazilian legislature. On August 31, 2016, President Dilma Rousseff was found guilty, losing her mandate, and Vice-President Michel Temer took office for the remainder of the term until January 1, 2019. However, the resolution of the political and economic crisis in Brazil still depends on the outcome of the "Lava Jato" investigation and on the approval of reforms that are being promoted by the new President. Further, the initial mandate by Dilma Rousseff and Michel Temer following the general election in 2014 was under review by the Superior Election Tribunal (*Tribunal Superior Eleitoral*), but the charges against Michel Temer were dismissed. In May 2017, the Brazilian media revealed new allegations of corruption involving businessmen and certain high-profile political figures, including President Temer, which had a significant effect on the stock market and the value of the real. The Attorney-General presented two accusations against Mr. Temer before the Brazilian Supreme Court (*Supremo Tribunal Federal*), or ("STF"), on June 26, 2017 and on September 15, 2017, respectively. The Brazilian House of Representatives voted against the

admissibility of both charges, on August 2, 2017 and on October 25, 2017, respectively. Approval of the Brazilian House of Representatives is a necessary requirement for the STF to judge a Brazilian President during his term in office. Any further allegations involving the President are yet to be confirmed through judicial and official investigations, however, they could lead to uncertainty regarding the possibility of Michel Temer facing judicial actions and/or an impeachment process. For instance, on February 27, 2018, the STF authorized an extension for 60 days of the investigation into whether Michel Temer accepted bribes to benefit companies in the Port of Santos, and on March 5, 2018 it authorized the disclosure of the President's banking information. The progress of this investigation and the possibility of new accusations may significantly change the Brazilian political climate.

The continuation of any of, or combination of, these factors may lead to a further slowdown in GDP growth, which may have an adverse effect on our financial condition and our results of operations.

***The government exercises influence over the Brazilian economy, and Brazilian political and economic conditions have a direct impact on our business.***

Our financial condition and results of operations are substantially dependent on Brazil's economy, which in the past has been characterized by frequent and occasionally drastic intervention by the government and volatile economic cycles.

In the past, the Brazilian government has often changed monetary, fiscal, taxation and other policies to influence the course of Brazil's economy. We have no control over, and cannot predict, what measures or

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**3.D. Risk Factors**  
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policies the government may take in response to the current or future Brazilian economic situation or how government intervention and government policies will affect the Brazilian economy and our operations and revenues.

Our operations, financial condition and the market price of our shares, preferred share ADSs and common share ADSs may be adversely affected by changes in certain policies related to exchange controls, tax and other matters, as well as factors such as:

- exchange rate fluctuations;
- base interest rate fluctuations;
- domestic economic growth;
- political, social or economic instability;
- monetary policies;
- tax policy and changes in tax regimes;
- exchange controls policies;
- liquidity of domestic financial, capital and credit markets;
- our customers' capacity to meet their other obligations with us;
- decreases in wage and income levels;
- increases in unemployment rates;
- macroprudential measures;
- inflation;
- allegations of corruption against political parties, public officials, including allegations made in relation to the "Operation Car Wash" investigation, among others; and
- other political, diplomatic, social and economic developments within and outside of Brazil that affect the country.

Changes in, or uncertainties regarding, the implementation of the policies listed above could contribute to economic uncertainty in Brazil, thereby increasing the volatility of the Brazilian securities market and reducing the value of Brazilian securities traded internally or abroad.

Historically, the country's political scenario has influenced the performance of the Brazilian economy and political crises have affected the confidence of investors and the general public, which resulted in economic deceleration and heightened volatility in the securities issued abroad by companies based in Brazil.

In October 2018, Brazil will have presidential elections and we cannot guarantee that the successor of President Michel Temer will maintain the same economic policies adopted by the previous management. If the Brazilian government decides to make significant changes in the economic policy, as from 2019, these changes may adversely affect our operating results and the market value of our shares, preferred shares ADSs and common shares ADSs, as well as the Brazilian economy in overall.

In addition, uncertainties about the current and future government can influence the perception of risk of Brazil among foreign investors, which can in turn adversely affect the market value of our shares, preferred shares ADSs and common shares ADSs. The market value of Brazilian companies became more volatile during the previous presidential elections.

***Currency exchange variations may have an adverse effect on the Brazilian economy and on our results and financial condition.***

Fluctuations in the value of the *real* may impact our business. After an extended period of appreciation, interrupted only in late 2008 as a result of the global crisis, the Brazilian *real* started to weaken in mid-2011. This trend accelerated during the following four years and was interrupted in 2016. Weaker currency periods make certain local manufacturers (particularly exporters) more competitive but also make managing economic policy, particularly inflation, increasingly difficult, even with a slowdown in growth. A weaker real also adversely impacts companies based in Brazil with U.S. dollar indexed to and/or denominated debt.

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### 3.D. Risk Factors

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As of December 31, 2017, the net exposure in relation to our assets and liabilities denominated in, or indexed to, foreign currencies (primarily U.S. dollars) was 4.4% of our total assets. If the Brazilian currency devaluates or depreciates, we risk losses on our liabilities denominated in, or indexed to, foreign currencies, such as our U.S. dollar denominated long term debt and foreign currency loans, and experience gains on our monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into *reais*. Accordingly, if our liabilities denominated in, or indexed to, foreign currencies significantly exceed our monetary assets denominated in, or indexed to, foreign currencies, including any financial instruments entered into for hedging purposes, a large devaluation or depreciation of the Brazilian currency could materially and adversely affect our financial results and the market price of our shares, preferred share ADSs and common share ADSs, even if the value of the liabilities has not changed in their originated currency. In addition, our lending transactions depend significantly on our capacity to match the cost of funds indexed to the U.S. dollar with the rates charged to our customers. A significant devaluation or depreciation of the U.S. dollar may affect our ability to attract customers on such terms or to charge rates indexed to the U.S. dollar.

Conversely, when the Brazilian currency appreciates, we may incur losses on our monetary assets denominated in, or indexed to, foreign currencies, mainly, the U.S. dollar, and we may experience decreases in our liabilities denominated in, or indexed to, foreign currencies, as the liabilities and assets are translated into *reais*. Therefore, if our monetary assets denominated in, or indexed to, foreign currencies significantly exceed our liabilities denominated in, or indexed to, foreign currencies, including any financial instruments entered into for hedging purposes, a large appreciation of the Brazilian currency could materially and adversely affect our financial results even if the value of the monetary assets has not changed in their originated currency.

***If Brazil experiences substantial inflation in the future, our revenues and our ability to access foreign financial markets may be reduced.***

Brazil has, in the past, experienced extremely high rates of inflation. Inflation and governmental measures to combat inflation had significant negative effects on the Brazilian economy and contributed to increased economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets, which may have an adverse effect on us.

The memory of and potential for inflation, is still present, despite the monetary stability achieved in the mid-1990s, which intensified after 1999 as a result of the adoption of inflation targeting norms. There are still concerns that inflation levels might rise again in the future. Current economic policy in Brazil is premised on a monetary regime which the Central Bank oversees in order to assure that the effective rate of inflation keeps in line with a predetermined and previously announced target. In 2017, Brazil's rates of inflation reached 3.0%, 6.3% in 2016 and 10.7% in 2015, as measured by the Extended Consumer Price Index - "IPCA" (*Índice Nacional de Preços ao Consumidor Amplo*).

The recent government measures to combat inflation include maintaining an expansive monetary policy to reduce the interest rates in order to increase the availability of credit and drive the economic growth. Decreases in the base interest rate (“SELIC”) set by the Central Bank Committee on Monetary Policy (Comitê de Política Monetária – “COPOM”) may have an adverse effect on us by reducing the interest income we receive from our interest-earning assets and lowering our revenues and margins. Increases in SELIC rate may also have an adverse effect on us by reducing the demand for our credit, and increasing our cost of funds, domestic debt expense and the risk of customer default.

Future government actions, including the imposition of taxes, intervention in the foreign exchange market and actions to adjust or fix the value of the real, as well as any GDP growth different from expected levels may trigger increases in inflation. If Brazil experiences fluctuations in rates of inflation in the future, our costs and net margins may be affected and, if investor confidence lags, the price of our securities may fall. Inflationary pressures may also affect our ability to access foreign financial and capital markets and may lead to counter-inflationary policies that may have an adverse effect on our business, financial condition, results of operations and the market value of our shares, preferred share ADSs and common share ADSs.

***Changes in base interest rate by the Central Bank may materially adversely affect our margins and results of operations.***

The stabilization of inflation allowed the Central Bank to reduce the basic interest rate to the lowest level in history. The base interest rate (SELIC) was 7.0%, 13.75% and 14.25% *per annum* (“*p.a.*”) as of December 31, 2017, 2016 and 2015, respectively. Changes in the base interest rate may adversely affect our results of operations as we have assets and liabilities indexed to the SELIC. At the same time, high base interest rates may increase the likelihood of customer delinquency, due to the deceleration in the

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economic activity. Similarly, low base interest rates may increase the leverage of borrowers, generating additional risk to financial system.

The COPOM adjusts the SELIC rate in order to keep inflation within the range of targets set by the National Monetary Council (CMN) to manage aspects of the Brazilian economy, including the protection of reserves and capital flows. We have no control over the SELIC rate or how often such a rate is adjusted.

***Developments and the perception of risk in Brazil and other countries, especially emerging market countries, may adversely affect the market price of Brazilian securities, including our shares, preferred share ADSs and common share ADSs.***

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of issuers based in Brazil. Crises in other emerging market countries may diminish investor interest in securities of issuers based in Brazil, including ours, which could adversely affect the market price of our shares, preferred share ADSs and common share ADSs.

***The exit of the United Kingdom (the "U.K.") from the European Union could adversely impact global economic or market conditions.***

On June 23, 2016, the U.K. electorate voted in a general referendum in favor of the U.K.'s exit from the European Union (so-called "Brexit"). On March 29, 2017, the U.K. gave formal notice under Article 50 of the Treaty on European Union of its intention to leave the European Union. The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations. The ongoing process of negotiations between the U.K. and the European Union will determine the future terms of the U.K.'s relationship with the European Union, including access to European Union markets, either during a transitional period or more permanently. Brexit could lead to potentially divergent laws and regulations as the U.K. determines which European Union laws to replace or replicate. Uncertainty regarding the terms of Brexit, and its eventual effects once implemented, could adversely affect European or global economic or market conditions and investor confidence. This could, in turn, adversely affect our business and/or the market value of our shares, preferred share ADSs and common share ADSs.

***Our investments in debts issued by the Brazilian government expose us to additional risks associated with Brazil.***

We invest in debt securities issued by the Brazilian government. The trading price of these securities is affected by, among other things, market conditions in Brazil, the perception of Brazil and the related perception of the Brazilian government's ability to repay principal and/or make interest payments. Accordingly, adverse developments or trends in any of these areas could have a knock-on adverse effect



on the value of our securities portfolio, thereby affecting our financial condition and results of operations.

***Risks relating to us and the Brazilian banking industry***

***We may be subject to negative consequences of the judicial process arising from Operation Zelotes, including the filing of a class-action lawsuit.***

On May 31, 2016, a lawsuit was filed against three members of our *Diretoria Executiva*, within the so-called "Operação Zelotes" or "Operation Zealots," which investigates the alleged improper performance of members of the Federal Administrative Tax Court (*Conselho Administrativo de Recursos Fiscais* – "CARF"). On July 28, 2016, the Federal Public Prosecution Office pressed charges against three officers of our *Diretoria Executiva* and a former member of our Board of Directors. The charges were received for processing by the Judge of the Tenth Federal District Court of the Federal District of Brazil. The executives have already submitted their respective defenses in the criminal proceeding and moved to dismiss the charges against them. At present, two of the three members of our Organization remain defendants in the proceeding. The process went through discovery phase and the next step is the presentation of closing arguments by the parties. After that, the judge will give a decision on the merits.

Our Management conducted an internal evaluation of the records and documents related to the indictment and found no evidence of any unlawful conduct by our representatives. We provided all informations to the competent authorities and regulators in Brazil and abroad.

Following news reports of the Operation Zealots, a putative class-action lawsuit was filed in the US District Court for the Southern District of New York on June 3, 2016 asserting claims under Sections 10(b) and 20(a) of the U.S. Securities Exchange Act of 1934. On October 21, 2016, the Court-appointed Lead

### 3.D. Risk Factors

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Plaintiff submitted an Amended Class Action Complaint naming us and the three members of our *Diretoria Executiva* who were indicted. The lawsuit alleges that investors who purchased our preferred ADSs between April 30, 2012 and July 27, 2016 suffered damages due to a supposed violation of U.S. securities laws.

On September 29, 2017, the Court decided to limit the claim to investors who acquired preferred ADSs between August 8, 2014 and July 27, 2016. The discovery phase has started and, because the lawsuit is in a preliminary stage, it is not possible at present to estimate the exposure and not enough elements are available to conduct a risk assessment.

We were also summoned by the internal affairs committee of the Brazilian Ministry of Finance to follow an Administrative Procedure to Determine Liability (*Processo Administrativo de Responsabilização* – “PAR”). This procedure carries the possibility of a fine being levied against us and/or inclusion of our name in public lists which may in turn restrict our ability to conduct business with state-owned entities.

Developments in the criminal proceeding may result in negative publicity for us, and we cannot predict what conclusion the Courts and other authorities may come to in connection with it. An adverse conclusion of this proceeding could result in legal exposure and other penalties for us negatively affect our reputation, financial condition and results of operations.

#### ***We may be subject to negative consequences from the “Operation Greenfield” investigation.***

The Federal Police is conducting an investigation called “Operação Greenfield,” or “Operation Greenfield,” into allegations of fraud involving certain pension funds. Our wholly-owned subsidiaries BEM - Distribuidora de Títulos e Valores Mobiliários Ltda. (“BEM”) and BRAM - Bradesco Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários (“BRAM”), as well as two of their managers were mentioned by the Federal Police in relation to Operation Greenfield as they were responsible for the administration and management of an Equity Investment Fund, named Fundo de Investimento em Participações FIP Enseada (“FIP Enseada”). In the course of the investigation, the Federal Court authorized the seizing of a number of documents, and blocked the assets of BEM. In order to have its assets unblocked, BEM, together with BRAM signed a commitment, which was approved by the Tenth Federal Court of the Federal District, to release their assets in exchange for the provision of guarantees totaling R\$104 million. In December 2017, an agreement between BEM, BRAM, Fundação Petrobras de Seguridade Social – PETROS, Fundação dos Economistas Federais – FUNCEF, Agência de Fomento do Estado do Amazonas S/A – AFEAM (all investors of FIP Enseada), and the Federal Public Prosecution Office was affirmed by the Tenth Federal Court of the Federal District pursuant to which: (i) BEM and BRAM committed to pay R\$113 million; (ii) BEM, BRAM and its managers and officers committed to provide any clarifications to the authorities responsible for conducting this investigation, regardless of a formal subpoena; and (iii) BEM and BRAM committed to perform an independent internal investigation, in exchange for having their guarantees released. On December 11, 2017, the payment was made and the guarantees were released. BEM and BRAM did not acknowledge any civil or criminal liability by entering into this commitment. Additionally,

internal evaluations indicate that there was no illegal conduct in the activities and the corresponding reports were submitted to the Federal Public Prosecution Office. The ongoing Operation Greenfield investigation may result in negative publicity for us and our subsidiaries, and we cannot predict what conclusion the Federal Police and other competent authorities, especially the Federal Public Prosecution Office may come to in connection with this investigation. A conclusion adverse to BEM and BRAM, or their managers, could negatively affect our reputation, financial condition and results of operations. In March 2018, the Federal Public Prosecution Office commenced proceedings in relation to the Operation Greenfield investigation. These proceedings did not include any of our officers, directors or employees.

***We may experience increases in our level of past due loans as our loans and advances portfolio becomes more seasoned.***

Historically, our loans and advances to customer portfolios registered an increase. However in 2017, due to the recession in the Brazilian economy, it experienced a decrease. Any corresponding rise in our level of non-performing loans and advances may lag behind the rate of loan growth, as loans typically do not have due payments for a short period of time after their origination. Levels of past due loans are normally higher among our individual clients than our corporate clients.

As of December 31, 2017, our provision for impairment of loans and advances increased by 9.2% when compared to December 31, 2016, while our portfolio of loans and advances to customers decreased by 4.7% driven by the reduction of corporate customers' outstanding loans (which reduced 9.6%). Outstanding loans for individuals increased 1.8% over that same period.

As of December 31, 2016, our provision for the impairment of loans and advances decreased by 2.6% when compared to December 31, 2015, while our portfolio of loans and advances to customers increased by 5.9% over that same period (driven principally by our acquisition of the operations of HSBC Brasil).

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Our delinquency ratios, calculated based on information prepared in accordance with accounting practices adopted in Brazil (“BR GAAP”), which is defined as the total loans overdue for over ninety days in relation to the total portfolio of loans and advances decreased to 4.7% in 2017. In 2016, our delinquency ratio increased to 5.5%, compared to 4.1% in 2015.

Rapid loan growth may also reduce our ratio of non-performing loans to total loans until growth slows or the portfolio becomes more seasoned. Adverse economic conditions and a slower growth rate for our loans and advances to customers may result in increases in our impairment of loans and advances, charge-offs and our ratio of non-performing loans and advances to total loans and advances, which may have an adverse effect on our business, financial condition and results of operations.

***Adverse conditions in the credit and capital markets, just like the value and/or perception of value of Brazilian government securities, may adversely affect our ability to access funding in a cost effective and/or timely manner.***

Volatility and uncertainties in the credit and capital markets have generally decreased liquidity, with increased costs of funding for financial institutions and corporations. These conditions may impact our ability to replace, in a cost effective and/or timely manner, maturing liabilities and/or access funding to execute our growth strategy.

Part of our funding originates from repurchase agreements, which are largely guaranteed by Brazilian government securities. These types of transaction are generally short-term and volatile in terms of volume, as they are directly impacted by market liquidity. As these transactions are typically guaranteed by Brazilian government securities, the value and/or perception of value of the Brazilian government securities may be significant for the availability of funds. For example, if the quality of the Brazilian government securities used as collateral is adversely affected, due to the worsening credit risk, the cost of these transactions could increase, making this source of funding inefficient for us. For further information about obligations for repurchase agreements, see “Item 4.B. Business Overview – Other funding sources.”

If the market shrinks, which could cause a reduction in volume, or if there is increased collateral credit risk and we are forced to take and/or pay unattractive interest rates, our financial condition and the results of our operations may be adversely affected.

***The increasingly competitive environment in the Brazilian bank and insurance industries may negatively affect our business prospects.***

The markets for financial, banking and insurance services in Brazil are highly competitive. We face significant competition in all of our principal areas of operation from other large banks and insurance companies, both public and private based in Brazil and internationally.

Competition has increased as a result of consolidations among financial institutions in Brazil and as a result of regulations by the CMN that facilitate customers' ability to switch business between banks. The increased competition may materially and adversely affect us by, among other things, limiting our ability to retain our existing consumer base, increasing our customer base and expanding our operations, reducing our profit margins on banking and other services and products we offer, and limiting investment opportunities.

The increased competition may negatively affect our business results and prospects by, among other things:

- limiting our ability to increase our customer base and expand our operations;
- reducing our profit margins in the banking, insurance, leasing and other services and products offered by us; and
- increasing competition for foreign investment opportunities.

***Losses on our investments in financial assets held for trading and available for sale may have a significant impact on our results of operations and are not predictable.***

The value of certain investments in financial assets may decline significantly due to volatile financial markets and may fluctuate over short periods of time. As of December 31, 2017, the investments in financial assets held for trading and available for sale represented 32.8% of our assets, and realized gains and losses or unrealized gains and losses for financial assets held for trading and available for sale have had and may continue to have a significant impact on the results of our operations. The amounts of such gains and losses, which we record when investments in financial assets are sold, or in certain limited circumstances when they

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are recognized at fair value, may fluctuate considerably from period to period. The level of fluctuation depends, in part, upon the fair value of the financial assets, which in turn may vary considerably, and our investment policies. We cannot predict the amount of realized gain or loss for any future period, and we believe that variations from period to period have no practical analytical value. Furthermore, any gains on our investment portfolio may not continue to contribute to net income at levels consistent with recent periods, and we may not successfully realize the appreciation in our consolidated investment portfolio or any portion thereof.

***We may incur losses associated with counterparty exposures.***

We face the possibility that a counterparty will be unable to honor its contractual obligations. These counterparties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, as a result of entering into swap or other derivative contracts under which counterparties have obligations to make payments to us, executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Such counterparty risk is more acute in complex markets where the risk of failure of counterparties is higher.

***Our trading activities and derivatives transactions may produce material losses.***

We engage in the trading of securities, buying debt and equity securities principally to sell them in the near term with the objective of generating profits on short-term differences in price. These investments could expose us to the possibility of material financial losses in the future, as securities are subject to fluctuations in value, which may generate losses. In addition, we enter into derivatives transactions, mainly, to manage our exposure to interest rate and exchange rate risk. Such derivatives transactions are designed to protect us against increases or decreases in exchange rates or interest rates.

***The government regulates the operations of Brazilian financial institutions and insurance companies. Changes in existing laws and regulations or the imposition of new laws and regulations may negatively affect our operations and revenues.***

Brazilian banks and insurance companies are subject to extensive and continuous regulatory review by the government. We have no control over government regulations, which govern all facets of our operations, including the imposition of:

- minimum capital requirements;
- compulsory deposit/reserve requirements;
- fixed assets investment limitations;

- lending limits and other credit restrictions;
- earmarked credit transactions, such as housing loans and rural credit;
- accounting and statistical requirements;
- minimum coverage;
- mandatory provisioning policies;
- limits and other restrictions on rates; and
- limits on the amount of interest that they can charge and the period for which they can capitalize on interest.

The regulatory structure governing banks and insurance companies based in Brazil is continuously evolving. Existing laws and regulations could be amended, the manner in which laws and regulations are enforced or interpreted could change, and new laws or regulations could be adopted. Such changes could materially adversely affect our operations and our revenues.

In particular, the government has historically enacted regulations affecting financial institutions in an effort to implement its economic policies. These regulations are intended to control the availability of credit and reduce or increase consumption in Brazil. These changes may adversely affect us because our returns on compulsory deposits are lower than those we obtain on our other investments. Regulations issued by the Central Bank are not subject to a legislative process. Therefore those regulations can be enacted and implemented in a very short period of time, thereby affecting our activities in sudden and unexpected ways.

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***A majority of our common shares are held, directly and indirectly, by one shareholder and none of our Board members are independent; accordingly, their interests may conflict with those of our other investors.***

As of December 31, 2017, Fundação Bradesco directly and indirectly held 57.0% of our common shares. As a result, Fundação Bradesco has the power, among other things, to prevent a change in control of our company, even if a transaction of that nature would be beneficial to our other shareholders, as well as to approve related party transactions or corporate reorganizations. Under the terms of Fundação Bradesco's by-laws, members of our *Diretoria Executiva*, that have been working with us for more than ten years serve as members of the Board of Trustees of Fundação Bradesco. The Board of Trustees has no other members.

Our Board of Directors has 8 members, none of whom are considered independent in accordance with the criteria included in Law No. 6,404/76 (the "Brazilian Corporate Law"), which states that only individuals may be appointed to a company's board of directors. Accordingly, there is no legal or statutory provision requiring us to have independent directors. As a result, the interests of our Board of Directors may not always be in line with the interests of our common shareholders and these holders do not have the same protections they would have if most of the directors were independent. Furthermore, our directors are associated to Fundação Bradesco and circumstances may arise in which the interests of Fundação Bradesco, and its associates, conflict with our other investors' interests.

Fundação Bradesco and our Board of Directors could make decisions in relation to our policy towards acquisitions, divestitures, financings or other transactions, which may be contrary to the interests of holders of common shares and have a negative impact on the interests of holders of common shares. For more information on our shareholders, see "Item 7.A. Major Shareholders."

***Changes in regulations regarding reserve and compulsory deposit requirements may reduce operating margins.***

The Central Bank has periodically changed the level of compulsory deposits that financial institutions in Brazil are required to abide by.

Compulsory deposits generally yield lower returns than our other investments and deposits because:

- a portion of our compulsory deposits with the Central Bank do not bear interest; and
- a portion of our compulsory deposits must finance a federal housing program, the Brazilian rural sector, low income customers and small enterprises under a program referred to as a "microcredit program."



Rules related to compulsory deposits have been changed from time to time by the Central Bank, as described in "Item 4.B. Business Overview - Deposit-taking activities."

As of December 31, 2017, our compulsory deposits in connection with demand, savings and time deposits and additional compulsory deposits were R\$66.7 billion. Reserve requirements have been used by the Central Bank to control liquidity as part of monetary policy in the past, and we have no control over their imposition. Any increase in the compulsory deposit requirements may reduce our ability to lend funds and to make other investments and, as a result, may adversely affect us. For further information on compulsory deposits, see "Item 4.B. Business Overview- Deposit - taking activities."

***Changes in taxes and other fiscal assessments may adversely affect us.***

The government regularly enacts reforms to the tax and other assessment regimes to which we and our customers are subject. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified. There can be no assurance that these reforms will not, once implemented, have an adverse effect upon our business. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in our non-performing portfolio of loans and advances.

***The Brazilian Constitution used to establish a ceiling on loan interest rates and if the government enacts new legislation with a similar effect in the future, our results of operations may be adversely affected.***

Article 192 of the Brazilian Constitution, enacted in 1988, established a 12.0% *p.a.* ceiling on bank loan interest rates. However, since the enactment of the Brazilian Constitution, this rate had not been enforced, as the regulation regarding the ceiling was pending. The understanding that this ceiling is not yet in

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force has been confirmed by *Súmula Vinculante* No. 7, a final binding decision enacted in 2008 by the STF, in accordance with such Court's prior understanding on this matter. Since 1988, several attempts were made to regulate the limitation on loan interest, and especially bank loan interest rates, but none of them were implemented nor have been confirmed by Brazilian superior courts.

On May 29, 2003, Constitutional Amendment No. 40 ("EC 40/03") was enacted and revoked all subsections and paragraphs of Article 192 of the Brazilian Constitution. This amendment allows the Brazilian Financial System, to be regulated by specific laws for each sector of the system rather than by a single law relating to the system as a whole.

With the enactment of Law No. 10,406/02 (or the "Civil Code"), unless the parties to a loan have agreed to use a different rate, in principle the interest rate ceiling has been pegged to the base rate charged by the National Treasury Office (*Tesouro Nacional*). There is currently an uncertainty as to whether such base rate which is referred to in the Civil Code is: (i) the Special Clearing and Settlement System (*Sistema Especial de Liquidação e Custódia*) rate, which we call the SELIC rate, the base interest rate established by COPOM, which was 7.0% *p.a.* as of December 31, 2017 and 13.75% *p.a.* as of December 31, 2016; or (ii) the 12.0% *p.a.* rate established in Article 161, paragraph 1, of Law No. 5,172, of October 25, 1966, as amended ("Brazilian Tax Code"), which is the default interest rate due when taxes are not paid on time.

Any substantial increase or decrease in the interest rate ceiling could have a material effect on the financial condition, results of operations or prospects of financial institutions based in Brazil, including us.

Additionally, certain Brazilian courts have issued decisions in the past limiting interest rates on consumer financing transactions that are considered abusive or excessively onerous in comparison with market practice. Brazilian courts' future decisions as well as changes in legislation and regulations restricting interest rates charged by financial institutions could have an adverse effect on our business.

***Our losses in connection with insurance claims may vary from time to time. Differences between the losses from actual claims, underwriting and reserving assumptions and the related provisions may have an adverse effect on us.***

The results of our operations depend significantly upon the extent to which our actual claims are consistent with the assumptions we used to assess our potential future policy and claim liabilities and to price our insurance products. We seek to limit our responsibility and price our insurance products based on the expected payout of benefits, calculated using several factors, such as assumptions for investment returns, mortality and morbidity rates, expenses, persistency, and certain macroeconomic factors, such as inflation and interest rates. These assumptions may deviate from our prior experience, due to factors beyond our control such as natural disasters (floods, explosions and fires), man-made disasters (riots, gang or terrorist attacks) or changes in mortality and morbidity rates as a result of advances in medical technology and longevity, among others. Therefore, we cannot determine precisely the amounts that we will ultimately pay to settle these liabilities, when these payments will need to be made, or whether the assets supporting our

policy liabilities, together with future premiums and contributions, will be sufficient for payment of these liabilities. These amounts may vary from the estimated amounts, particularly when those payments do not occur until well in the future, which is the case with certain of our life insurance products. Accordingly, the establishment of the related provisions is inherently uncertain and our actual losses usually deviate, sometimes substantially, from such estimated amounts. To the extent that actual claims are less favorable than the underlying assumptions used in establishing such liabilities, we may be required to increase our provisions, which may have an adverse effect on our financial condition and results of operations.

***We are liable for claims of our customers if our reinsurers fail to meet their obligations under the reinsurance contracts.***

The purchase of reinsurance does not hold us harmless against our liability towards our clients if the reinsurer fails to meet its obligations under the reinsurance contracts. As a result, reinsurers' insolvency or failure to make timely payments under these contracts could have an adverse effect on us, given that we remain liable to our policyholders.

***A failure in, or breach of, our operational, security or technology systems could temporarily interrupt our businesses, increasing our costs and causing losses.***

We constantly invest in the improvement and evolution of the safety controls, resilience, continuity and management of our information technology systems and as a result have created an environment with a high capacity to process data for our operating systems and our financial and accounting systems.

Our information technology systems could suffer shortages or become unavailable for a given period of time due to external factors, including events which are wholly or partially beyond our control, such as:

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cyber-attacks, protests which could prevent individuals from entering our buildings, changes to the regulatory framework, electrical or telecommunications outages, systems failures, resulting from human error or not, or other events involving third parties and suppliers.

Due to the nature of our operations as well as the global context, where there is an ever-increasing integration among platforms, dependency on technology and on the internet, a higher exposure to viruses, malicious software and cyber-attacks is a business reality, which may unexpectedly impair the operations and integrity of our systems that manage and store sensitive and/or confidential information for our business and operations.

We and other financial institutions, including governmental entities, have already experienced attacks on our information technology systems. Due to the controls we have in place, we have not experienced any material loss of data from these attacks to date, neither from a hardware nor from a data information loss perspective. However, considering the use of new technologies, the increasing dependency on the internet and the changing and sophisticated nature of attacks, it is not possible to predict all the means that will be used by individuals or organizations with harmful intent, which could impact our capacity to effectively foresee and/or avoid all attacks in the future.

As a result, all the risks mentioned above could result in customer attrition, regulatory fines, penalties or intervention, reimbursement or other administrative penalties.

***The Brazilian Supreme Court is currently deciding cases relating to the application of inflation adjustments which may increase our costs and cause losses.***

The STF, which is the highest court in Brazil and is responsible for judging constitutional matters, is currently deciding whether savings account holders have the right to obtain adjustments for inflation related to their deposits due to the economic plans *Bresser*, part of *Verão*, *Collor I* and *Collor II*, implemented in the 1980s and 1990s, before the *Plano Real*, in 1994. The trial began in November 2013, but was recently interrupted. According to the institutions representing the account holders, banks misapplied the monetary adjustments when those economic plans were implemented, and should be required to indemnify the account holders for the non-adjustment of those amounts.

The STF gave a ruling on an individual case, in the sense that the sentences on class actions proposed by associations questioning inflationary purges only benefit consumers who: (i) were associated with the associations at the time of filing of the class action; and (ii) had authorized the filing of the class action. This reduced the number of beneficiaries in class actions because, until then, it was understood that these decisions should benefit all consumers affected by the practices (i.e., all consumers that are current account holders and that had suffered losses related to inflationary purges, were or were not associated with the association, plaintiff of the class action).

In addition, in connection with a related sentence, the Brazilian Supreme Court Justice ("STJ") decided, in May 2014, that the starting date for counting default interest for compensating savings account holders must be the date of summons of the related lawsuit (rather than the date of settlement of the judgment), therefore increasing the amount of possible losses for the affected banks in the event of an unfavorable decision by the STF.

In December 2017, with the mediation of the Executive branch's attorney (*Advocacia Geral da União*), or ("AGU"), the representatives of the banks and the savings account holders entered into an agreement related to the economic plans aiming to finalize the claims and established a timeline and conditions for the savings account holders to accede to such agreement. The STF affirmed the agreement on March 1, 2018, but it is still subject to appeals. As this is a voluntary settlement, Bradesco is unable to predict how many savings account holders will accede to it. It is possible that all major Brazilian banks, may incur material costs as a result.

***Our risk management structure may not be fully effective.***

We fully incorporate the risk management process into all of our activities, developing and implementing methodologies, models and other tools for the measurement and control of risks, looking to continuously improve them in order to mitigate the risks that we identify. However, there may be limitations to this risk management framework in foreseeing and mitigating all the risks to which we are subject, or may in the future become, subject. If our risk management structure is not completely effective in adequately preventing or mitigating risks, we could suffer material unexpected losses, adversely affecting our financial condition and results of operations. For more information on our risk management structure, see "Item 4.B.

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– Business Overview – Risk management."

***We may face significant challenges in possessing and realizing value from collateral with respect to loans in default.***

If we are unable to recover sums owed to us under secured loans in default through extrajudicial measures such as restructurings, our last recourse with respect to such loans may be to enforce the collateral secured in our favor by the applicable borrower. Depending on the type of collateral granted, we either have to enforce such collateral through the courts or through extrajudicial measures. However, even where the enforcement mechanism is duly established by the law, Brazilian law allows borrowers to challenge the enforcement in the courts, even if such challenge is unfounded, which can delay the realization of value from the collateral. In addition, our secured claims under Brazilian law will in certain cases rank below those of preferred creditors such as employees and tax authorities. As a result, we may not be able to realize value from the collateral, or may only be able to do so to a limited extent or after a significant amount of time, thereby potentially adversely affecting our financial condition and results of operations.

***Risks relating to our shares, preferred share ADSs and common share ADSs.******The Deposit Agreements governing the preferred share ADSs and common share ADSs provide that holders of such ADSs will only receive voting instructions if we authorize the depositary bank to contact those holders to obtain voting instructions; and there are also practical limitations on any ability to vote we may give such holders.***

The voting rights of preferred share ADS holders and common share ADS holders are governed by the Deposit Agreements. Those Deposit Agreements provide that the depositary bank shall mail voting instructions to holders only if we authorize and direct the depositary bank to do so. If we do not provide that authorization and direction to the depositary bank, holders of preferred share ADSs and common share ADSs will not be able to vote at our meetings, unless they surrender their preferred share ADSs or common share ADSs and receive the underlying preferred shares or common shares, as applicable, in accordance with the terms of the applicable Deposit Agreement.

In addition, there are practical limits on the ability of preferred share ADS and common share ADS holders to exercise any vote due to the additional procedural steps involved in communicating with such holders. For example, our shareholders will either be notified directly or through notification published in Brazilian newspapers and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. In contrast, preferred share ADS holders and common share ADS holders will not receive notice directly from us and cannot vote in person at the meeting. Instead, in accordance with the Deposit Agreements, the depositary bank will, if authorized and directed by us, send any notice of meetings of holders received by it from us to holders of preferred share ADSs and common share ADSs, together with a statement as to the manner in which voting instructions may be given by holders. To exercise any such ability to vote, preferred share ADS and common share ADS holders must then instruct the depositary bank

how to vote with the shares represented by their preferred share ADSs or common share ADSs. Because of this extra step involving the depositary bank, if and when we authorize and direct the depositary bank to mail voting information to preferred share ADS holders and common share ADS holders, the process for voting will take longer for preferred share ADS and common share ADS holders than for holders of our shares. Preferred share ADSs and common share ADSs for which the depositary bank does not receive voting instructions in good time will not be able to vote at a meeting.

***Under Brazilian Corporate Law, holders of preferred shares have limited voting rights, accordingly, holders of preferred share ADSs will have similar limitations on their ability to vote.***

Under Brazilian Corporate Law and our Bylaws, holders of our preferred shares are not entitled to vote at our shareholders' meetings, except in limited circumstances (see "Item 10.B. Memorandum and Articles of Association – Organization – Voting Rights," for further information on voting rights of our shares). As such, in contrast to holders of common shares, holders of preferred shares are not entitled to vote on corporate transactions, including any proposed merger or consolidation with other companies, among other things.

*As discussed above under "The Deposit Agreements governing the preferred share ADSs and common share ADSs provide that holders of such ADSs will only receive voting instructions if we authorize the depositary bank to contact those holders to obtain voting instructions; and there are also practical limitations on any ability to vote we may give such holders," preferred share ADS holders will only be able to vote if we authorize and direct the depositary bank accordingly. As a result of the fact that holders of preferred shares have limited voting rights, any ability to vote that we may extend to holders of preferred share ADSs corresponding to preferred shares pursuant to the applicable Deposit Agreement would be*

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similarly limited.

***The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell shares underlying the preferred share ADSs and common share ADSs at the price and time you desire.***

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in more developed countries, and these investments are generally considered more speculative in nature. The Brazilian securities market is substantially smaller and less liquid than major securities markets, such as the United States, and may be more volatile. Although you are entitled to withdraw our shares, underlying the preferred share ADSs and common share ADSs from the depositary bank at any time, your ability to sell our shares underlying the preferred share ADSs and common share ADSs at a price and time acceptable to you may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets such as the United States or other countries. The ten largest companies in terms of market capitalization, according to B3, accounted for 52.2% of the aggregate market capitalization in December 2017.

***Our shares, preferred share ADSs and common share ADSs are not entitled to a fixed or minimum dividend.***

Holders of our shares and, consequently, our preferred share ADSs and common share ADSs are not entitled to a fixed or minimum dividend. Pursuant to the Deposit Agreements, if the depositary (as holder of the common shares and preferred shares underlying the common share ADSs and preferred share ADSs,) receives any cash dividend or distribution from us, it shall distribute a corresponding U.S. dollar amount, net of depositary fees and certain withholding tax adjustments as described in the Deposit Agreements, to holders of our common share ADSs and preferred share ADSs as promptly as practicable. However, if we do not pay dividends to holders of our common shares or preferred shares then there will be no payment of dividends to holders of our common share ADSs or preferred share ADSs.

Pursuant to our Bylaws, our preferred shares are entitled to dividends 10.0% higher than those of our common shares. Although under our current Bylaws we are obligated to pay our shareholders at least 30.0% of our annual adjusted net income, the shareholders attending our annual general shareholders' meeting may decide to suspend this mandatory distribution of dividends if the Board of Directors advises that payment of the dividend is not compatible with our financial condition. Neither our Bylaws nor Brazilian law specify the circumstances in which a distribution would not be compatible with our financial condition, and our controlling shareholders have never suspended the mandatory distribution of dividends. However, Brazilian law provides that a company need not pay dividends if such payment would endanger the existence of the company or harm its normal course of operations.

In March 2013, CMN Resolution No. 4,193/13 was issued in an effort to further implement the Basel III Accord in Brazil. Pursuant to such rule, a restriction of dividend and interest payments on equity may be



imposed by the Central Bank in the event of non-compliance with the additional capital requirements established by the Central Bank, as further described in "Item 5.B. Liquidity and Capital Resources – Capital adequacy and leverage."

***As a holder of preferred share ADSs and common share ADSs you will have fewer and less well defined shareholders' rights than in the United States and certain other jurisdictions.***

Our corporate affairs are governed by our Bylaws and Brazilian Corporate Law, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or in certain other jurisdictions outside Brazil. Under Brazilian Corporate Law, you and the holders of our shares may have fewer and less well defined rights to protect your interests relative to actions taken by our Board of Directors or the holders of our common shares than under the laws of other jurisdictions outside Brazil.

Although Brazilian Corporate Law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions. In addition, in Brazil, self dealing and the preservation of shareholder interests may be less heavily regulated and what regulations are in place may not be as strictly enforced in Brazil as in the United States, which could potentially disadvantage you as a holder of our shares underlying preferred share ADSs and common share ADSs. For example, compared to Delaware general corporation law, Brazilian Corporate Law and practices have less detailed and well established rules and judicial precedents relating to review of management decisions under duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties, and sale-of-business transactions. In addition, shareholders in Delaware companies must hold 5.0% of the outstanding share capital of a

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corporation to have valid standing to bring shareholder derivative suits, while shareholders in companies based in Brazil do not normally have valid standing to bring a class action.

***It may be difficult to bring civil liability causes against us or our directors and executive officers.***

We are organized under the laws of Brazil, and all of our directors and executive officers reside outside the United States. In addition, a substantial portion of our assets and most or all of the assets of our directors and executive officers are located in Brazil. As a result, it may be difficult for investors to effect service of process within the United States or other jurisdictions outside of Brazil on such persons or to enforce judgments against them, including any based on civil liabilities under the U.S. federal securities laws.

***If we issue new shares or our shareholders sell shares in the future, the market price of your preferred share ADSs and common share ADSs may be reduced.***

Sales of a substantial number of shares, or the belief that this may occur, could decrease the market price of our shares, preferred share ADSs and common share ADSs, by diluting their value. If we issue new shares or our existing shareholders sell the shares they hold, the market price of our shares and therefore the market price of our preferred share ADSs and common share ADSs, may decrease significantly.

***The payments on the preferred share ADSs and common share ADSs may be subject to U.S. withholding under the Foreign Account Tax Compliance Act ("FATCA").***

The United States has enacted rules, commonly referred to as FATCA, that generally impose a new reporting and withholding regime with respect to certain U.S. source payments (including interest and dividends), gross proceeds from the disposition of property that can produce U.S. source interest and dividends and certain payments made by entities that are classified as financial institutions under FATCA. The United States has entered into an intergovernmental agreement regarding the implementation of FATCA with Brazil (the "IGA"). Under the current terms and conditions of the IGA, we do not expect payments made on or with respect to the preferred share ADSs or common share ADSs to be subject to withholding under FATCA. However, significant aspects of when and how FATCA will apply remain unclear, and no assurance can be given that withholding under FATCA will not become relevant with respect to payments made on or with respect to the preferred share ADSs or common share ADSs in the future. Similar to the FATCA, the Common Reporting Standard ("CRS") is the instrument developed by the Convention on Mutual Assistance in Tax Matters of the Organization for Economic Cooperation and Development ("OECD") and the Multilateral Competent Authority Agreement, applicable to the countries signatory to the norm. The financial institutions and entities subject to it should ensure the identification, investigation and reporting of information to the competent bodies. Prospective investors should consult their own tax advisors regarding the potential impact of FATCA and CRS. For more information about FATCA and CRS, see "Item 4.B. Business Overview – Regulation and Supervision."

***You may be unable to exercise preemptive rights relating to our shares.***

Risks relating to our shares, preferred share ADSs and common share ADSs.

You will not be able to exercise preemptive rights relating to our shares underlying your preferred share ADSs and common share ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. Similarly, we may from time to time distribute rights to our shareholders. The depositary bank will not offer rights to you as a holder of the preferred share ADSs and common share ADSs unless the rights are either registered under the Securities Act or are subject to an exemption from the registration requirements. We are not obligated to file a registration statement with respect to the shares or other securities relating to these rights, and we cannot assure you that we will file any such registration statement. Accordingly, you may receive only the net proceeds from the sale by the depositary bank of the rights received in respect of the shares represented by your preferred share ADSs and common share ADSs or, if the preemptive rights cannot be sold, they will be allowed to lapse. You may also be unable to participate in rights offerings by us, and your holdings may be diluted as a result.

***If you exchange your preferred share ADSs or common share ADSs for their underlying shares, you risk losing Brazilian tax advantages and the ability to remit foreign currency abroad.***

Brazilian law requires that parties obtain registration with the Central Bank in order to remit foreign currencies, including U.S. dollars, abroad. The Brazilian custodian for the shares must obtain the necessary registration with the Central Bank for payment of dividends or other cash distributions relating to the shares or after disposal of the shares. If you exchange your preferred share ADSs or common share ADSs for the underlying shares, however, you may only rely on the custodian's certificate for five business days from the date of exchange. Thereafter, you must obtain your own registration in accordance with the rules of the Central Bank and the CVM, in order to obtain and remit U.S. dollars abroad after the disposal of the shares

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or the receipt of distributions relating to the shares. If you do not obtain a certificate of registration, you may not be able to remit U.S. dollars or other currencies abroad and may be subject to less favorable tax treatment on gains with respect to the shares. For more information, see "Item 10.D. Exchange Controls."

If you attempt to obtain your own registration, you may incur expenses or suffer delays in the application process, which could delay your receipt of dividends or distributions relating to the shares or the return of your capital in a timely manner. The custodian's registration and any certificate of foreign capital registration you may obtain may be affected by future legislative changes. Additional restrictions applicable to you, to the disposal of the underlying shares or to the repatriation of the proceeds from disposal may be imposed in the future.

## **ITEM 4. INFORMATION ON THE COMPANY**

### **4.A. History and Development of the Company**

We are a *sociedade anônima* organized under the laws of Brazil. Our headquarters are in Cidade de Deus, Vila Yara, 06029 900, Osasco, São Paulo, Brazil, and our telephone number is (55-11) 3684-4011. Our New York Branch is located at 450 Park Avenue, 32<sup>nd</sup> and 33<sup>rd</sup> floors, New York 10022.

We were founded in 1943 as a commercial bank under the name "Banco Brasileiro de Descontos S.A." In 1948, we began a period of aggressive expansion, which led to our becoming the largest private sector (non government controlled) commercial bank in Brazil by the end of the 1960s. We expanded our activities nationwide during the 1970s and became well established in both urban and rural markets in Brazil. In 1988 we merged with our real estate finance, investment bank and consumer credit subsidiaries to become a multiple service bank and changed our name to "Banco Bradesco S.A."

Since 2009, we operate in all Brazilian municipalities, and our large banking network enables us to be closer to our customers, thereby enabling our managers to develop knowledge as to economically active regions and other important conditions for our business. This knowledge helps us assess and mitigate risks in credit transactions, among other risks, as well as to meet the specific needs of our customers.

Currently, we are one of the largest banks in Brazil in terms of total assets. We offer a wide range of banking and financial products and services in Brazil and abroad to individuals, large, mid sized, small and micro enterprises and major local and international corporations and institutions. Our products and services comprise of banking operations such as loans and advances and deposit taking, credit card issuance, purchasing consortiums, insurance, leasing, payment collection and processing, pension plans, asset management and brokerage services.

As of December 31, 2017, we had, on a consolidated basis:

- R\$1.2 trillion in total assets;
- R\$373.8 billion in total loans and advances to customers;
- R\$265.2 billion in total deposits;
- R\$117.7 billion in equity, including non-controlling interest;
- R\$239.1 billion in technical reserves for our insurance and pension plan business;
- R\$51.3 billion in foreign trading financing;
- 47.6 million insurance policyholders;
- 25.8 million checking account holders;
- 63.4 million savings accounts;
- 2.9 million capitalization bonds holders;
- 2.8 million pension plan holders;
- 2,198 Brazilian corporate groups and multinational companies in Brazil as "Corporate" customers;

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#### 4.A. History and Development of the Company Form 20-F

- an average of 43.8 million daily transactions, including 1.4 million in our 4,749 branches and 42.4 million through Digital Channels, such as Bradesco Celular, Internet, Automatic Teller Machines, or ATMs, and telephone (*Fone Fácil*);
- a nationwide network consisting of 4,749 branches and 4,827 service centers and electronic in-company service centers, 35,590 active ATMs of our own network, and 21,259 ATMs available under the Banco24Horas brand for cash withdrawals, account balance information, obtaining statements and, take out loans, perform collections, transfers between Bradesco accounts, DOC/TED (types of bank transfer), pre-paid card and “proof of life” to INSS (physical proof of the existence of the old age pensioner or survivor to maintain the right to the social benefit) and services such as scheduled withdrawals via mobile apps, the purchase of foreign currency and immediate deposit (which makes the funds immediately available);
- 98,808 employees. For more information on our employees, see “Item 6.D. Employees”; and
- a total of three branches and nine subsidiaries located in New York, London, the Cayman Islands, Buenos Aires, Luxembourg, Hong Kong and Mexico.

#### ***Recent acquisitions***

**In July 2016, we announced to the market the acquisition of 100% of the share capital of HSBC Brasil.**

**In July 2015, we signed a purchase contract for the acquisition of 100% of the share capital of HSBC Brasil. The acquisition was approved by the Central Bank in December 2015 and by the Administrative Council for Economic Defense (“CADE”) in June 2016, subject to an Agreement on Concentration Control, and therefore approved by all relevant regulatory bodies. The purchase was completed in July 2016, for R\$16 billion. In October 2016, a Shareholders’ Meeting approved the spin-off of HSBC Brasil and the integration of its staff and operational and technological platforms, resulting in the replacement of the HSBC brand in then-existing service network and providing greater synergy in its operations.**

**With the acquisition, we took over all operations of HSBC in Brazil, including retail, insurance and asset management, as well as all branches and clients. The acquisition allowed us to grow in scale and optimize our platforms, while increasing national coverage, consolidating our leadership in a number of branches in several states, and strengthening our presence in the high-income segment. The acquisition also enabled us to expand our operations, increasing the range of products offered in Brazil, especially in the insurance, credit card and asset management segments.**

***Other strategic alliances***

In July 2017, we announced that Bradesco Seguros S.A. ("Bradesco Seguros") and Swiss Re Corporate Solutions Ltd. ("Swiss Re Corso") completed the transaction announced in October 2016, by signing a shareholders' agreement pursuant to which: (i) Swiss Re Corporate Solutions Brasil Seguros S/A ("Swiss Re Corporate Solutions Brasil") assumed part of the insurance operations of Bradesco Seguros, the property and casualty (P&C) and the transport (together "Large Risk Insurance"), having exclusive access to Bradesco clients to market Large Risk Insurance solutions; and (ii) Bradesco Seguros became the holder of 40.0% of Swiss Re Corporate Solutions Brasil's shares and the other 60% remained with its controller Swiss Re Corso. The transaction was approved by the SUSEP, by the CADE and by the Central Bank.

In May 2017, Bradesco Seguros, together with the other shareholders of IRB Brasil RE ("IRB"), authorized IRB to request to the CVM: (i) registration as a publicly-traded company and authorization to conduct the Initial Public Offer (IPO) of IRB, in accordance with CVM Instructions No. 400/03 and No. 480/09; and (ii) registration to perform a secondary offering of common shares, in accordance with CVM Instruction No. 400/03. In July 2017, the book building procedure of the offer ended and Bradesco sold part of its shares. Bradesco Seguros now holds 15.23% stake in the share capital of IRB (stake calculated excluding shares held in treasury).

In June 2017, Bradesco entered into agreements with Banco do Brasil S.A., Banco Santander (Brasil) S.A., Caixa Econômica Federal and Itaú Unibanco S.A. to create a company to manage credit intelligence ("GIC"). The company will develop a database to add, reconcile and handle the profile and credit information of individuals and legal entities who authorize their inclusion in the database, as required by the applicable rules. The control of the company will be shared between the banks and each of them will hold 20% of its share capital.

BRAM has developed important alliances as part of its internationalization strategy, expanding the number of platforms through which its investment funds are offered in the European, Latin American and

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Asian markets. Through personal management and investment advisory agreements, we offer Brazilian investors the opportunity to invest in global equity funds, with a focus on the U.S., Europe and Asia, besides the global funds. In Europe, BRAM offers to overseas investors funds domiciled in Luxemburg with different strategies under the Bradesco Global Funds family, launched in 2009. In Japan, Mitsubishi Kosukai UFJ Asset Management (“MUKAM”), our partner, offers fixed income funds and equity funds managed by BRAM since 2008 to retail investors wishing to invest in the Brazilian market. In Chile our partner Larrain Vial offers to Chilean investors a variable income fund managed by BRAM since 2008.

***Business strategy***

The key elements of our strategy are: (i) consolidating and expanding our position as one of the leading financial institutions and insurance providers in Brazil; (ii) maximizing shareholder value; and (iii) maintaining high corporate responsibility and sustainability standards.

We intend to pursue the following strategies to reach these goals:

***Consolidate and build upon our service network and brand as one of the leading financial institutions and insurance providers in Brazil, which offers a complete portfolio of products and services to all levels of society.***

We believe that our position as one of the leading financial institutions in Brazil, with a presence in all Brazilian regions through a broad network of distribution channels and with exposure to individuals of all income levels as well as large, mid sized and small businesses, will allow us to maintain the organic growth strategy. We will also continue to expand the insurance, pension and capitalization bonds business segment, in order to consolidate our leadership in this sector. As part of this strategy, we intend to increase the sales of our traditional banking, insurance, pension and capitalization bonds products through our wide branch network, our internet distribution services and other distribution channels. We are committed to investing significantly in our IT platform to support such growth. In addition, we intend to continue to leverage our relationships with corporate clients and high-income individuals to further develop our investment banking, private banking and asset management operations through Bradesco BBI, Banco Bradesco Europa, Bradesco Securities and other subsidiaries in Brazil and other key financial centers such as London, New York and Hong Kong.

***Maintain asset quality and operational risk levels.***

We are focused on sustainable growth to ensure our standards in relation to our asset quality and risk levels. We intend to maintain the quality of our loan portfolio by continuously improving our delinquency risk models, ensuring better results in credit granting and appropriate provisions for incurred losses. Our strategy involves maintaining our existing policy for our insurance business of careful evaluation of risk spreads through robust actuarial analysis, while entering into reinsurance agreements with well-known reinsurers to reduce exposure to large risks.



With respect to risk management, we intend to continue our integrated approach that utilizes a centralized method for identifying, measuring, controlling, monitoring and mitigating credit, market, liquidity and operational risks. We intend to continue to use specialized risk management committees in relation to the adoption of institutional policies, operational guidelines and the establishment of limits for risk exposure in accordance with best international practices, with the aim of maintaining operational risk levels within adequate boundaries.

***Complement organic growth with strategic alliances and pursue selective acquisitions.***

To complement our organic growth strategy, we constantly seek opportunities for strategic alliances and selective acquisitions to consolidate our position as one of the leading financial institutions in Brazil and to expand our presence in growth markets such as consumer financing, investment banking, broker dealing and insurance. The acquisition of HSBC Brasil was the largest ever in our history and we expect an expansion of our operations, in particular, of profitable businesses and with low capital needs. In addition, we believe our strategic partnership with Banco do Brasil and Caixa in relation to credit, debit and pre-paid cards for checking account holders and non-account holders is an example of such a growth opportunity. Similarly, our merger with Odontoprev S.A. has increased our presence in the segment of dental care plans enabling us to consolidate our leadership position in the insurance market. We will continue to focus on asset quality, potential operating synergies, sale and acquisition of know-how to maximize return for our shareholders.

***Focus on corporate responsibility and sustainability as core principles of our business.***

We believe that corporate responsibility and sustainability are fundamental to our operations and have incorporated the following three principles into our overall strategy: a sustainable financial position,

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## **4.B. Business Overview**

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responsible management and investments in social and environmental projects. We are always seeking to develop and incorporate sustainable finance concepts into the process of designing and managing our products and services and in our relationships with clients and suppliers. We believe our admission to the sustainability indexes of both the New York Stock Exchange and B3 represents strong recognition of our success in implementing sustainability principles. As part of this strategy, we will continue to apply social-environmental risk analysis in financing and investment activities in accordance with international practices, including the Equator Principles which we signed up to in 2004. Corporate responsibility has always been one of our core principles as evidenced by the significant investments we have made in education since 1956 through Fundação Bradesco, which is present in every state in Brazil and the Federal District, with 40 schools primarily located in regions of high socioeconomic deprivation. Fundação Bradesco offers quality formal education, free of charge, to children and young people from early childhood to high school as well as professional high school education for young people and adults, as well as initial and continuing education for employment and income.

## **4.B. Business Overview**

We operate and manage our business through two segments: (i) the banking segment; and (ii) the insurance, pension plans and capitalization bond segment.

The data for these segments was compiled from reports prepared for Management to assess performance and make decisions on allocating funds for investments and other purposes. Management uses various data, including financial data in conformity with BR GAAP and non-financial metrics compiled on different bases. For further information on differences between the results on a consolidated basis and by segment, see "Item 5.A. Operating Results - Results of operations for the year ended December 31, 2017 compared with the year ended December 31, 2016" and "Item 5.A. Operating Results - Results of operations for the year ended December 31, 2016 compared with the year ended December 31, 2015."

As of December 31, 2017, according to the sources cited in parentheses below, we were:

- one of the leading banks in terms of savings deposits, with R\$103.3 billion, accounting for 18.3% of Brazil's total savings deposits (Central Bank);
- one of the leaders in BNDES onlendings, with R\$5.9 billion in disbursements (BNDES);
- one of the leaders in automobile financing loans, with a market share of 13.8% (Central Bank);
- the leading bank in benefit payments from the INSS, with over 10.7 million INSS retirees, beneficiaries and other pensioners, accounting for 30.9% of the total number of INSS beneficiaries (INSS);

- one of the leaders in leasing transactions in Brazil, with an outstanding amount of R\$2.2 billion; through our subsidiary Bradesco Leasing S.A. Arrendamento Mercantil, or “Bradesco Leasing” (ABEL);
- Brazil’s largest private fund and investment manager, through our subsidiary BRAM, with R\$666.6 billion in assets under management (ANBIMA), taking into account managed portfolios;
- one of the leaders in the third-party asset management business, with R\$591.5 billion in managed assets, in addition to R\$222.2 billion in assets managed through our subsidiary and BEM, specialized in trust, custody and controllership of asset management services (ANBIMA);
- the leader in number of outstanding purchasing consortium quotas, through our subsidiary Bradesco Administradora de Consórcios Ltda., or “Bradesco Consórcios,” with 1,410,736 quotas in three segments, including: (i) automobiles and motorcycles, with 1,113,860 quotas; (ii) real estate, with 249,893 quotas; and (iii) trucks/tractors/machinery and equipment, with 46,983 quotas (Central Bank); and
- the largest company operating in the Brazilian insurance market, operating in all lines of this segment, with a 25.9% market share (SUSEP/ANS), through Grupo Bradesco Seguros, which mainly comprises: Bradesco Seguros S.A., or “Bradesco Seguros” and its subsidiaries: (i) Bradesco Vida e Previdência S.A., or “Bradesco Vida e Previdência;” (ii) Bradesco Capitalização S.A., or “Bradesco Capitalização;” (iii) Bradesco Auto/RE Companhia de Seguros S.A., or “Bradesco Auto/RE;” and (iv) Bradesco Saúde S.A., or “Bradesco Saúde.” The Group’s

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total revenues in 2017 were R\$76.3 billion in insurance premiums, pension plan contributions and capitalization bond income.

The main awards and acknowledgments that we received in 2017 are as follows:

- the most valuable brand in the Brazilian financial market, according to the ranking published by IstoÉ Dinheiro magazine in partnership with consultancy firm Kantar Vermeer, a division of the British WPP group;
- was ranked in the first position in the "Financial Sector" category and mentioned among the "10 most innovative companies in Brazil", in the third yearbook *Valor Inovação Brasil* (*Valor Econômico* Newspaper and Consultoria Network PwC);
- Bradesco BBI was awarded the title of best investment bank of Brazil in 2017 in the 17<sup>th</sup> edition of "Best Investment Banks of the world" (Global Finance magazine);
- BRAM led the ranking Best Funds for Institutional Investors (*Investidor Institucional* magazine);
- chosen as the best manager in wholesale and multimarket funds in the country (*Exame* magazine, based on the survey by *Fundação Getúlio Vargas*);
- Bradesco BBI was recognized as the "best investment bank in Brazil" (Euromoney magazine);
- received the "efinance 2017" award, in the categories "CIO of the Year, Back Office, Project Management, IT Governance, Foreign Exchange in ATM and Credit App" (*Executivos Financeiros* magazine);
- received the "Estadão Empresas Mais" award, in the category "Banks" (*O Estado de S. Paulo* newspaper in partnership with *Fundação Instituto de Administração – FIA* and Austin Ratings);
- received the IT Leaders 2017 award, in the categories of Banks and Insurers and for the second consecutive year, achieved the first position in the ranking of Top 100 IT Leaders 2017 (17<sup>th</sup> edition of Computerworld);
- for the first time, was selected to integrate the "Best Emerging Markets Performers Ranking" (Vigeo EIRIS Agency);
- elected as the most innovative company in the use of IT, as winner of the award "The 100+ Innovative in the Use of IT" with the next case (IT Media in partnership with PricewaterhouseCoopers PwC);
- largest private group in the "*Valor Grandes Grupos*" ranking (*Valor Econômico* newspaper);

- Bradesco Seguros received the "Notable Companies" award, in the Insurance, Health, Pension and Capitalization segment (Standard Intelligence Center – CIP, in partnership with the *Consumidor Moderno* magazine); and
- highlight of the “Folha Top of Mind” survey, as the private financial institution most present in the mind of Brazilians (Datafolha).

***Revenues per business segment***

The following table summarizes our main gross revenues by segment for the periods indicated:

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**4.B. Business Overview**

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	Years Ended December 31,		
	R\$ in thousands		
	2017	2016	2015
<b>Banking</b>			
Interest and similar income from loans and advances <sup>(1)</sup>	69,157,397	77,141,672	69,877,296
Fees and commissions	24,143,561	20,696,785	19,195,003
<b>Insurance and pension plans</b>			
Premiums retained from insurance and pension plans	70,046,635	65,027,122	58,760,780

<sup>(1)</sup> Includes industrial loans, financing under credit cards, overdraft loans, trade financing and foreign loans.

For further details of our segments, see Note 5 of our consolidated financial statements in "Item 18. Financial Statements."

We do not break down our revenues by geographic regions within Brazil, and less than 3.0% of our revenues come from international operations. For more information on our international operations, see "International banking services."

**Banking**

In our banking segment, we offer a range of banking products and services to our clients including deposit-taking, granting of loans and advance payments, debit and credit card services and capital market solutions, through our extensive distribution network.

We have a diverse customer base that includes individuals and small, mid-sized and large companies in Brazil. Historically, we have cultivated a strong presence among the broadest segment of the Brazilian market, middle- and low-income individuals.

The following table shows selected financial data for our banking segment for the periods indicated.

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Year ended December 31,	Banking - R\$ in thousands		
	2017	2016	2015
<b>Statement of Income data</b>			
Net interest income	46,997,327	49,156,109	46,934,849
Impairment of loans and advances	(17,895,929)	(18,829,460)	(16,479,985)
Other income/(expenses) <sup>(1)</sup>	(18,939,329)	(13,034,164)	(31,200,150)
<b>Income before income taxes</b>	<b>10,162,069</b>	<b>17,292,485</b>	<b>(745,286)</b>
Income tax and social contribution	(887,289)	(7,995,420)	12,621,169
<b>Net income for the year</b>	<b>9,274,780</b>	<b>9,297,065</b>	<b>11,875,883</b>
Net income attributable to controlling shareholders	9,272,962	9,293,766	11,874,609
Net income attributable to non-controlling interest	1,818	3,299	1,274
<b>Statement of Financial Position data</b>			
Total assets	988,063,541	921,916,290	894,579,942
<b>Selected results of operations data</b>			
<b>Interest and similar income</b>			
Loans and advances to banks	5,073,435	8,689,347	8,031,038
Loans and advances to customers	64,083,962	68,452,325	61,846,258
Financial assets	34,194,879	35,709,708	32,283,414
Compulsory deposits with the Central Bank	4,881,319	5,667,516	4,587,412
Other financial interest income	68,553	66,210	58,905
<b>Interest and similar expenses</b>			
Deposits from banks	(29,397,587)	(30,542,950)	(31,212,421)
Deposits from customers	(13,279,231)	(15,462,989)	(12,392,644)
Funds from securities issued	(13,527,986)	(17,124,503)	(11,597,283)
Subordinated debt	(5,100,017)	(6,298,555)	(4,669,830)
<b>Net interest income</b>	<b>46,997,327</b>	<b>49,156,109</b>	<b>46,934,849</b>
<b>Net fee and commission income</b>	<b>24,143,561</b>	<b>20,696,785</b>	<b>19,195,003</b>

Note: Inter segment transactions have not been eliminated.

(1) For additional information, see "Item 5.A. Operational Results".

***Products and banking services***

In order to meet the needs of each client, we offer the following range of banking products and services:

- deposit-taking with clients, including checking accounts, savings accounts and time deposits;
- loans and advances (individuals and companies, housing loans, microcredit, onlending BNDES/Finame, rural credit, leasing, among others);
- credit cards, debit cards and pre-paid cards;

- cash management solutions;
- public authority solutions;
- asset management;
- services related to capital markets and investment banking activities;
- intermediation and trading services;
- capital markets solutions;
- international banking services;

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- import and export financing; and
- consortiums.

***Deposit-taking with clients***

We offer a variety of deposit products and services to our customers mainly through our branches, including:

- Non-interest-bearing checking accounts, such as:
  - **Easy Account** (*Conta Fácil*) – Target market: Individuals and companies that have a checking account and a savings account under the same bank account number, using the same card for both accounts;
  - **Click Account** (*Click Conta*) – Target market: checking accounts for young people from 11 to 17 years of age, with exclusive website and debit card, automatic pocket money service and free online courses, among other benefits; and
  - **Academic Account** (*Conta Universitária*) – Target market: low fee checking account for college students, with subsidized credit conditions, exclusive website and free online courses, among other benefits.
- traditional savings accounts, which currently earn the Brazilian reference rate, or *taxa referencial*, known as the "TR," plus 6.2% annual interest in the case the SELIC rate is higher than 8.5% *p.a.* or TR plus 70.0% of the SELIC rate if the SELIC rate is lower than 8.5% *p.a.*; and
- time deposits, which are represented by Bank Deposit Certificates (*certificados de depósito bancário* – or "CDBs"), and earn interest at a fixed or floating rate.

As of December 31, 2017, we had 25.8 million checking account holders, 24.3 million of which were individual account holders and 1.5 million of which were corporate account holders. As of the same date, we had 63.4 million savings accounts.

The following table shows a breakdown of our deposits from customers by type of product on the dates indicated:

	December 31,	R\$ in thousands, except %					
		2017	2016		2015		
<b>Deposits from customers</b>							
<b>Demand deposits</b>	<b>33,058,324</b>	<b>12.6%</b>	<b>32,521,234</b>	<b>14.0%</b>	<b>23,012,068</b>	<b>11.8%</b>	
<i>Reais</i>	30,392,388	11.6%	30,936,451	13.3%	21,122,202	10.9%	
Foreign currency	2,665,936	1.0%	1,584,783	0.7%	1,889,866	1.0%	

<b>Savings deposits</b>	<b>103,332,697</b>	<b>39.4%</b>	<b>97,088,828</b>	<b>41.7%</b>	<b>91,878,765</b>	<b>47.2%</b>
<i>Reais</i>	103,332,697	39.4%	97,088,828	41.7%	91,878,765	47.2%
<b>Time deposits</b>	<b>125,617,424</b>	<b>47.9%</b>	<b>103,137,867</b>	<b>44.3%</b>	<b>79,619,267</b>	<b>40.9%</b>
<i>Reais</i>	115,684,855	44.2%	87,286,295	37.5%	53,932,917	27.7%
Foreign currency	9,932,569	3.8%	15,851,572	6.8%	25,686,350	13.2%
<b>Total</b>	<b>262,008,445</b>	<b>100.0%</b>	<b>232,747,929</b>	<b>100.0%</b>	<b>194,510,100</b>	<b>100.0%</b>

### ***Loans and advances to customers***

The following table shows loans and advances to customers broken down by type of product on the indicated dates:

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December 31,	R\$ in thousands		
	2017	2016	2015
<b>Loans and advances to individuals outstanding by type of operation</b>			
Other loans and advances to individuals	88,893,464	84,165,325	80,070,794
Housing loans	59,963,375	60,458,038	48,114,515
Onlending BNDES/Finame	30,655,666	35,816,560	38,158,108
Other corporate loans and advances	97,248,815	107,951,154	107,047,136
Rural loans	13,642,478	14,422,799	13,710,274
Leasing	2,249,859	2,738,611	3,072,777
Credit cards	37,568,984	37,407,733	30,943,428
Import and export financings	43,591,024	49,123,653	49,206,636
<b>Total</b>	<b>373,813,665</b>	<b>392,083,873</b>	<b>370,323,668</b>

The following table summarizes concentration for our outstanding loans and advances to customers by borrower on the dates shown:

December 31,	2017	2016	2015
<b>Borrower size</b>			
Largest borrower	2.5%	2.3%	2.8%
10 largest borrowers	8.2%	8.5%	9.2%
20 largest borrowers	12.2%	12.6%	13.3%
50 largest borrowers	17.8%	18.5%	19.5%
100 largest borrowers	22.2%	23.0%	23.8%

***Other loans and advances to individuals***

Our significant volume of individual loans enables us to avoid concentration on any individual loans on the performance of our portfolio and helps build customer loyalty. They consist primarily of:

- personal loans with pre-approved overdraft facilities to be obtained through our branches, ATM network, call center, mobile and internet banking, with average repayment terms in six months with an average interest rate of 8.6% per month as of December 31, 2017. It also includes payroll-deductible loans to INSS pension plan beneficiaries and retirees and public servants and private sector employees;
- vehicle financings with average repayment terms of 14 months with an average interest rate of 1.4% per month as of December 31, 2017; and

- overdraft loans on checking accounts - "*cheque especial*," with average repayment terms of one month, at interest rates varying from 3.0% to 13.3% per month as of December 31, 2017.

As of December 31, 2017, we had outstanding personal loans, vehicle financings, and overdraft loans totaling R\$88.9 billion, or 23.8% of our portfolio of loans and advances to customers.

Banco Bradesco Financiamentos ("Bradesco Financiamentos") offers (i) lines of loans and leasing for the acquisition of vehicles and (ii) payroll-deductible loans to INSS retirees and pensioners and public-sector employees (federal, state and municipal) through our extensive network of correspondents in Brazil, which includes retailers and dealers of light and heavy vehicles and motorcycles and companies specialized in payroll-deductible loans.

### ***Housing loans***

As of December 31, 2017, we had 170.2 thousand active financing contracts under mortgage or fiduciary disposal of real estate. The aggregate outstanding amount of our housing loans amounted to R\$59.9 billion, representing 16.0% of our portfolio of loans and advances to customers.

Housing loans are carried out for the purpose of: (i) acquisition of residential and commercial real estate, and urban plots; and (ii) construction of residential and commercial developments.

Financing for the acquisition of residential real estate has a maximum term of up to 30 years and annual interest rates of 9.3% to 12.0% *per annum*, plus TR, while commercial real estate has a maximum term of up to ten years and annual interest rates of 9.7% to 15.0% *p.a.* plus TR.

Financing for construction, also known as the Businessman Plan, has a construction term of up to 36

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## **4.B. Business Overview**

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months and interest rate of 12.0% to 16.0% *per annum*, plus TR, and a six-month grace period for the realization of transfers to borrowers. However, if the debt is not paid in full through the transfer of loans to the buyers of the units once construction is finished, the remaining balance must be paid by the builder within 36 months and at TR plus 16.0% to 18.0% *per annum*.

Central Bank regulations require us to provide at least 65.0% of the balance of savings accounts in the form of housing loans; 24.5% in compulsory deposit requirement and the remaining resources, in financial and other transactions according to the law and regulations in force.

### ***BNDES onlending/FINAME***

The government has certain products and programs to provide government-funded long-term loans with below-market or subsidized interest rates, focusing on economic development. We are structuring agents of BNDES funds, which is the development bank of the Brazilian government. We then on-lend these funds to borrowers in several sectors of the economy. We determine the spread on some of the loans based on the borrowers' credit. Although we bear the risk for these BNDES and FINAME onlending transactions, these transactions are always secured.

According to BNDES, in 2017, we disbursed R\$5.9 billion, 72.6% of which was loaned to micro, small and medium-sized companies. Our BNDES onlending portfolio totaled R\$30.7 billion as of December 31, 2017, and accounted for 8.2% of our portfolio of loans and advances to customers at that date. This amount does not include BNDES onlending related to rural credit and import and export financing.

### ***Other corporate loans and advances***

We provide traditional loans for the ongoing needs of our corporate customers. As of December 31, 2017, we had R\$97.2 billion of other outstanding loans to corporate clients, accounting for 26.0% of our portfolio of loans and advances to customers. We offer a range of loans to our corporate customers based in Brazil, including:

- short-term loans of 29 days or less;
- working capital loans to cover our customers' cash needs;
- guaranteed checking accounts and corporate overdraft loans;
- discounting trade receivables, promissory notes, checks, credit card and supplier receivables, etc.;
- financing for purchase and sale of goods and services; and

- investment lines for acquisition of assets and machinery.

These lending products generally bear interest at a rate of 1.1% to 13.4% per month.

In addition to these loans, we also offer guarantees, which are a contractual commitment, in which we guarantee the fulfilment of the obligations of our customers (debtors) before third parties (beneficiaries).

### ***Rural credit***

We extend loans to the agricultural sector financed by compulsory deposits, or the Amount Subject to Compulsory Deposit Requirement (“VSR”), BNDES onlendings and our own funds, in accordance with Central Bank regulations. As of December 31, 2017, we had R\$13.6 billion in outstanding rural credit, representing 3.6% of our portfolio of loans and advances to customers. In accordance with Central Bank regulations, loans arising from compulsory deposits are paid a fixed rate. The annual fixed rate was 8.5%, on average, as of December 31, 2017. Repayment of these loans generally coincides with agricultural harvest and principal is due when a crop is sold. For BNDES onlending for rural investment the term is no more than ten years with repayments on a semi-annual or annual basis. As security for such loans, we generally obtain a mortgage on the land where the agricultural activities being financed are conducted.

Since July 2012, Central Bank regulations require us to use at least 34.0% of the annual average (from June through May) of our VSR to provide loans to the agricultural sector.

### ***Leasing***

According to ABEL, as of December 31, 2017, our leasing companies were among the sector leaders, with a 18.2% market share. According to this source, the aggregate discounted present value of the leasing portfolios in Brazil as of December 31, 2017 was R\$12.2 billion.

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As of December 31, 2017, we had 12,243 outstanding leasing agreements totaling R\$2.2 billion, representing 0.6% of our portfolio of loans and advances to customers.

The Brazilian leasing market is dominated by financial institutions, including companies affiliated with Brazilian and foreign manufacturers. Brazilian lease contracts generally relate to motor vehicles, computers, industrial machinery and other equipment.

Most of our leasing transactions are financial (as opposed to operational). Our leasing transactions primarily involve the leasing of trucks, cranes, aircraft, ships and heavy machinery. As of December 31, 2017, 44.4% of our outstanding leasing transactions were for vehicles.

We conduct our leasing transactions through our primary leasing subsidiary, Bradesco Leasing and also through Bradesco Financiamentos.

We obtain funding for our leasing transactions primarily by issuing debentures and other securities in the domestic market.

As of December 31, 2017, Bradesco Leasing had R\$63.6 billion of debentures outstanding in the domestic market. These debentures will mature in 2032 and bear monthly interests at the interbank interest rate (“CDI rate”).

***Terms of leasing agreements***

Financial leases represent a source of medium and long-term financing for Brazilian customers. Under Brazilian law, the minimum term of financial leasing contracts is 24 months for transactions relating to products whose average useful life of five years or less, and 36 months for transactions for those with an average useful life of five years or more. There is no legal maximum term for leasing contracts. As of December 31, 2017, the remaining average maturity of contracts in our lease portfolio was approximately 61 months.

***Targeted Production Microcredit***

We offer a product named “targeted production microcredit” to formal and informal entrepreneurs, in accordance with Central Bank regulations requiring banks to use 2.0% of their cash deposits to provide microcredit loans. As of December 31, 2017, we had 34,508 microcredit loans outstanding, totaling R\$110.1 million.

In accordance with Central Bank regulations, consumer microcredit transactions are charged up to a maximum effective interest rate of 2.0% per month. However, microcredit loans for certain types of business or specific products (“*microcrédito produtivo orientado*”) have a maximum effective interest rate of up to 4.0% per month. The CMN requires by Resolution No. 4,000/12 and other rules that the maximum

amount loaned to a borrower be limited to (i) R\$2,000 for low income individuals in general (consumer microcredit); (ii) R\$5,000 for individuals or legal entities engaged in a productive activity of professional, commercial or industrial nature, provided that the sum of the value of the transaction and the balance of other credit transactions does not exceed R\$40,000; and (iii) R\$15,000 for our *microcrédito produtivo orientado* transactions. In addition, microcredit loans may not be for less than 120 days, and the origination fee must be up to 2.0% of the loan value for individuals and up to 3.0% for micro entrepreneurs. In 2017, the Federal Government updated some rules of the National Program of Targeted Productive Microcredit (PNMPO) through Provisional Measure No. 802/17, providing special conditions for the grant of credit to individuals and legal entities that are entrepreneurs of urban and rural productive activities and have income and annual gross revenues under R\$200,000.00.

### **Credit cards**

We offer a range of credit cards to our clients including Elo, American Express, Visa, MasterCard brands and private label cards, which stand out due to the extent of benefits and convenience offered to associates.

We earn revenues from our credit card operations through:

- fees on purchases carried out in commercial establishments;
- issuance fees and annual fees;
- interest on credit card balances;
- interest and fees on cash withdrawals through ATMs; and

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- interest on cash advances to cover future payments owed to establishments that accept credit cards.

We offer our customers a complete line of credit cards and related services, including:

- cards issued for use restricted to Brazil;
- credit cards accepted nationwide and internationally;
- credit cards directed toward high net worth customers, such as Gold, Platinum, Infinite/Black and Nanquim from Elo, Visa, American Express and MasterCard brands;
- multiple cards that combine credit and debit features in a single card, which may be used for traditional banking transactions and shopping;
- co-branded credit cards, which we offer through partnerships with companies;
- "affinity" credit cards, which we offer through associations, such as sporting clubs and non-governmental organizations; and
- private label credit cards, which we only offer to customers of retailers, designed to increase business and build customer loyalty for the corresponding retailer, which may or may not have a restriction on making purchases elsewhere, among others.

We hold 50.01% of the shares of Elopar, an investment holding company which investments include Alelo (benefit cards, pre-paid and money card), Liveloo (coalition loyalty program), Stelo (digital portfolio for online purchases), as well as participations in Elo Serviços (brand) and Banco CBSS and Ibi Promotora (stores for sales of cards, personal credit, consigned credit and other products). We hold 30.06% of the shares of Cielo S.A.

We also have a card business unit abroad, Bradescard Mexico, which has a partnership with C&A and also with Suburbia stores and with the LOB and Bodega Aurrera store chains.

With the acquisition of HSBC Brasil, our credit card portfolio was expanded, consolidating our position in the domestic financial market.

As of December 31, 2017, we had several partners with whom we offered co-branded, affinity and private label/hybrid credit cards. These relationships have allowed us to integrate our relationships with our customers and offer our credit card customers banking products, such as financing and insurance.

In April 2017, the Resolution No. 4,549/17 materially changed the rules relating to revolving credit applicable to credit card balances. As per the rule, the balance can only stay in revolving credit until the

maturity of the subsequent invoice, when the client must settle the balance plus any interest for the period. The bank may offer to the client another form of financing with better conditions in relation to those practiced in the revolving credit modality, including waiving financial charges.

The following table shows our volume of transactions and total number of transactions of credit cards for the years indicated:

	<b>In millions</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Volume traded - R\$	176,893.5	159,172.5	140,063.8
Number of transactions	1,991.0	1,784.0	1,530.3

With the mission of providing security solutions aligned to our business and creating, implementing, and maintaining preventive rules, processes and technologies, we have a department to prevent credit card fraud. This department acts strategically in the security of the use and service channels, systems and processes of the product, assessing, treating, and suggesting improvements. The department also issues technical opinions in connection with strategic security issues and implementation of products, services or processes.

Among the main "Corporate Security Global Vision" responsibilities, we highlight the following:

- the strategy area to prevent credit card fraud has the mission of identifying and mitigating risks of financial losses and negative impacts to the image of the Bank. It develops prevention strategies to documental and transactional fraud, monitoring and alerting in real time the onboarding of the product as well as all transactions made through the customer service and use channels. The actions are based on behavioral analyses of fraud, supported by statistical

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methodologies and predictive models of fraud, in order to ensure controls aligned to the business. The area also works on the diagnosis of losses to identify systemic and operational weaknesses, recommending preventive actions and the alignment with the current strategy when necessary;

- the projects and processes area establishes controls for the identified risks and is responsible for evaluating the risk of fraud and issuing recommendations on new projects, processes and products. The area proposes to the managers of the business and technical areas solutions that aim to balance the use and the security of the products and access to service channels, as well as corporate and strategic actions, which envisage the best practices of the market focused on preventive actions; and
- the portfolio analysis area is responsible for managing and providing information from the fraud prevention area to the other areas of the organization.

***Import and Export Financing***

For information on Import and Export Financing, see "Item 4.B. Business Overview – Foreign branches and subsidiaries."

***Cash Management Solutions***

***Management of accounts payable and receivable*** - In order to meet the cash management needs of our customers in both public and private sectors, we offer many solutions for managing accounts payable and receivable, supported by our network of branches, bank correspondents and electronic channels, all of which aim to improve speed and security for customer data and transactions. The solutions provided include: (i) receipt and payment services and (ii) resource management, enabling our customers to pay suppliers, salaries, and taxes and other levies to governmental or public entities. These solutions, which can also be customized, facilitate our customers' day-to-day tasks and help to generate more business. We also earn revenues from fees and investments related to collection and payment processing services, and by funds in transit received up to its availability to the related recipients.

***Solutions for receipts and payments*** - In 2017, we settled 1.1 billion invoices through the services of *Cobrança Bradesco* and 533 million of receipts by the tax collection systems and utility bills (such as water, electricity, telephone and gas), checks custody service, identified deposits and credit orders. The legal entity systems processed 1 billion documents related to payments to suppliers, salaries and taxes.

***Global Cash Management*** - Global Cash Management aims at structuring solutions to foreign companies operating in the Brazilian market and Brazilian companies making business in the international market. By way of customized solutions, partnerships with international banks and access to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) network, we offer products and services for carrying out the cash management of these companies.

***Niche Markets*** - We operate in various niche markets, such as education, health, condominiums, country clubs, expeditors and driving schools, transportation, franchising, and religion, among others, where our clients have the support of a specialized team with the mission of structuring custom solutions that add value to their business.

As an example, the Franchising & Business niche has a team of franchising specialists that, through their relationship with franchising companies, identify opportunities for financing and providing services to all franchisees and their employees. The partnership with the franchise networks occurs through structured commercial activities in synergy with the managing departments, commercial segments, and affiliated companies. The focus on the peculiarities of this sector creates a competitive and sustainable position by structuring appropriate solutions and, in particular, through the strategy of providing differentiated and specialized service. We have approximately 400 agreements in place with franchising companies, generating numerous opportunities to open new current accounts and leveraging business with the respective franchisees.

Another important feature in this area is the support we provide towards the development of Local Production Arrangements (“APLs”), by providing service to businesses and assistance to these clients. Participating in an APL strengthens the companies, because together they can form an articulated and important group for local development, allowing for greater competitive and sustainable advantages for micro and small businesses. Currently, we service 419 APLs throughout the country.

### ***Public authority solutions***

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We have a specific area dedicated to serving public administration, which offers specialized services aimed at identifying business opportunities and structuring customized solutions to entities and bodies of the Executive, Legislative and Judiciary branches at federal, state and municipal levels, in addition to independent governmental agencies, public foundations, state-owned and mixed companies, the armed forces (army, navy and air force) and the auxiliary forces (federal and state police forces).

Our exclusive website developed for our customers ([www.bradescopoderpublico.com.br](http://www.bradescopoderpublico.com.br)) offers corporate solutions for federal, state and municipal governments for payments, receipts, human resources and treasury services. The website also features exclusive facilities for public employees and the military, showing all of our products and services for our customers.

Our relationships with such public authorities are developed and maintained by specialized business managers located in distribution platforms throughout the country, which can be identified on our website.

In 2017, we created six specialized platforms to assist governments, capitals, courts, class councils, chambers, prosecutors, public defenders and 100 largest municipalities according to the Brazilian GDP. We took part and were successful in bidding processes sponsored by the Brazilian government. Furthermore, according to INSS, we continue to be leaders in payments of INSS benefits, with more than 10.7 million retirees and pensioners.

***Asset management and administration***

BRAM manages third-party funds through:

- mutual funds;
- managed portfolios;
- exclusive funds; and
- receivable funds (FIDCs - *Fundos de Investimento em Direitos Creditórios*) and FIIs (Real Estate Investment Funds).

***Management of funds and portfolios*** - On December 31, 2017, BRAM managed 1,187 funds and 216 portfolios, providing services to 3.2 million investors. Among its biggest customers are all the main segments of Bradesco, like Prime, Corporate, Private, *Varejo* (Retail), Bradesco Empresas (for more information on our segmentation, see “Segmentation of clients”) and Grupo Bradesco Seguros, in addition to institutional investors in Brazil and abroad. These funds comprise a wide group of fixed-income, non-fixed income, investments abroad and multimarket funds, among others.

The following tables show the equity of funds and portfolios which are under our management, the number of investors and the number of investment funds and managed portfolios for each period:

<b>Equity under Management by Type of Investment as of December 31,</b>	<b>R\$ in thousands</b>	
	<b>2017</b>	<b>2016</b>
<b>Investment Funds</b>		
Fixed income	550,505,210	519,945,330
Variable income	9,122,195	7,108,509
Third party share funds	54,106,357	42,432,619
<b>Total</b>	<b>613,733,762</b>	<b>569,486,458</b>
<b>Managed Portfolios</b>		
Fixed income	45,038,875	33,083,205
Variable income	7,880,085	7,097,555
<b>Total</b>	<b>52,918,960</b>	<b>40,180,760</b>
<b>Overall Total</b>	<b>666,652,722</b>	<b>609,667,218</b>

<b>As of December 31, Number</b>	<b>2017</b>		<b>2016</b>	
	<b>Quotaholders</b>	<b>Number</b>	<b>Quotaholders</b>	<b>Number</b>
Investment Funds	1,187	3,295,332	1,235	3,005,799
Managed Portfolios	216	216	210	210
<b>Overall Total</b>	<b>1,403</b>	<b>3,295,548</b>	<b>1,445</b>	<b>3,006,009</b>

**Administration of funds and portfolios** - On December 31, 2017, BEM and Bradesco administered 2,845 funds and 216 portfolios, providing services to 3.2 million investors.

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The following tables show the equity of funds and portfolios which are under administration, the number of investors and the number of investment funds and portfolios under administration for each period.

<b>Equity under Administration by Type of Investment</b> <b>as of December 31</b>	<b>R\$ in thousands</b>	
	<b>2017</b>	<b>2016</b>
<b>Investment Funds</b>		
Fixed income	719,817,674	669,657,368
Variable income	41,006,035	31,389,907
Third party share funds	11,091,423	7,710,418
<b>Total</b>	<b>771,915,132</b>	<b>708,757,693</b>
<b>Managed Portfolios</b>		
Fixed income	45,038,875	33,083,205
Variable income	7,880,085	7,097,555
Third party share funds	9,812,127	7,550,131
<b>Total</b>	<b>62,731,087</b>	<b>47,730,891</b>
<b>Overall Total</b>	<b>834,646,219</b>	<b>756,488,584</b>

<b>As of December 31,</b> <b>Number</b>	<b>2017</b>		<b>2016</b>	
	<b>Quotaholders</b>	<b>Number</b>	<b>Quotaholders</b>	<b>Number</b>
Investment Funds	2,845	3,266,973	2,656	3,034,787
Managed Portfolios	216	216	306	306
<b>Overall Total</b>	<b>3,061</b>	<b>3,267,189</b>	<b>2,962</b>	<b>3,035,093</b>

Our products are mostly distributed through our branch network, banking service by phone and the Internet.

In October 2017, the Brazilian government issued Provisional Measure No. 806/17, introducing relevant changes in taxation applicable to investment funds. The new rule should be effective from January 2018, however, as Provisional Measure No. 806/17 was not converted into law until December 31, 2017, there are strong arguments to defend that, if it gets converted into law in 2018, it should only be effective from January 2019, since the Brazilian Constitution provides that a provisional measure involving the creation or increase of taxes shall only be effective in the subsequent financial year of its conversion into law.

***Services related to capital markets and investment banking activities***

As our investment bank, “Bradesco BBI” is responsible for (i) originating and executing project financing operations; (ii) originating and executing mergers and acquisitions; (iii) originating, structuring, syndicating and distributing fixed income transactions of securities in Brazil and abroad; and (iv) originating, structuring, syndicating and distributing issuances of securities of variable income in Brazil and abroad.

In 2016 and in 2017, Bradesco BBI received the top awards in all categories in which it participated: “Best Investment Bank in Brazil” by Global Finance, “Brazil’s Best Investment Bank” by Euromoney and “Most Innovative Investment Bank from Latin America” by The Banker. The three awards, also known as the Triple Crown, have never been awarded to a financial institution in Brazil or abroad simultaneously or consecutively in the same year.

In 2017, Bradesco BBI advised customers in a total of 205 transactions across a range of investment banking products, totaling approximately R\$233.7 billion.

**Project finance** - Bradesco BBI is the advisor and structuring agent in the areas of “*Project*” and “*Corporate Finance*”, seeking to optimize financing solutions for projects across various industries through both credit and capital markets operations. In 2017, Bradesco BBI successfully participated in the launching of 21 projects, totaling R\$11.3 billion in investments. Bradesco BBI ended the year as number one in the ranking of structuring of Project Finance operations in Latin America and the Caribbean, as published by Dealogic.

**Mergers and acquisitions** - Bradesco BBI provides advisory services in merger and acquisition and corporate sale transactions, including the sale of companies and assets, private placements, creation of joint ventures, financial and corporate restructuring, and privatizations. In 2017, o Bradesco BBI advised on 21

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## 4.B. Business Overview

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disclosed transactions that amounted R\$82.0 billion. Bradesco BBI ended the year as number one in the ranking of volume of mergers and acquisitions operations in Brazil, as published by Thomson Reuters.

**Structured operations** - Bradesco BBI structures customized financial solutions for its customers in terms of their needs such as: investments, acquisitions, corporate reorganization, share repurchase, improved financial ratios, capital structure streamlining, and assets and risk segregation, by offering a number of funding tools to companies. Additionally, Bradesco BBI has a strong presence in the acquisition finance segment.

**Fixed income** - Bradesco BBI coordinates public offerings of securities of fixed income in local and international capital markets and international debt. In 2017, Bradesco BBI coordinated 123 local capital markets debt offerings that amounted to more than R\$31.7 billion. In the same period, Bradesco BBI coordinated 17 international capital markets debt offerings that amounted to more than R\$20.8 billion. Bradesco BBI ended the year as number two in the ranking of origination and distribution of fixed income securities as disclosed by ANBIMA.

**Variable income** - Bradesco BBI coordinates public offerings of shares in the national and international markets. In 2017, Bradesco BBI coordinated 20 local capital markets debt offerings that amounted to more than R\$36.4 billion. In the same period, Bradesco BBI coordinated 3 international capital markets debt offerings that amounted to more than US\$1.8 billion. Bradesco BBI ended the year as number two in the ranking of origination and distribution of variable income securities as disclosed by ANBIMA.

### **Intermediation and trading services**

Bradesco S.A. CTVM, or "Bradesco Corretora," operates in the financial market, and has as its objective the mediation of the purchase and sale of shares, commodities futures contracts, financial assets, indexes, options, share rental, and forward contracts, in the primary and secondary market. It also offers a wide range of products such as Investment Clubs, government securities through *Tesouro Direto* (Treasury Direct), and is admitted to negotiations in B3 and in the organized over-the-counter market, which are tailored to the needs of high net-worth individuals, major corporations and institutional investors.

In 2017, Bradesco Corretora traded R\$248.5 billion in the B3 equities market and ranked 5<sup>th</sup> position in Brazil in terms of total trading volume.

In addition, in the same period, Bradesco Corretora traded 38.3 million futures, terms, swaps and options totaling R\$3.8 trillion on the B3. In 2017, Bradesco Corretora ranked 9<sup>th</sup> position in the Brazilian market, in relation to the number of futures contracts, terms, swaps and options executed.

Bradesco Corretora was awarded by B3, within the Operational Qualifying Program (PQO), five excellence seals (Agro Broker, Carrying Broker, Execution Broker, Retail Broker and Nonresident Investor Broker), indicating the high quality of its future market transactions. Bradesco Corretora is also certified by CETIP

(Clearing House for the Custody and Financial Settlement of Securities, currently "B3").

Bradesco Corretora offers its clients the possibility to trade securities on the Internet through its "Home Broker" service. In 2017, "Home Broker" trading totaled R\$9.6 billion.

Bradesco Corretora has a full range of services in investment analysis with coverage of the main sectors and companies of the Brazilian market. With a team composed of 42 sector specialists who fairly disclose their opinions to the customers by way of follow-up reports and instruction guides, with a wide range of projections and comparison multiples. Bradesco Corretora also has a team of its own economists dedicated to the customers' specific demands, focused on the stock market. Over 500 reports, in English and Portuguese, are forwarded on a monthly basis to the most important investors domiciled in Brazil, the United States, Europe and Asia.

Bradesco Corretora offers its services as a representative of non-resident investors for transactions in the financial and capital markets, in accordance with CMN Resolution No. 4,373/14. For more details of CMN Resolution No. 4,373/14, see "Item 10.D. Exchange Controls."

### ***Capital markets solutions***

In 2017, we were one of the main providers of capital markets services and we maintained our leadership position in the domestic and global market according to the ANBIMA's ranking of custody of assets.

Among the main services we offer in this segment, we highlight: qualified custody of securities for investors and issuers, administrators of investment funds, clubs and managed portfolios; bookkeeping of securities (shares, BDRs - Brazilian Depositary Receipts, quotas of investment funds, CRIs and debentures);

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custody of shares backed by DR - Depositary Receipts, loan of shares, liquidating bank, depositary (Escrow Account - Trustee), clearing agent, tax and legal representation for non-resident investors, and fiduciary administration for investment funds.

We have twelve Quality Management System ISO 9001:2008 certifications and three data protection GoodPriv@cy certifications. We also hold an ISAE 3402 (International Standard on Assurance Engagements) certification, which comprises assurance reports on controls at a service organization under international standards. These certifications expand the structures of controls, increasing the level of effectiveness and quality of processes.

As of December 31, 2017, the set of the services provided by us, which we call “Bradesco Custódia” was composed of:

- custody and controllership services for investment funds and managed portfolios involving:
  - R\$1.5 trillion in assets under custody;
  - R\$2.2 trillion in assets under controllership; and
  - R\$118.3 billion in market value, related to 26 ADR programs and 4 GDR (Global Depositary Receipts) programs.
- fiduciary administration for funds:
  - R\$359.3 billion total shareholders' equity of investment funds under fiduciary administration by BEM.
- securities bookkeeping:
  - 241 member companies of the Bradesco Book-entry Stock System, with 4.4 million shareholders;
  - 384 companies with 557 issues in the Bradesco's Book-Entry debentures system (value of R\$375.9 billion);
  - 823 investment funds in the Bradesco Book-Entry Quotas System (value of R\$81.9 billion); and
  - 36 BDR (Brazilian Depositary Receipts) programs managed, with a market value of R\$513.9 million.
- depositary (Escrow Account - Trustee):
  - 13,176 contracts, with a financial volume of R\$14.5 billion.

***International banking services***

As a private commercial bank, we offer a wide range of international services, such as foreign trade finance and foreign currency loans, foreign exchange operations and international sureties, lines of credit and banking. As of December 31, 2017, our international banking services included:

Branches:

- one in New York City;
- one in the Cayman Islands; and
- one in London.

Subsidiaries:

- one in London: Bradesco Securities U.K., named "Bradesco Securities U.K.;"
- one in the Cayman Islands: Cidade Capital Markets Ltd., or "Cidade Capital Markets;"
- one in Argentina: Banco Bradesco Argentina S.A., or "Bradesco Argentina;"
- one in Luxembourg: Banco Bradesco Europa S.A., or "Bradesco Europe;"
- one in Mexico: Bradescard México, Sociedad de Responsabilidad Limitada, or "Bradescard México;"

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- two in Hong Kong: (i) Bradesco Trade Services Ltd. or "Bradesco Trade;" and (ii) Bradesco Securities Hong Kong or "Bradesco Hong Kong;" and
- two in New York: (i) Bradesco Securities Inc. or "Bradesco Securities U.S." and (ii) Bradesco North America LLC or "Bradesco North America."

Our International and Exchange Board in Brazil coordinates our international transactions with support from 12 operational units specialized in foreign exchange and 18 points of service which are part of the Bradesco Companies Segment (*Segmento Bradesco Empresas*). This structure is located at major exporting and importing areas nationwide.

**Revenues from Brazilian and foreign operations**

The table below breaks down revenues (interest and similar income, and fee and commission income) from our Brazilian and foreign operations for the periods shown:

For the years ended December 31,	2017		2016		2015	
	R\$ in thousands	%	R\$ in thousands	%	R\$ in thousands	%
Brazilian operations	146,014,854	98.0%	164,975,062	98.2%	141,487,792	97.6%
Overseas operations	2,966,302	2.0%	3,066,400	1.8%	3,417,333	2.4%
<b>Total</b>	<b>148,981,156</b>	<b>100.0%</b>	<b>168,041,462</b>	<b>100.0%</b>	<b>144,905,125</b>	<b>100.0%</b>

**Foreign branches and subsidiaries**

Our foreign branches and subsidiaries principally provide financing in foreign currency (particularly foreign trade finance operations) to Brazilian and non-Brazilian customers. Total assets of the foreign branches, excluding intra-group transactions, were R\$46.7 billion, as of December 31, 2017, denominated in currencies other than the real.

Funding required for financing or Brazilian foreign trade is primarily obtained from the international financial community, through credit lines granted by correspondent banks abroad. We issued debt securities in international capital markets as an additional source of funding, which amounted to US\$1.6 billion in 2017.

The following is a brief description of our subsidiaries abroad:

**Bradesco Europa** - Through its unit in Luxembourg and its branch in London, it is also dedicated to providing additional services to clients of the private banking segment.

**Bradesco Argentina** - It was set up with the purpose of granting financing, largely to companies based in Brazil with local establishments and, to a lesser extent, to companies based in Argentina doing business with Brazil.

**Cidade Capital Markets** – In February 2002, Bradesco acquired Cidade Capital Markets in Grand Cayman, through to the acquisition of its parent company in Brazil, Banco Cidade.

**Bradesco Securities (U.S., U.K. and H.K.)** - Bradesco Securities, our wholly owned subsidiary, is a broker dealer in the United States, England and Hong Kong:

- Bradesco Securities U.S. focuses on facilitating the purchase and sale of shares, primarily in the form of ADRs and common shares. It is also an authorized dealer in bonds, commercial paper and deposit certificates, among other securities, and may provide investment advisory services;
- Bradesco Securities U.K. focuses on the intermediation of equities and fixed income operations for Brazilian companies with global institutional investors; and
- Bradesco Securities H.K. focuses on the trading of ADRs and public and private securities issued by Brazilian companies to global institutional investors.

**Bradesco North America LLC** – It serves as a holding company for our investments in non-bank businesses in the United States.

**Bradesco Trade Services** – A non-financial institution and a subsidiary of our branch in the Cayman Islands, which we incorporated in Hong Kong in January 2007, in partnership with the local Standard Chartered Bank.

**Bradescard Mexico** – The business cards unit maintains a partnership with the chain of C&A stores, and also with the Suburbia stores and with the chains of LOB and Bodega Aurrera stores.

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***Banking operations in the United States***

In January 2004, the United States Federal Reserve Bank authorized us to operate as a financial holding company in the United States. As a result, we may do business in the United States directly or through a subsidiary, and, among other activities, may sell insurance products and certificates of deposit, provide underwriting services, act as advisors on private placements, provide portfolio management and merchant banking services and manage mutual fund portfolios.

***Import and export financing***

Our Brazilian foreign-trade related business consists of giving finance services to our clients in their export and import activities.

In import financing/refinancing, we directly transfer funds in foreign currency to foreign exporters, pegging the payment in local currency for Brazilian importers. In export finance, exporters obtain advances in *reais* on closing an export forex contract for future receipt of foreign currency on the contract due date. Export finance arrangements prior to shipment of goods/performance of services are known locally as Advances on Exchange Contracts or "ACCs," and the sums advanced are used to manufacture goods or provide services for export. If advances are paid after goods/performance of services have been delivered, they are referred to as Advances on Export Contracts, or "ACEs."

There are still other forms of export financing, such as Export Prepayments, onlendings from BNDES-EXIM funds, Export Credit Notes and Bills (referred to locally as "NCEs" and "CCEs"), and Export Financing Program with rate equalization – "PROEX."

Our foreign trade portfolio is funded primarily by credit lines from correspondent banks. We maintain relations with various American, European, Asian and Latin American financial institutions for this purpose, using our network of approximately 1,422 correspondent banks abroad, 42 of which extended credit/guarantee lines as of December 31, 2017.

As of December 31, 2017, our international unit had a balance of R\$41.9 billion in export financing and R\$5.6 billion and R\$3.7 billion in import financing and international guarantees. The volume of our foreign exchange contracts for exports reached US\$44.0 billion in 2017. In the same period, the volume of our foreign exchange contracts for imports reached US\$30.1 billion. In 2017, based on Central Bank data, we reached a 22.4% market share of trade finance for Brazilian exports and 21.4% for imports.

The following table shows the composition of our foreign trade asset portfolio as of December 31, 2017. This portfolio includes transactions with credit features and off-balance sheet transactions (import credit opened and international guarantees):

<b>2017</b>	<b>R\$ in thousands</b>
<b>Export financing</b>	
Advance on foreign exchange contracts – undelivered bills	10,012,708
Advance on foreign exchange contracts – delivered bills	557,233
Export prepayment	11,840,608
Onlending of funds borrowed from BNDES/EXIM	2,759,335
Proex - Rate Equalization Program	28,519
NCE/CCE (Exports Credit Note/Exports Credit Certificates)	16,755,480
<b>Total export financing</b>	<b>41,953,883</b>
<b>Import financing</b>	
Import financing – foreign currency	2,827,432
Exchange discounted in advance for import credit	2,522,468
Import credit opened	294,229
<b>Total import financing</b>	<b>5,644,129</b>
<b>International guarantees</b>	<b>3,696,894</b>
<b>Total foreign trade portfolio</b>	<b>51,294,906</b>

***Foreign exchange products***

In addition to import and export financing, our customers have access to a range of services and

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foreign exchange products such as:

- foreign loans to customers (Decree-Law No. 4,131/62);
- working capital abroad;
- WEB exchange contracts;
- collecting import and export receivables;
- cross border money transfers;
- advance payment for exports;
- accounts abroad in foreign currency;
- domestic currency account for foreign domiciled customers;
- cash holding in other countries;
- structured foreign currency transactions: through our overseas units;
- service agreements – receiving funds from individuals abroad via money orders;
- prepaid cards with foreign currency (individual and corporate customers);
- purchasing and selling of foreign currency paper Money;
- cashing checks denominated in foreign currency; and
- clearance certificate (international financial capacity certificate).

#### ***Consortia***

In Brazil, persons or entities that wish to acquire certain goods may set up a group known as a "consortium." Consortia in Brazil are made up of pooled funds for the purpose of financing an acquisition. Consortia that are formed for the purchase of real estate, vehicles and motorcycles, trucks/tractors/machines and equipment, have a fixed term and quota, both previously determined by its members, and are run by an administrator.

Bradesco Administradora de Consórcios manages groups of consortia and, as of December 31, 2017, registered total sales of 1,410,736 outstanding quotas; net income of R\$1.3 billion; and fees from consortiums of R\$1.7 billion. Both companies also administer a total volume of transactions of over R\$66.3 billion.

***Insurance, pension plans and capitalization bonds***

We offer a range of products and services to our clients, including life, health, accident and vehicles and property insurance, both to individuals and companies; supplementary pension plans, individual and corporate, as well as the capitalization securities, through our extensive distribution network.

The following table shows selected financial data for our insurance, pension plans and capitalization bonds segment for the periods indicated.

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As of and for the year ended December 31,	Insurance, pension plans and capitalization bonds - R\$ in thousands		
	2017	2016	2015
<b>Statement of Income data</b>			
Net interest income	1,857,926	5,374,229	5,973,694
Other income and expenses <sup>(1)</sup>	7,335,891	4,190,317	2,539,976
<b>Income before income taxes</b>	<b>9,193,817</b>	<b>9,564,546</b>	<b>8,513,670</b>
Income tax and social contribution	(4,156,153)	(3,915,822)	(3,192,918)
<b>Net income for the year</b>	<b>5,037,664</b>	<b>5,648,724</b>	<b>5,320,752</b>
Net income attributable to controlling interest	4,812,425	5,550,662	5,215,765
Net income attributable to non-controlling interest	225,239	98,062	104,987
<b>Statement of Financial Position data</b>			
Total assets	295,699,951	266,642,197	209,789,872
<b>Selected results of operations data</b>			
<b>Income from insurance and pension plans</b>			
Written premiums	65,878,513	62,470,571	55,920,681
Pension plan contributions	5,090,043	3,679,922	3,795,219
Coinsurance premiums ceded	(63,637)	(70,862)	(88,612)
Premiums returned	(667,196)	(746,244)	(522,309)
Reinsurance premiums	(191,088)	(306,265)	(344,199)
<b>Premiums retained from insurance and pension plans</b>	<b>70,046,635</b>	<b>65,027,122</b>	<b>58,760,780</b>
Changes in the insurance technical provisions and pension plans	(34,805,771)	(32,781,918)	(28,286,039)
Retained claims	(25,594,962)	(24,542,433)	(21,724,043)
Selling expenses for insurance and pension plans	(3,405,912)	(3,547,008)	(3,254,551)
<b>Income from insurance and pension plans</b>	<b>6,239,990</b>	<b>4,155,763</b>	<b>5,496,147</b>

Note: Inter segment transactions have not been eliminated.

<sup>(1)</sup> For additional information, see "Item 5.A. Operational Results".

***Insurance products and services, pension plans and capitalization bonds***

We offer insurance products, pension plans and capitalization bonds through different segments, which we refer to collectively as "Grupo Bradesco Seguros." Grupo Bradesco Seguros is leader in the Brazilian insurance market. The insurance products, pension plans and capitalization bonds offered in our service

channels are:

- life and personal accident insurance;
- health insurance;
- automobiles, property/casualty and liability insurance;
- reinsurance;
- pension plans; and
- capitalization bonds.

***Life and personal accident insurance***

We offer life and personal accident insurance, as well as insurance against miscellaneous events, such as job loss, through our subsidiary Bradesco Vida e Previdência. As of December 31, 2017, there were 34.4 million life insurance policyholders.

***Health insurance***

The health insurance policies cover medical/hospital expenses. We offer health insurance policies through Bradesco Saúde and its subsidiaries for small, medium or large companies wishing to provide benefits for their employees.

On December 31, 2017, Bradesco Saúde and its subsidiary Mediservice Administradora de Planos de Saúde S.A. (Mediservice) had more than 3.7 million beneficiaries covered by company plans and individual/family plans. Approximately 139 thousand companies in Brazil pay into plans provided by Bradesco Saúde and its subsidiaries, including 37 of the top 100 largest companies in the country.

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Bradesco Saúde currently has one of the largest networks of providers of health services in Brazil. As of December 31, 2017, it included 12,166 laboratories, 16,788 specialized clinics, 14,784 physicians and 2,213 hospitals located throughout the country.

***Automobiles, property/casualty and liability insurance***

We provide automobile, property/casualty and liability insurance through our subsidiary Bradesco Auto/RE. Our automobile insurance covers losses arising from vehicle theft, damage to the passenger and third-party injury. Retail property/casualty insurance is for individuals, particularly those with residential and/or equipment related risks and small- and medium-sized companies whose assets are covered by multi-risk business insurance.

Of the various property/casualty lines for individuals, our residential policy (*Bilhete Residencial*) is a relatively affordable and highly profitable product. For corporate customers, Bradesco Auto/RE offers Bradesco Seguro Empresarial (business insurance), which is adapted to meet our customers' and business needs, according to their industry sector.

As of December 31, 2017, Bradesco Auto/RE had 1.5 million insured automobiles and 1.5 million property/casualty policies and notes, making it one of Brazil's main insurers.

***Reinsurance***

Insurance companies must operate with reinsurers registered with SUSEP. In 2007, Brazil's Congress enacted Supplementary Law No. 126/07, which abolished IRB-Brasil Re's monopoly and allowed three types of reinsurers referred to as "local," "admitted" and "occasional," thus opening up Brazil's reinsurance market for competition. Reinsurers classified as admitted and eventual, with their head office abroad, must meet specific minimum requirements, as provided for in legislation in force.

Under the same supplementary law, IRB-Brasil RE was recognized as a local reinsurer and authorized to continue its operations and make any required adjustments in due course.

As of the end of 2007, National Council of Private Insurance (CNSP - *Conselho Nacional de Seguros Privados*) and SUSEP issued a number of normative instructions containing rules for reinsurance, retrocession and intermediation business, based mainly on CNSP Resolution No. 168/07.

Through Decree No. 6,499/08, the President of Brazil set maximum limits for the ceding of premiums to reinsurance companies in each calendar year. For local insurers, such maximum limit was 10.0% of premiums, and for local reinsurers, 50.0% of premiums. In the case of local insurers, CNSP Resolution No. 203/09 raised the limit for local insurers from 10.0% to 25.0% in the case of guarantees for public obligations and oil risks and CNSP Resolution No.194/08, to up to 100%, in the case of nuclear risks.

CNSP Resolution No. 241/11 was introduced to enable the transfer of certain risks associated with reinsurance or retrocession operations to reinsurers not authorized by SUSEP when the lack of capacity of the local, permitted and eventual reinsurers is proved, regardless of the price and conditions offered by these reinsurers.

CNSP Resolution No. 322/15 amended Article 14 of CNSP Resolution No. 168/07, such that the maximum currently allowed limit for which an insurer or reinsurance company based in Brazil may transfer risks to related companies or to companies headquartered abroad, belonging to the same financial conglomerate is 20.0%. An annual increase of this percentage is expected, gradually, up to 75.0% beginning in January 2020. In addition, Article 15, which provides for minimum compulsory contracting of 40.0%, of the transfer of reinsurance, with local reinsurers, was amended so as to provide an annual and gradual reduction of up to 15.0%, beginning in January 2020.

In December 2017, CNSP Resolution No. 353/17 modified CNSP Resolution No. 168/07 to eliminate the minimum requirement of contracting local reinsurers. However, Article 15 of CNSP Resolution No. 168/07 requires the insurance company to give preference to local reinsurers in at least 40% of its reinsurance assignments related to automatic or optional contracts. CNSP Resolution No. 353/17 also eliminated the limitation on the transfer of risks from insurers to companies associated to their economic conglomerate, establishing that such transactions shall "ensure the effective transfer of risk between the parties" and "be conducted at arm's length conditions".

On December 31, 2017 there were 121 reinsurers authorized to operate in the Brazilian market, including IRB-Brasil RE and Lloyd's of London, and 23 reinsurance brokerage firms had the required authorization to intermediate reinsurance and retrocession operations.

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In 2017, the Bradesco Auto/RE paid R\$191.1 million in reinsurance premiums. Almost all property and casualty lines, except for the automobile line, have reinsurance protection and the majority of them feature proportional and non-proportional plans per risk and/or event.

Senior Management is responsible for the reinsurance purchase policy and the approval of reinsurers with whom agreements are entered into. In addition to minimum legal and regulatory requirements, Senior Management considers certain other key parameters when choosing such partners, thus minimizing the credit risks inherent in the operation, such as: minimum rating A- (or equivalent) from rating agencies, except for local reinsurers and shareholders' equity consistent with the amounts ceded. Accordingly, our reinsurance purchase policy is designed to operate within its automatic contractual capabilities, therefore preventing the frequent purchases of optional agreements and higher exposures to the credit risk.

A significant portion of automatic and optional agreements (proportional and non-proportional) is transferred to IRB - Brasil RE. Certain admitted reinsurers participate with a lower individual percentage, but all of them hold capital and a rating higher than those minimum set forth by applicable Brazilian legislation.

***Pension plans***

We have managed individual and corporate pension plans since 1981 through our wholly-owned subsidiary Bradesco Vida e Previdência, which is now the leading pension plan manager in Brazil, as measured by investment portfolio and technical provision criteria, based on information published by Fenaprevi and SUSEP.

Bradesco Vida e Previdência offers and manages a range of individual and group pension plans. Our largest individual plans in terms of contributions known as VGBL and PGBL are exempted from withholding taxes on income generated by the fund portfolio.

As of December 31, 2017, Bradesco Vida e Previdência accounted for 27.9% of the pension plan and VGBL market in terms of contributions, according to SUSEP. On December 31, 2017, Bradesco Vida e Previdência accounted for 27.7% of all supplementary pension plan assets under management, 27.3% of VGBL, 25.3% of PGBL and 47.9% of traditional pension plans, according to Fenaprevi.

Brazilian law currently permits the existence of both "open" and "closed" private pension entities. "Open" private pension entities are those available to all individuals and legal entities wishing to join a benefit plan by making regular contributions. "Closed" private pension entities are those available to discrete groups of people such as employees of a specific company or a group of companies in the same sector, professionals in the same field, or members of a union. Private pension entities grant benefits on the basis of periodic contributions from their members, or their employers, or both.

We manage pension and VGBL plans covering 2.9 million participants, 67.4% of whom have individual plans, and the remainder of whom are covered by company plans. The company's plans account for 24.8%

of technical reserves.

Under VGBL and PGBL plans, participants are allowed to make contributions either in installments or in lump-sum payments. Participants in pension plans may deduct the amounts contributed to PGBL up to 12.0% of the participant's taxable income when making their annual tax declaration. Under current legislation, redemptions and benefits are subject to withholding tax. VGBL plan participants may not deduct their contributions when declaring income tax. At the time of redemption, or when benefits are paid out, tax will be levied on these benefits, pursuant to current legislation.

VGBL and PGBL plans may be acquired by companies in Brazil for the benefit of their employees. In 2017, Bradesco Vida e Previdência managed R\$150.3 billion in VGBL and R\$30.8 billion in PGBL plans. Bradesco Vida e Previdência also managed R\$24.5 billion in pension plans.

Bradesco Vida e Previdência also offers pension plans for corporate customers that are in most cases negotiated and adapted to the specific needs for this type of customer.

Bradesco Vida e Previdência earns revenues primarily from:

- pension and PGBL plan contributions, life insurance and personal accidents premiums and VGBL premiums;
- revenues from management fees charged to participants in accordance with mathematical provisions; and
- interest income.

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**4.B. Business Overview**

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***Capitalization bonds***

Bradesco Capitalização is the leader among private sector capitalization bond companies, according to SUSEP and offers its customers capitalization bonds with the option of a lump-sum or monthly contributions. Plans vary in value (from R\$20 to R\$50,000), form of payment, contribution period, and periodicity of draws for cash prizes of up to R\$1.4 million (net premiums). Plans are adjusted based on the Reference Rate (TR) plus interest over the value of the mathematical provision, which may be redeemed by the shareholder at the end of the grace period. As of December 31, 2017, we had around 7.3 million "traditional" capitalization bonds and around 15.9 million incentive capitalization bonds. Given that the purpose of the incentive capitalization bonds is to add value to the products of a partner company or even to provide an incentive for its customer to avoid delinquency, the plans are for short terms and grace periods with low unit sales value. At the end of 2017, Bradesco Capitalização had approximately 23.3 million capitalization bonds and 2.9 million customers.

The investment grade rating of Bradesco Capitalização on a domestic scale is "brAA-," assigned by S&P Global rating agency.

***Distribution channels of insurance products, pension plans and capitalization bonds***

We sell our insurance products, pension plans and capitalization bonds through our website, through exclusive brokers based in our network of bank branches, and non-exclusive brokers throughout Brazil, all of whom are compensated on a commission basis. Our capitalization bonds are offered through our branches, the Internet, our call center, ATMs and external distribution channels.

The following table shows the distribution of sales of these products through our branches and outside our branches:

	% of total sales, per product		
	2017	2016	2015
<b>Insurance products</b>			
Sales through the branches	38.5%	38.3%	38.0%
Sales outside the branches	61.5%	61.7%	62.0%
<b>Pension plans products</b>			
Sales through the branches	88.1%	89.2%	87.9%
Sales outside the branches	11.9%	10.8%	12.1%
<b>Capitalization bonds</b>			
Sales through the branches	86.1%	92.7%	87.0%
Sales outside the branches	13.9%	7.3%	13.0%



**4.B. Business Overview**  
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**Distribution channels**

The following table shows our main distribution channels as of the dates indicated below:

<b>Distribution Channels <sup>(1)</sup> - Units</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Service Stations</b>	<b>73,474</b>	<b>72,604</b>	<b>76,800</b>
Branches	4,749	5,314	4,507
PAEs - Service Points <sup>(2)</sup>	3,899	3,821	3,511
PAEs - ATMs located on a company's premises	928	1,013	736
External ATM Network - Bradesco <sup>(3)</sup> <sup>(4)</sup>	63	186	627
Banco24Horas Network <sup>(3)</sup>	11,050	10,972	11,721
Bradesco Espresso (Banking Correspondents)	38,708	38,430	43,560
Bradesco Financiamentos	14,002	12,791	12,124
Losango Customer Service Points	63	63	0
Branches/Subsidiaries abroad	12	14	14
<b>ATMs</b>	<b>56,849</b>	<b>56,110</b>	<b>50,467</b>
Bradesco Network	35,590	36,119	31,527
Banco24horas Network	21,259	19,991	18,940

<sup>(1)</sup> We offer products and services also through digital channels such as: (i) contact center; (ii) mobile app; and (iii) internet banking;

<sup>(2)</sup> PA (Service Points): a result of the consolidation of PAB (Banking Service Branch), PAA (Advanced Service Branch) and Exchange Branches, according to CMN Resolution No. 4,072/12;

<sup>(3)</sup> Including overlapping ATMs within Bradesco's own network and Banco24Horas network;

<sup>(4)</sup> This decrease is related to the sharing of external network ATMs by the Banco24Horas network ATMs; and

<sup>(5)</sup> As from 2017, we started to consider service posts for payroll-deductible loans and dealers/resellers for vehicle financing. For better comparability, the previous periods were adjusted.

**Partnerships with retail companies – Bradesco Espresso**

“Bradesco Espresso” enables us to expand our share of the correspondent bank segment through partnerships with supermarkets, drugstores, grocery stores, department stores and other retail chains. These companies provide basic banking services like the receipt of utility bills, payment vouchers, withdrawals from current and savings accounts and social security benefits, and deposits, among others. The services are provided by employees at the relevant establishments, while decisions regarding granting of credit or opening of accounts are made by us.

The main services we offer through Bradesco Espresso are:

- receipt and submission of account application form;

- receipt and submission of loans, financing and credit card application form;
- withdrawals from checking accounts and savings accounts;
- Social Security National Service (INSS) benefit payments;
- checking accounts, savings accounts and INSS balance statements;
- receipt of utility bills, bank charges and taxes; and
- prepaid mobile recharge.

As of December 31, 2017, the Bradesco Expresso network totaled 38,708 service stations, of which 7,189 were new service stations, with an average of 40.9 million monthly transactions or 2.0 million transactions per business day.

### ***Digital Channels***

The Digital Channels offer mobility and autonomy to customers so that they may use the Bank from wherever they are and expand their businesses with us.

Mobile phones and tablets have become part of people's day-to-day lives, which reinforces our role of creating new features adapted to the user and, thus, engage our clients to make easier and more secure transactions.

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**4.B. Business Overview**

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In addition to traditional and consolidated service channels, such as Automatic Teller Machines (ATMs), telephone service, and Internet Banking, clients have access to an extensive portfolio of products and services through Bradesco Celular, available from the most simple to the most sophisticated devices.

Below is a brief description of our digital channels:

**Social Networks** - Since 2004, we have had a strong presence on Social Networks, monitoring our brand and our products and services, providing service to clients and non-clients 24 hours a day, seven days a week, with a 5-minute response time and a dedicated team, specialized in social media.

We maintain relationship with digital content creators in Brazil, such as bloggers, vloggers, and other publishers 2.0. The goal of this activity is to open a direct dialogue with them and their audiences, significantly expanding the dissemination of products, services, and channels, and above all, to encourage the production of digital content in Brazil, strengthening this ecosystem and enhancing our profile in these networks.

**Bradesco Celular** - Our presences on mobile phones has been growing exponentially. Through apps for individuals and legal entities, we make payment transactions, transfers, balance inquiries, loans, and many other conveniences available. Clients that access their accounts through their mobile phone are not charged by their data package due to an agreement made with Brazil's major mobile network operators.

Products and services available through Bradesco Celular include:

- **BIA – Bradesco Artificial Intelligence (Bradesco Inteligência Artificial):** BIA is an artificial intelligence tool, based on IBM's cognitive platform Watson Artificial Intelligence that interacts with the user, answering questions about the Bank's products and services through a chat for desktop and mobile. The Bank's Branch Network also uses the tool, providing faster services, convenience for the employees and autonomy for the managers. Since August 2017, BIA is available to the clients in the application Bradesco Celular assisting in the relationship with them by voice or text. We have already counted more than 7 million BIA interactions, with a positive feedback rate above 82%;
- **Opening Accounts:** available in the Bradesco Applications (Classic), it allows new clients to open an account through their mobile phone, without going to the branch. The opening of the account is confirmed via e-mail, push and SMS within three days from its validation;
- **Sharing Proof of Payment:** the client is able to share the proof of payment by e-mail or instant message applications, to save and even print it, in a practical manner through the client's smartphone;
- **Real Estate Credit Simulator:** the client can request a quote for a real state financing through the application and receive it within one hour;

- **Check Deposit via Mobile:** revolutionary in Brazil, this service allows customers to deposit checks in a simple and innovative manner, through the capture of images by their smartphone cameras;
- **Security Key (M-Token) integrated with the mobile device:** is a security device store inside the phone that generates random combinations for the validation of transactions made through our digital channels;
- **Payment with a barcode reader:** to pay a bill, the client points the camera at the barcode, automatically accessing relevant payment information;
- **Touch ID and Fingerprint:** this allows the client to associate their digital finger-print to the four-digit password and to the security key, enabling faster and more practical access to the account using these apps;
- **Bradesco Net Empresa Celular (Bradesco Net Company Mobile Banking):** allows legal entities to manage their corporate banking at anytime and anywhere;
- **DDA Authorization via SMS:** service that enables paying or scheduling payments registered in the DDA by simply replying to an SMS;
- **SMS Pay Bradesco:** clients can pay or schedule utility bills of affiliated networks by replying via SMS;

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- **InfoCelular:** sending alerts via SMS with information on current and savings accounts, as chosen by the client; and
- **SMS Banking:** through interactive messages, enables the client to make balance enquiries, check latest entries, credit limits, and refill prepaid mobile phones.

**Internet** - We were the first financial institution in Brazil to have an electronic address on the internet and provide financial services to our clients through this channel, transforming our websites into business tools and important sources of information for clients and non-clients.

This structure has two main areas of access and dissemination of content:

- **Bradesco Institutional Website:** simplified content and language adapted for digital media which provides clients and the public at large a wide range of information on various financial products and services. Currently, we have 38 institutional websites, where the public has access to content, where they can clarify doubts and have access to information about how to open a checking account, services available in our branch network and remote channels, guidance on security, disclosure of social and environmental actions, specific investor publications, content on financial education, simulators, and responsible credit, among others; and
- **Bradesco Internet Banking for Financial Services:** our web portal includes 16 operational sites that enable banking transactions for our account holders, in a “secure access” environment that enables the execution of services and financial transactions. We provide various products and services that enable our clients to conveniently, quickly, and securely conduct transactions such as the payment of bills, transfers between accounts, payment of taxes and obtaining personal credit and a homebroker for the purchase, sale and management of assets.

Currently, we use the “banco.bradesco,” top-level domain or generic top-level domain (“gTLDs”), an initiative of the Internet Corporation for Assigned and Numbers (“ICANN”), a body responsible for internet protocols and which regulates addresses on the worldwide internet. Our new website addresses makes the access to our content more practical and intuitive.

**Self-service** - Our self-service channel provides convenience to clients, giving access to transactions outside the branch’s internal environment and enabling the marketing of our products with the challenge of consolidation as a business channel.

Our Service Network has 35,590 ATMs strategically located across the country; including machines that offer an immediate deposit feature (the cash deposited is also used for withdrawals, reducing the cost of supply). The Service Network also includes 21,259 machines of Banco24Horas allowing our customer to make withdrawals, check balances, obtain statements, contract loans, pay bills, make transfers between Bradesco accounts and utilize DOC/TED, Prepaid Card, and Proof of Life INSS (*Prova de Vida*).

Our ATMs have highly advanced security technology: biometric reading that identifies customers and authenticates ATM transactions works through a sensor/invisible light beam that captures the image of the vascular pattern of the palm of the hand.

The biometric reading enables our customers to, for example, carry out transactions without a card, by simply using the palm of their hand and their six-digit password, providing convenience and speed without compromising the security. In our own network it is possible to carry out all transactions without a card, while the Banco24Horas network currently only allows making withdrawals and checking balances without a card.

This security and speed resulted in a partnership with the INSS, allowing our retirees and pensioners to carry out the “Proof of Life” (*Prova de Vida*) automatically through the use of biometrics on ATM machines belonging to our network and to the Banco24Horas network, without the need to present a document to a teller, thus speeding up the process. Biometrics is available in 100% of ATM machines belonging to our own network and those of the Banco24Horas network.

**Telephone services - Fone Fácil (Contact Center)** - Fone Fácil Bradesco allows clients to bank by telephone, which can be accessed by choosing electronic service or personalized service.

In the electronic service, we provide a sophisticated service system powered by voice command, which provides clients the experience of doing what they want to do through simple voice commands, without the need for listening to various service options and having to choose them by typing the option on the telephone. The client can request the desired service directly.

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In the personalized service, on the other hand, clients can rely on our financial specialists and digital convergence agents 24 hours a day, seven days a week, specializing in relations and business.

Through this channel we offer our main financial services, such as payments, transfers between Bradesco accounts, DOC/TED, investments, credit contracting, support and registration of the security device in the mobile phone, among others.

By calling *Fone Fácil*, clients can access other relationship centers, such as for credit cards, private pensions, and capitalization, credit, private and internet banking, among others.

In 2017, 95.1% of our banking transactions were performed through digital channels. The table below shows the number of transactions carried out through digital channels:

Year ended December 31,	In millions of transactions		% Change
	2017	2016	
Internet Individuals + Companies - with WebTA <sup>(1)</sup>	5,449	4,847	12.4%
ATMs	2,052	1,985	3.4%
Mobile Banking (Bradesco Celular)	7,783	5,446	42.9%
Telephone Banking (Fone Fácil)	195	231	(15.6)%
<b>Total</b>	<b>15,479</b>	<b>12,509</b>	<b>23.7%</b>

<sup>(1)</sup> WebTA is an internet file transmission service, to the Bank, carried out by corporate customers using Net Empresa.

**Next**

In October 2017, we launched Next, a digital platform (Digital Bank) accessed by the client through an app for iOS and Android. Next's goal is to attend a new range of clients aged between 18-35 years and people connected to new technologies. Next interacts with the user based on his behavior using interactive tools and makes the management of money easier, offering convenience in day-to-day activities and intelligent solutions.

Next has a branch in digital format with consultant managers that works 24/7 to provide customer service via chat, email and social networks.

**inovaBra**

inovaBra is a platform designed to promote innovation inside and outside Bradesco, a mission carried out through programs based mainly on co-innovation, involving collaboration between the bank, companies, startups, investors and mentors to address the challenges and the sustainability of business in the long term.

It is composed of eight features described below.

- **inovaBra startups:** our innovation program was created to establish strategic partnerships with startups and seek new business models applicable or adjusted to the products and services of our organization. This program gives the startups opportunity to work with actual customers, test practical solutions and grow in scale.
- **inovaBra ventures:** an investment fund formed as a corporate venture with R\$100 million to invest in startups;
- **inovaBra centers:** internal innovation program to create innovative solutions to business challenges. The teams work and collaborate with external startups that test their innovative solutions with actual clients through the program inovaBra startups;
- **inovaBra artificial intelligence:** a center composed of data scientists who are responsible for the deployment of artificial intelligence and cognitive computing in the organization;
- **inovaBra lab:** located in the Bradesco center in Alphaville, which centralizes 16 laboratories in the areas of technology and business to accelerate the process of prototyping, testing, approval and hackathons working collaboratively with technology partners;
- **inovaBra habitat:** space of co-innovation dedicated to the generation of high-impact business based on disruptive digital technologies, where companies, startups, investors, mentors and educators work collaboratively to innovate;

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- **inovaBra hub:** a collaborative digital platform where companies, startups and entrepreneurs have access to exclusive content, exchange experiences and do business; and
- **inovaBra international:** office located in New York to establish strategic alliances with global partners, prospect innovations with startups, and experiment with new business models.

***Segmentation of Clients***

We operate a model of client segmentation, which groups certain clients of the same profile together, thus furthering our ability to provide a personalized service to our clients, in accordance with their needs.

Our five segments offer a range of products and differentiated services that are tailored to companies and individuals. We present below our segmentation of clients:

**Client Segmentation**  
**Corporations**

**Bradesco Corporate** - Large companies, with annual revenues of more than R\$250 million

**Bradesco Empresas** - Midsized companies, with annual revenues between R\$30 million and R\$250 million

**Bradesco Varejo (Empresas e Negócios)** - Small companies, with annual revenues of up to R\$ 30 million

**Individuals**

**Bradesco Private Bank** - Clients with availability for investments from R\$5.0 million

**Bradesco Prime** - individuals with monthly income from R\$10 thousand or availability of investment from R\$100 thousand

**Varejo Exclusive** - Clients with a monthly income between R\$4 thousand and R\$9,999.99, or availability of investment from R\$40 thousand.

**Varejo Classic** - Clients with a monthly income of up to R\$ 3,999.99 or availability of investment of less than R\$40 thousand.

***Bradesco Corporate***

The Corporate segment is responsible for serving 2,198 business groups in a range of large corporations and institutional investors (revenues over R\$250.0 million/year). Its offices are located in the main financial centers, offering customized services with a global reach. Bradesco Corporate counts on a highly skilled team to fulfill customers' needs through a wide portfolio of products, structured solutions and financial services.

***Bradesco Empresas***

Bradesco Empresas offers specialized services and integrated solutions in cash management, loans and financing, foreign trade, consortiums (pre-purchase financial pool), insurance, corporate cards and structured operations in the area of capital markets for companies with annual revenues between R\$30 million and R\$250 million/year. It has sub-segments called Company Spaces (Espaço Empresas) with 98 units located across the country to serve economic groups from specific micro regions with annual revenues between R\$30 million and R\$50 million/year, Companies (Empresas) with 70 units located in the main Brazilian cities to serve economic groups with annual revenues between R\$30 million and R\$250 million/year, and High Middle with 2 units in São Paulo to serve economic groups located exclusively in São Paulo with annual revenues between R\$180 million and R\$250 million/year.

### ***Bradesco Private Bank***

The sole purpose of Bradesco Private Bank is to advise high net-worth individuals, family-owned holding companies and investment companies with a high net availability for investments.

Through its open architecture model, it offers tailored products and services, including banking, advisory services, local and international asset allocation and portfolio management, as well as advice on choosing the best vehicles and investment structures for the perpetuation of the family's estate. In addition, the client can access our entire structure, including credit, investment banking, brokerage, insurance, and pensions, among others.

Currently, Bradesco Private Bank has 15 offices located in: São Paulo, Rio de Janeiro, Belo Horizonte, Blumenau, Brasília, Campinas, Cuiabá, Curitiba, Fortaleza, Goiânia, Manaus, Porto Alegre, Recife, Ribeirão Preto and Salvador, thus ensuring nation-wide presence, in addition to the support of the units abroad located in Cayman, New York and Luxembourg.

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***Bradesco Varejo***

The focus of Bradesco Varejo are individuals with a monthly income of up to R\$10 thousand and legal entities with annual revenues of up to R\$30 million. Individual customers with monthly incomes up to R\$3,999.99 or amounts available for investments below R\$40,000 are classified as being part of the "Classic" customer designation and individual customers with monthly incomes from R\$4,000 to R\$10,000 or amounts available for investments from R\$40,000 are classified as being part of the "Exclusive" customer designation. Companies with annual revenues of up to R\$30 million are classified as being part of the "Empresas e Negócios" designation. The retail area provides customized services with adequate financial solutions for each profile.

The Bradesco Varejo service network comprises 4,422 branches, 3,838 service stations, 928 electronic service stations and 38,708 Bradesco Expresso units, in addition to thousands of ATMs.

The customer service network offers products and services in remote places, of difficult access and also in regions with large concentrations of people with lower purchasing power, for example the Communities of Rocinha, Cidade de Deus, Rio das Pedras, Complexo do Alemão, Gardênia Azul, Cantagalo, Turano, Santa Marta, Mangueira, Chapéu Mangueira and Vila Kennedy in Rio de Janeiro; Heliópolis and Paraisópolis in São Paulo; and the boat "Voyager V," which provides banking services to riverside communities in the Amazon region. This service is increasing access to banking services for those people who would otherwise have little or no access to banking services, thus increasing social mobility.

***Bradesco Prime***

Bradesco Prime operates in the segment of high-income individuals and has a service network of 234 branches and 1,002 strategically positioned "Bradesco Prime Spaces." The Prime segment offers the following benefits to our clients:

- **personalized services provided by relationship managers:** Experienced and skilled professionals providing full financial advisory services Certified by ANBIMA, each customer relationship manager manages a reduced client portfolio;
- **in-person and remote support from specialists:** professionals certified and trained to provide financial advice to clients and managers in relation to structured operations, pension, insurance, real estate credit and foreign exchange, among others, taking into account the client's profile and needs;
- **exclusive facilities:** Bradesco Prime customers have access to their own network of exclusive branches offering convenience and privacy to tend to their business affairs. It also counts on "Bradesco Prime Spaces," a reserved and distinctive environment installed at Bradesco Varejo branches that fully

maintains the segment's value proposition. Additionally, customers count on a wide network of branches throughout Brazil, including ATMs – Bradesco Network and Banco24Horas; and

- **exclusive products and services:** credit solutions with distinct rates, diversified platform of investment products, exclusive digital channels like Bradesco Celular, internet banking, call center (Fone Fácil Bradesco Prime), the Equity Management Platform, Bradesco Prime Digital and multichannel access (telephone, internet or mobile) to financial advice.

Present in all Brazilian capitals, Bradesco Prime has been, throughout its existence, investing in technology, in the improvement of the relationship with clients and in the training of its professionals. It established a prominent position in the Brazilian market of banking services for high-income clients and has consolidated its position as the largest provider of services for these clients, with strategically positioned service stations throughout Brazil.

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***Main subsidiaries***

The following is a simplified chart containing our main subsidiaries in the activities of financial and insurance services and our voting interest as of December 31, 2017. With the exception of Bradesco Argentina, Bradesco Europa, Bradesco Grand Cayman Branch and Bradesco New York Branch, the other significant subsidiaries are Brazilian entities. For more information in relation to the consolidation of our significant subsidiaries, see Note 2b of our consolidated financial statements in "Item 18. Financial Statements."

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***Corporate risk management process***

Risk management is of great strategic importance to us due to the increasing complexity of services and products and the globalization of our business. The market's dynamism encourages Bradesco to engage in the continuous improvement of this activity.

We exercise control over risks in an integrated and independent manner, preserving and valuing collective decision-making, devising and implementing methodologies, models, measurement and control tools. We also promote improvement among employees at all levels, from the business areas to the Board of Directors.

Our risk management process ensures that risks are proactively identified, measured, mitigated, monitored and reported, as required for the complexity of our financial products and services and the profile of our activities.

***Risk and Capital Management Structure***

The structure of our risk and capital management function consists of committees, responsible for assisting our Board of Directors and our *Diretoria Executiva* in making strategic decisions.

The Integrated Risks Management and Capital Allocation Committee ("COGIRAC"), is responsible for advising the Board of Directors on the performance of its roles in the management and control of risks and capital.

The committee is assisted by the Capital Management Executive Committee and the Executive Committees for Risk Management of: (i) Credit; (ii) Market and Liquidity; (iii) Operational and Socioenvironmental; and (iv) Grupo Bradesco Seguros and BSP Empreendimentos Imobiliários. There are also the Executive Products and Services Committee, and executive committees for our business units, whose tasks include suggesting limits for exposure to their related risks and devising mitigation plans to be submitted to COGIRAC and the Board of Directors.

In compliance with CMN Resolution No. 4,557/17, we created (i) a Risk Committee to advise the Board of Directors on the performance of its duties related to the management of risk and capital, and (ii) a Chief Risk Officer (CRO) position, which is responsible for, among other duties, supervising the development, implementation, performance and improvement of the risk management structure. The CRO reports to the Risk Committee, to the CEO and to the Board of Directors.

***Credit risk***

Credit risk is the possibility of losses associated with a borrower's or counterparty's failure to comply with their respective financial obligations under agreed terms, as well as the depreciation of loan agreements



resulting from deterioration in the borrower's risk rating, the reduction in gains or remunerations, including benefits granted in renegotiations, recovery costs and other amounts related to the counterparty's non-compliance with financial obligations.

Credit risk management is a continuous and evolving process of mapping, development, assessment and diagnosis through the use of models, instruments and procedures that require a high degree of discipline and control during the analysis of operations in order to preserve the integrity and independence of the processes.

We seek to control our exposure to credit risk, which mainly results from loans and advances, securities and derivative financial instruments. Credit risk also stems from financial obligations related to loan commitments and financial guarantees.

In order not to compromise the quality expected from the portfolio, committees monitor all relevant aspects of the process of lending, concentration, collateral requirements, maturities, and other aspects.

We continually outline all the activities that can potentially generate exposure to credit risk, with the respective classifications regarding probability and size, as well as identifying managers, measurement and mitigation plans for those activities.

### ***Credit Risk Management Process***

Credit risk management process is conducted in a centralized manner for the institution as a whole. This process engages several particular areas, which ensure an efficient framework to provide for independent and centralized credit risk measurement and control.

Our Credit Risk monitoring area is actively engaged in improving the customer risk rating models, following up large risks by periodically monitoring major delinquencies and the provisioning levels due to

#### **4.B. Business Overview**

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expected and unexpected losses.

This area continuously reviews the internal processes, including the roles and responsibilities, information technology training and requirements and periodic review of risk assessment, in order to incorporate new practices and methodologies.

Corporate control and monitoring of our credit risk take place in the credit risk unit of the Integrated Risk Control Department. The department assists the Credit Risk Management Executive Committee on discussions and implementation of the methodologies to measure the credit risk. Relevant issues discussed by this committee are reported to COGIRAC, which reports to the Board of Directors.

In addition to the committee meetings, the business area holds monthly meetings with officers and heads of products and segments to ensure they are informed about the evolution of the portfolio of loans and advances, delinquency, adequacy of levels of losses by reducing the recoverable value of loans and advance payments, credit recovery, gross and net losses, portfolio limits and concentrations, and other items. This information is also monthly reported to the Audit Committee.

The business area also tracks each internal or external event that may significantly impact credit risk such as mergers, bankruptcies or crop failures and monitors sectors of economic activity in which we have the most representative exposures.

Both the governance process and limits are validated by COGIRAC, submitted for approval by the Board of Directors, and reviewed at least once a year.

#### ***Market Risk***

Market risk is the possibility of a loss of income due to fluctuations in prices and interest rate of the financial instruments resulting from mismatched maturities, currencies and indices of our asset and liability operations.

This risk is identified, measured, mitigated, controlled and reported. Our profile of exposure to market risk is in line with guidelines established by the governance process, with limits that are monitored on a timely and independent basis.

All transactions exposing us to market risk are mapped, measured and classified according to probability and magnitude, with the whole process approved by the governance structure.

Our risk management process involves the participation of all levels, from business units to the Board of Directors.

In line with corporate governance and in order to preserve and strengthen our management of market and liquidity risks, as well as to meet the requirements of CMN Resolution No. 4,557/17, the Board of Directors approved the Market Risk Management Policy, which is reviewed at least annually by the relevant committees and the Board of Directors itself, providing the main operational guidelines for accepting, controlling and managing market risk.

In addition to this policy, we have several specific rules that regulate the market risk management process, including:

- classification of operations;
- reclassification of operations;
- trading in government or private securities;
- use of derivatives; and
- hedge.

### ***Market Risk Management Process***

Our market risk management process is run on a corporate wide basis, ranging from business areas to the Board of Directors. This process allowed us to be the first financial institution in the country authorized by the Central Bank to use, since January 2013, in-house models of market risk to check the need of regulatory capital. The management process, approved by the Board of Directors, is also reassessed at least annually by the relevant committees and the Board of Directors itself.

### ***Definition of limits***

Proposed market risk limits are validated by specific committees for approval by COGIRAC, to be submitted to the Board of Directors depending on the characteristics of business, which are separated into

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the following portfolios:

**Trading portfolio:** comprises all operations involving financial instruments, including derivatives, held-for-trading or used to hedge other instruments in our own portfolio, which have no trading restrictions. Held-for-trading operations are those destined for resale, to obtain benefits from actual or expected price variations, or for arbitrage.

The trading portfolio is monitored by limits of:

- Value at Risk (VaR);
- stress;
- results; and
- financial exposure/concentration.

**Banking portfolio:** comprises transactions not qualifying for our trading portfolio, deriving from our other businesses and their respective hedges.

The banking portfolio is monitored by limits related to the interest rate risk.

Market risk is controlled and monitored by an independent business unit, the Integrated Risk Control Department, which calculates risk of outstanding positions on a daily basis, consolidates results and reports as required by the existing governance process.

In addition to daily reports, the positions of the trading portfolio are discussed weekly by the Treasury Executive Committee and the positions of the banking portfolio and liquidity reports are handled every fortnight by the Treasury Executive Committee for the Management of Assets and Liabilities. In both committees, the results and the risks are evaluated and the strategies are discussed. Both the governance process and the existing limits are validated by COGIRAC and submitted for approval by the Board of Directors, which are reviewed at least once a year.

In case of any risk limit breach monitored by the Integrated Risk Control Department, the head of the business unit in charge is informed of the limit usage and, in a timely manner, COGIRAC is called in order to make a decision. If the committee chooses to increase the limit and/or change or maintain the positions, the Board of Directors is called to approve a new limit or to review our strategy with regard to this particular risk.

For more information on how we evaluate and monitor market risk, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

### ***Liquidity risk***

Liquidity risk is represented by the possibility of the institution failing to effectively comply with its obligations, without affecting its daily operations and incurring significant losses, as well as the possibility of the institution to fail to trade a position at market price, due to its larger size as compared to the volume usually traded or in view of any market interruption.

Understanding and monitoring this risk is crucial, especially for us to be able to settle transactions in a timely and secure manner.

### ***Liquidity Risk Management Process***

We manage our liquidity risk process on a group-wide basis. This process involves a number of areas with specific responsibilities, and the liquidity risk is measured and controlled on a centralized and independent basis, with daily monitoring of available funds and compliance with liquidity levels, according to the risk appetite established by the Board of Directors, as well as the contingency and recovery plan for potential high-stress situations.

Our policy for market liquidity and risk management, approved by the Board of Directors, is mainly aimed at ensuring the existence of standards, criteria and procedures to guarantee the development of the Short-Term Liquidity Ratio (LCR), in compliance with Resolution No. 4,401/15, as well as the strategy and action plans for liquidity crisis situations. The policy and controls we established fully comply with CMN Resolution No. 4,557/17.

We also have rules for the daily monitoring of liquidity levels through a warning flag that triggers the submission of reports and the actions to be taken given the risk presented.

Our liquidity risk is managed by the Treasury Department, based on the positions provided by the back-office controls positions, which provides liquidity information to our Management and monitors

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compliance with established limits. The Integrated Risk Control Department (DCIR) is responsible for the methodology of measurement, control over limits established by type of currency and company (including for non-financial companies), reviewing policies, standards, criteria and procedures, and drafting reports for new recommendations.

Since October 2017 we use the Short-Term Liquidity Ratio (LCR) as the main standard for the internal management, as provided in the CMN Resolution No. 4,401/15 and the Central Bank's Circular No. 3,749/15.

Liquidity risk is monitored daily by business and control areas and at meetings of the Treasury Executive Committee for Asset Liability Management, which controls the liquidity levels. Additionally, monitoring activity is also conducted by COGIRAC and by the Board of Directors.

### ***Operational Risk***

Operational risk is represented by the possibility of incurring losses arising from failures, deficiencies or the inadequacy of internal processes, people, systems and external events. This includes legal risk, associated with the activities we carry out.

### ***Operational Risk Management Process***

We carry out operational risk process throughout the organization. This involves a number of areas, with specific responsibilities, thus ensuring an efficient structure, and operational risk is measured and controlled on a centralized and independent basis. Accordingly, the following procedures are carried out:

- identifying, assessing, and monitoring the operational risks inherent in our activities, as well as those related to new products/services and their adequacy to procedures and controls;
- mapping and addressing records of operational losses to make up an internal data base;
- ensuring the integrity of data from losses collected and provide analyses that offer quality information to several business areas/branches, aimed at improving operational risk management;
- measuring, controlling and reporting increased operational losses by way of assessing the effectiveness of the mitigating measures of business areas/branches;
- evaluating, together with managers, the indicators, scenarios, and external data from operating losses in order to incorporate/adjust any processes and controls, as well as to quantify the impact on economic capital;

- assessing and calculating capital needs in connection with the operational risk in regulatory capital and economic visions; and
- preparing reports on the operational risk for submission to the Committees, to the *Diretoria Executiva* and related areas.

These procedures are supported by a number of internal controls, validated on an independent basis in relation to their effectiveness and operations, to ensure acceptable risk levels in our processes.

Operational risk is primarily controlled and followed up by an independent area, Integrated Risk Control Department is supported by a number of areas that integrate the management process of this risk.

The Integrated Risk Control Department is responsible for the coordination of the Internal Control and Operational Risk Commission (“CIRO”), which reports to CEROS. This commission analyzes the behavior of the operational losses of the business areas/branches, the efficiency and effectiveness of the processes and controls adopted, the provision methodologies and their impact on the management of operational risk and evaluate indicators, scenarios, and external data from operating losses in order to incorporate/adjust eventually, processes and controls.

The Integrated Risk Control Department is the advisory unit of CEROS, whose objective is to advise the *Diretoria Executiva* on the performance of their duties relating to the management of operating risk, business continuity, socio-environmental risks, and conduct risk. The relevant issues debated in this instance are reported to COGIRAC, which reports to the Board of Directors.

The governance process is approved by the Board of Directors and reviewed at least once a year.

### ***Internal controls and compliance***

The efficacy of our internal controls is supported by trained professionals, well-defined and

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implemented processes, and by technology compatible with business needs.

The internal control methodology is based in the criteria established in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organization of the Treadway Commission (“COSO”), and is also in line with the guidelines established by the Information Systems Audit and Control Association (“ISACA”) through the Control Objectives for Information and Related Technology (“COBIT 5”), and with the procedures described by the Public Company Accounting Oversight Board (“PCAOB”) for analysis of the Entity Level Controls (“ELC”).

The existence, enforcement and efficacy of controls that ensure acceptable risk levels in our processes are certified by the area responsible for the execution of the tests of adherence of the controls, the results of which are conveyed to the Internal Controls and Compliance Audit Committees, as well as to the Board of Directors, with the purpose of providing assurance with regard to appropriately carrying out business transactions and achieving defined objectives, in accordance with external laws and regulations, internal policies, rules and procedures, as well as applicable codes of conduct and self-regulation.

***Management and Processes in Cybersecurity***

We consider cyber and information security at the highest strategic level and we manage this subject in order to protect our technological infrastructure against intrusion attempts, unauthorized access and malicious codes. We operate in a preventive, detective and corrective manner in order to protect the information of the organization and of our clients.

In this sense, we have evolved our security framework considering the new digital context, where the focus on cybersecurity is a key aspect and one of the pillars of technology and processes, establishing data protection for our clients, resiliency, and structure to identify threats, detection, and response and recovery procedures in cases of cyber attacks.

Regarding the technical aspects, to prepare against and anticipate security and cybernetic threats, the IT area promotes continuous investments like the reformulation of the critical updates of servers and workstations, process of inspection of source code in the development cycle, establishment of a lab for security tests and use of technologies/tools.

We have systems to prevent against attacks from external connections and the internet, systems for the analysis of fraudulent behaviour, unauthorized access, malicious codes, analysis of network behaviour, protection against invasion (intrusion detector), firewall, antivirus and antispam systems, all to provide protection to our IT environment. We continuously upgrade the security over our software and hardware, digital certification in WEB servers and the encryption equipment, in addition to performing frequent resilience tests.



We implement continuous monitoring mechanisms, such as security operational centers (SOCs), focusing on the identification of potential vulnerabilities and establishing an active defense.

Additionally, we have a cyber intelligence team working to identify threats and check the necessary corrective measures.

We adopt strict procedures to ensure the security of client information. The interactions and synergies between management and technical areas aim to create solutions to provide secure access to service channels, in order to minimize exposures and vulnerabilities. We have a range of security devices and technologies, including biometrics, chip cards, 2D digital validation/QRcode and OTP devices (physical and cell phone token, etc.), which are used to prevent fraud and unauthorized access. Educating clients on cyber risks is a key component of our strategy in this regard. In this sense, we develop awareness campaigns through the channels used by clients and on social media. On the website "seguranca.bradesco" there are several guidelines to the public, including videos of the web series "Protect Yourself" with prevention tips on current key scams/fraud.

In parallel, the preparation and engagement of people is another crucial issue. The culture of security is a fundamental basis for the mechanisms, processes and technologies to be effective. For this reason, we invest in training and awareness of employees, associates and customers so they are aware of the issue and prepared and updated in relation to the inherent risks and threats.

We also have continuous programs of training and awareness on the aspects of security and an executive committee dedicated to the issue, defining strategies and ensuring the development and effectiveness of actions with activities focused on the timely protection of technological infrastructure against intrusive attempts, unauthorized access, theft of information and insertion of malicious codes.

### ***Bradesco Integrity Program***

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Our main corporate commitments to integrity are:

- to conduct our business and develop our various relationships based on ethics, integrity and transparency, concepts that permeate our organizational culture, whose values and principles are ratified by the Corporate and Sector-based Codes of Ethical Conduct and supported by Senior Management; and
- to prevent and combat all forms of corruption, especially bribery.

Such commitments are permanently sustained through the Bradesco Integrity Program, which corresponds to a set of mechanisms and measures made up by the Ethical Code of Conduct, by Corporate Anticorruption Policies and Standards, and other standards, as well as procedures, processes, and control established therein, aimed at preventing, detecting, and remedying any harmful acts of corruption and bribery, including fraud against the Government.

The program, supported by the Ethical Conduct Committee and by the Board of Directors, determines the guidelines, responsibilities, procedures, and controls regarding gifts, freebies and entertainment, sponsorship, third parties and due diligence, bids with the Brazilian Government, political contributions, relationships with public agents, denunciations and non-retaliation against whistleblowers acting in good faith, in accordance with laws and regulations applicable in Brazil and in countries where we have business units.

We continuously evaluate the Bradesco Integrity Program to align it with the best national and international anti-corruption practices. In 2017 we fixed the issues identified in the 2016 corruption risk assessment performed in the iPolicies, Standards, Procedures, Controls and Internal Systems. We gave anti-corruption training in person to the Senior Management, to employees in areas with higher exposure to risk, and to third parties. We published a new video-training and our anticorruption program, which is focused on the Bradesco Integrity Program, and propagated the Corporate Anticorruption Policy documents and the Bradesco Integrity Program at several Bradesco sites.

For 2018, we plan a series of actions to strengthen all the pillars of the Bradesco Integrity Program, and the most important are the training courses in person, the improvements in controls concerning public agents, third parties, donations, sponsorships, acquisitions, mergers and partnerships, and the deployment of a system to monitor risks and controls based on metrics and specific indicators.

The Prevention of Money Laundering and Terrorism Financing Program is based on specific policies, principles, procedures and systems that establish guidelines to prevent and detect the utilization of our structure and/or our products and services for money laundering and terrorist financing purposes. This program is supported by the Prevention and Combat of Money Laundering and Terrorism Financing Executive Committee, which is responsible for assessing the work as to its effectiveness and the need to coordinate procedures and controls with regulations defined by the regulating bodies and best domestic and international practices. Any suspicious or unusual cases identified are forwarded to the Committee on

Assessment of Suspicious Transactions, composed of a number of our areas, which assess the need for reporting to regulatory bodies.

***Independent Validation of Management and Measurement Models of Risk and Capital***

We employ internal models developed based on statistical, economic, financial, and mathematical theories and the expertise by specialists, whose purpose is to support and facilitate the structuring of issues, provide standardization and speed to decisions, and manage risks and capital.

In order to detect, mitigate and control risks inherent in our models, which are associated with potential adverse consequences arising from decisions based on incorrect or obsolete models, inadequate calibration of models and failures in the development state or inappropriate use, there is the process of independent validation, which evaluates these aspects, challenging the methodology, the assumptions adopted, the data used, the use of models, as well as the robustness environment in which they are implanted, with results being reported to managers, Internal Audit, the Compliance and Internal Control Committee (“CCIC”) and COGIRAC.

***Treasury activities***

The Treasury Department main objective is maximizing results with available resources and managing risks, by complying with the limits set forth by our Senior Management and the guidelines issued by our integrated risk control unit.

The main activities are as follows:

- planning and managing our local and foreign currency cash flows;

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- proposing and observing our asset and liability management strategy;
- managing maturity, rate and liquidity gaps arising from our activities;
- calculating costs of operations from both the assets and liabilities sides;
- getting price estimates and managing our commercial operations that involve risks such as: market, interest rate, foreign exchange, commodities and price index risks;
- performing proprietary trading operations aimed at taking opportunities found in the range of our prospective scenario and market prices; and
- taking part of analysis and decisions regarding directed credit and capital management.

***Corporate security***

The Corporate Security Department's mission is to promote security solutions in line with our business by creating, implementing, and maintaining rules, processes, and technologies.

To achieve its objectives, it acts strategically and corporately to ensure security of electronic channels, systems and information, assessing, treating, and proposing improvements, in addition to being a focal point for issuing technical opinions, in connection with strategic security issues, in the implementation of products, services or processes.

Among the main "Corporate Security Global Vision" responsibilities, we highlight the following:

- the Information Security area's mission is to establish the Information Security Corporate Policy and Rules, access risk, manage the Asymmetric Cryptographic Keys and Digital Certificate, keep the Registration Authority (RA) in accordance with the standards established by the Institute of Information Technology (ITI), manage incidents and keep the Corporate Program of Awareness and Education in Information Security, in order to advance employees' commitment with the subject;
- in phase of deployment, the Transformation in Information Security Program (PTS)'s goal is to establish an Operational Model for Information Security (MOSI) that represents our strategic vision. In this sense, the Corporate Security is responsible for improving the aspects of Governance, Risk Management and Compliance of Information Security;
- we are also in the process to be registered as a Time Stamp Authority in the context of the Brazilian Public Key Infrastructure (ICP Brazil), which will improve our digital processes. These actions aim to protect our and our clients' information, whose critical matters are approved by a multidisciplinary group called the Information Security Committee and decided by the Corporate Security Executive Committee;

- the areas of Electronic fraud-prevention (internet banking, Net Empresa, Bradesco Celular, Fone Fácil and debit card), Document Fraud Prevention (opening of accounts in the branch network and in Next Digital Bank, Bradesco app, payroll credit, vehicle financing and consortia) and Security Solutions manage processes and projects to detect and mitigate risks of any financial losses or negative impacts to our brand. They operate by monitoring the transactions of electronic service channels, preventive and reactive analysis of documents, in addition to strategic and corporate actions, supported by the area of Data Analysis and Modeling with analytical solutions using statistics methodologies, in order to propose solutions to managers of technical and business areas that aim to balance the relationship between use and security for our products and electronic service access channels, and for debit cards;
- the area of Identification and Access Management is responsible for the management of identification process and access to applications. This area protects the system resources and works with the business and technology units to establish principles of minimum access and segregation of duties by allocating automated controls and coordinating all actions regarding access. It also works in the management of security devices (Token/M-Token, TanCode and Biometrics), used as a second step of authentication and authorization for employees and clients.

### ***Credit policy***

Our credit policy is focused on:

- ensuring the safety, quality, liquidity and diversification of asset allocation;

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- pursuing flexibility and profitability in business; and
- minimizing risks inherent to loans and advances.

Our credit policy defines criteria for lending and setting operational limits. Credit decisions are made at the branch level and, if necessary, higher levels of authority including our Board of Directors depending on the rules in our internal policy. In reviewing loan applications, our *Diretoria Executiva* also approves the models for assessment and credit processes used by our branches and departments for each type of loan.

Our transactions are diversified and target individuals and companies that show ability to pay and stay in good standing. In all cases, we aim to have them secured by appropriate collateral for risks involved, from the point of view of uses of funds and repayment periods, as well as risk ratings. The Central Bank's risk rating system has nine categories ranging from "excellent" to "very poor." In line with our commitment to the ongoing development of our methodologies, the credit risk rating for our clients/economic groups is based on a range of eighteen levels, of which fourteen represent accrual loans. This ensures greater adherence to the requirements set forth in the Basel Accords. For more details, see "Item 4.B. Business Overview – Regulation and Supervision – Banking Regulations – Treatment of Loans and Advances."

The lending limits set for our branches reflect size and collateral provided for loans. However, branches have no authorization to approve an application for credit from any borrower who:

- is rated less than "acceptable" under our internal credit risk classification system (score and rating);
- has an outdated record; and
- has any relevant credit restrictions.

We have credit limits for each type of loan. We pre-approve credit limits for our individual and corporate customers and presently extend credits to the public sector only under very limited circumstances. In all cases, funds are only granted once the appropriate body has approved the credit line.

We review the credit limits of our large corporate customers every 180 days. Credits extended to other customers, including individuals, small and mid-sized corporations, are reviewed every 90 days.

Our maximum exposure per client (e.g. individuals, companies or other economic groups) is determined by client rating and the aggregate maximum exposure is limited to 10.0% of our shareholders' equity.

Any cases in which the maximum level of exposure per client exceeds the thresholds as set out in the table below and in which the total exposure equals or exceeds R\$2.0 billion are required to be submitted to the Board of Directors for approval:

<b>Client Rating</b>	<b>As a % of Shareholders' Equity</b>
AA1	10
AA2	9
AA3	8
A1	7
A2	6
A3	5
B1	4
B2	3
B3	2
C1	1
C2	0.7
C3	0.5
C4	0.4
D	0.3

Our credit policy is continuously developing and as part of our risk management process, we continue to improve our credit granting procedures, including procedures to gather data on borrowers, calculate potential losses and assess applicable classifications. Additionally, we assess our institutional credit risk management in view of the recommendations by the Basel Accords, including:

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- restructuring our methodology to calculate possible losses;
- identifying and implementing changes in our reporting processes to improve our loan portfolio management;
- restructuring our information control structure; and
- assessing the organizational structure of our loan assessment practices, including analyzing the demand for technology and addressing new issues.

***Loans and advances to individual customers***

For individual customers, depending on the proposed collateral, the size of the branch and suitable credit parameters, branches may authorize loans of up to R\$50,000. If value and type of collateral are not within the limits established for approval at the branch level, an application is submitted to the Credit Department and, if necessary, higher levels of authority.

The following table shows individual loan limits for approval by branch managers, depending on the value and type of collateral offered:

Total Risk Amount	R\$ in thousands	
	Loan with no collateral	Loan with collateral
<b>Decision making authority</b>		
Manager of very small branch <sup>(1)</sup>	up to 5	up to 10
Manager of small branch <sup>(2)</sup>	up to 10	up to 20
Manager of average branch <sup>(3)</sup>	up to 15	up to 30
Manager of large branch <sup>(4)</sup>	up to 20	up to 50

<sup>(1)</sup> Branch with total deposits equal to or below R\$1,999,999;

<sup>(2)</sup> Branch with total deposits equal to or between R\$2,000,000 and R\$5,999,999;

<sup>(3)</sup> Branch with total deposits equal to or between R\$6,000,000 and R\$14,999,999; and

<sup>(4)</sup> Branch with total deposits equal to or above R\$15,000,000.

We use a specialized Credit Scoring evaluation system to analyze these loans, allowing us to build a level of flexibility and accountability, besides standardizing the procedures in the process of analyzing and deferring loans. All models are constantly monitored and revised whenever necessary. Our Credit Department has a dedicated team developing models and working on the continuous improvement of these tools.

We provide our branches with tools that allow them to analyze loans and advances for individual clients in a rapid, efficient and standardized manner and to produce the corresponding loan contracts automatically. With these tools, our branches can respond quickly to clients, keep costs low, and control the risks inherent



to consumer credit in the Brazilian market.

The following table shows limits established for approval of loans to individuals outside the discretion of our branches:

<b>Total Risk Amount</b>	<b>R\$ in thousands</b>
<b>Decision making authority</b>	
Credit department	up to 16,000
Credit director	up to 18,000
Executive credit committee (Daily Meeting)	up to 60,000
Executive credit committee (Plenary Meeting)	up to 2,000,000
Board of Directors	over 2,000,000

***Loans and advances to corporate customers***

For corporate customers, depending on the collateral proposed, the size of the branch and suitability in terms of credit parameters, loans of up to R\$400,000 may be approved at the branch level. If the collateral

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offered is not within the limits for approval at the branch level, the loan is submitted to the Credit Department and, if necessary, higher levels.

The following table shows limits within which branch managers may approve business loans, depending on the amount and type of credit support offered:

Total Risk Amount	R\$ in thousands	
	Loan with no collateral	Loan with collateral
<b>Decision-making authority</b>		
Manager of very small branch <sup>(1)</sup>	up to 10	up to 60
Manager of small branch <sup>(2)</sup>	up to 20	up to 120
Manager of average branch <sup>(3)</sup>	up to 30	up to 240
Manager of large branch <sup>(4)</sup>	up to 50	up to 400
Manager of Bradesco Empresas branch <sup>(5)</sup>	up to 100	up to 400

<sup>(1)</sup> Branch with total deposits equal to or below R\$1,999,999;

<sup>(2)</sup> Branch with total deposits equal to or between R\$2,000,000 and R\$5,999,999;

<sup>(3)</sup> Branch with total deposits equal to or between R\$6,000,000 and R\$14,999,999;

<sup>(4)</sup> Branch with total deposits equal to or above R\$15,000,000; and

<sup>(5)</sup> Branch with exclusive middle market companies.

The following table shows limits established for approval of loans to corporate customers outside the discretion of our branches:

Total Risk Amount	R\$ in thousands
<b>Decision-making authority</b>	
Credit department	up to 16,000
Credit director	up to 18,000
Executive credit committee (Daily Meeting)	up to 60,000
Executive credit committee (Plenary Meeting)	up to 2,000,000
Board of Directors	over 2,000,000

In order to serve customers' needs as soon as possible and securely, the Credit Department uses segmented analyses with different methodologies and instruments for credit analysis in each segment, in particular:

- in the "Varejo," "Prime" and "Private – Individuals" segments, we consider the individual's reputation and credit worthiness, profession, monthly income, assets (goods and real property, any liabilities or interests in companies), the bank indebtedness and history of their relationship with us, checking loans and advances for repayment dates and rates as well as and the guarantees involved;

- in the "Varejo – Corporate Customers" segment, in addition to the points above, we focus on the owners of the relevant company, as well as considering the period in business and the monthly revenues;
- in the "Corporate" and "Empresas" (middle market) segments, management capability, the company/group's positioning in the market, its size, the economic-financial evolution, cashflow capability, and business perspectives, our analysis always includes the proponent, its parent company/subsidiaries, and the type of business; and
- this also includes analyses of social and environmental risk for projects that require customers to show compliance with social and environmental regulations and the Equator Principles, consisting of socioenvironmental criteria required as conditions for loans, which was introduced in 2002 by the International Finance Corporation (IFC), the World Bank's financial arm.

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***Credit Recovery***

We manage our portfolio of delinquent clients in all of the segments through the collection process beginning on the first day of overdue the payment in accordance with our established rules and governance practices, seeking to preserve the relationship with our client and ensuring maximum efficiency and security for our business.

The collection process occurs through our branch network, internally and through external call centers, and in- and out-of-court collection offices. In addition, we have specialized regional teams in credit recovery that act in a customized manner in certain cases.

Our collection strategies also cover the inclusion of our delinquent clients in external credit protection agencies, sending collection letters and channels of digital access, such as SMS, digital URA, Internet Banking, ATM, mobile and social networks, as well as processes of open auctions for portfolio sales. To this end, we adopted the use of statistical models to segment the debtors by levels of risk and the likelihood of payment, seeking a more assertive credit recovery and with the best cost/benefit ratio.

For autonomy in negotiations, individual authority levels are assigned up to a certain amount, considering the risk of the group. In certain cases, they are submitted to the collective authority limits in the Commission or Executive Committee for Collection and Credit Recovery, respecting the governance of the established authority level.

***Deposit-taking activities***

Our principal source of funding is deposits from Brazilian individuals and businesses. As of December 31, 2017, our total deposits were R\$265.2 billion, representing 24.0% of our total liabilities.

We provide the following types of deposit and registration accounts:

- checking accounts;
- savings accounts;
- time deposits;
- interbank deposits from financial institutions; and
- accounts for salary purposes.

The following table shows total customers' and bank's deposits by type and source, as of the dates indicated:

As of December 31,	% of total deposits	R\$ in thousands		
		2017	2016	2015
<b>From customers</b>				
Demand deposits	12.5%	33,058,324	32,521,234	23,012,068
Savings deposits	39.0%	103,332,697	97,088,828	91,878,765
Time deposits	47.4%	125,617,424	103,137,867	79,619,267
<b>Deposits from banks</b>				
Demand deposits	0.4%	1,030,292	898,877	807,695
Interbank deposits	0.8%	2,168,625	588,872	466,448
<b>Total</b>	<b>100.0%</b>	<b>265,207,362</b>	<b>234,235,678</b>	<b>195,784,243</b>

According to the Central Bank Circular Letters No. 3,632/13, No. 3,093/02 and No. 3,569/11, we must place a percentage of the demand deposits, savings deposits and time deposits we receive from our customers and deposits from leasing companies with the Central Bank as compulsory deposits, as follows:

**Time deposits:** we are required to deposit in an account with the Central Bank 34.0% of the average amounts recorded under time deposits and others transactions, deducting R\$30.0 million. The amount required is deposited with the Central Bank in cash and we earn remuneration on the amount deposited at the SELIC rate.

In January 2017, the Central Bank determined: (i) a change of the dates to receive the compulsory deposits; (ii) an increase in the limit of deduction for financial institutions with a Reference Equity (PR) below R\$15 billion; and (iii) the cancellation of deductions in the compulsory deposits, which was adopted in 2009, related to the purchase of diversified portfolios, credit transactions, acquisition of financial letters, financing of vehicles and motorcycles, and loans for working capital, among others and the total amount of the

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deductions was replaced by a single value. Deductions will be gradually reduced to 50.0% by the end of 2018, 30.0% by the end of 2019 and 0% from January 2020;

Time deposits are represented by bank deposit certificates – CDBs and pay either a fixed or a floating rate, which is typically a percentage of the interbank interest rate. The breakdown between CDBs at pre-fixed rates and floating rates varies from time to time, depending on the market's interest rate expectations.

**Demand deposits:** we are required to deposit a percentage of the average daily balance of demand deposits, collection of receivables, payment of taxes, third party funds in transit and obligations for the provision of payment services, deducting R\$200.0 million, pursuant to provisions of Circular No. 3,632/13 as amended by Circular No. 3,888/18. The requirement for compulsory deposit was of 45.0% in 2017 and 40% in January 2018. Currently it is 25.0%, according to Circular No. 3,888/18.

In January 2017, the Central Bank determined: (i) a change of the dates to receive the compulsory deposits; and (ii) the cancellation of deduction in relation to loans for the acquisition and production of certain goods, was replaced by the same amount. Deductions will be gradually reduced to 50.0% by the end of 2018, 30.0% by the end of 2019 and 0% by January 2020.

**Savings deposits** - each week we are required to deposit in an account with the Central Bank an amount equivalent to a percentage of the total average balance of our savings account deposits. The account bears interest annually at “TR” plus interest of 6.2% or Reference Rate (“TR”) plus 70.0% of the SELIC rate for funding carried out from May 2012, when the SELIC rate is lower than 8.5% *p.a.* The compulsory deposits requirement was 24.5% in 2017 and currently is 20.0%, according to Circular No. 3,890/18.

From July 2017, the financing contracted under the Housing Finance System cannot be deducted from the mandatory payments in savings accounts, due to the Central Bank issued Circular No. 3,835/17, which abolished the additional compulsory deposits, cancelling Circular No. 3,655/13.

In February 2013, the Central Bank defined rules for financial cost collection on non-compliance with compulsory deposit, reserve or compulsory assignment requirements. The financial cost charged to institutions that failed to comply with these requirements was adjusted to the SELIC rate plus 4.0% *p.a.*

Additionally, present Central Bank regulations require that we:

- allocate a minimum of 34.0% of cash deposits to providing rural credit;
- allocate 2.0% of demand deposits received to micro credit transactions; and
- allocate a minimum of 65.0% of the total amount of deposits in savings accounts to finance residential real estate or housing construction. Amounts that can be used to satisfy this requirement include direct residential housing loans, mortgage notes, charged-off residential real estate or housing construction loans

and certain other financings, all as specified in guidance issued by the Central Bank.

***Other funding sources***

Our other funding sources include capital markets, import/export transactions and onlending.

The following table sets forth the source and amount of our other funding sources as of the dates indicated:

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As of December 31,	R\$ in thousands		
	2017	2016	2015
<b>Funding Sources</b>			
Obligations for repurchase agreements	233,467,544	241,978,931	222,291,364
Financial notes	93,570,141	108,512,908	71,691,563
Onlendings	30,769,294	36,030,587	42,101,046
Subordinated debt	50,179,401	52,611,064	50,282,936
Borrowings	18,521,713	22,165,415	28,236,838
Real estate credit notes	27,020,911	26,955,574	20,223,220
Agribusiness notes	10,973,682	9,116,292	7,642,250
<i>Euronotes</i>	634,549	2,785,654	6,204,942
Securities issued through securitization of payment orders	2,606,322	3,286,342	3,575,729
Structured Operations Certificates	368,485	445,168	512,343
<b>Total</b>	<b>468,112,042</b>	<b>503,887,935</b>	<b>452,762,231</b>

Our capital markets operations act as a source of funding to us through our transactions with financial institutions, mutual funds, fixed income and equity investment funds and foreign investment funds.

As of December 31, 2017, 2016 and 2015, obligations for repurchase agreements (which consists of financial assets sold subject to repurchase agreements) accounted for 49.9%, 48.0% and 49.1%, respectively of our other funding sources. The majority of these financial assets subject to repurchase agreements are guaranteed by Brazilian government securities. This type of transactions is generally short-term (normally intraday or overnight) and are volatile in terms of volume once directly impacted by market liquidity. We believe that the risks associated with these transactions are low, given the quality of the collateral assets. In addition, repurchase transactions are subject to operating limits of capital based on the equity of the financial institution, adjusted in accordance with Central Bank regulations. A financial



institution may only make repurchase transactions at a value of up to 30 times its Capital, a limit we always comply with. The limits on repurchase transactions involve securities issued by Brazilian government authorities and vary according to the type of security involved in the transaction, and the perceived risk of the issuer as established by the Central Bank.

We issued financial notes, a product that was introduced to the market at the beginning of 2010, designed to meet demand for long-term financing. Longer repayment terms contribute to the desired lengthening of the repayment schedule for the banking system's liabilities, since average repayment periods have also become longer due to the growing share of housing finance and investments of the total loan portfolio.

We conduct onlending transactions where we act as the transfer agent for development agency funds, granting credits to third parties, which are in turn funded by development organizations. BNDES, the International Bank for Reconstruction and Development or IBRD and the Inter-American Development Bank or IDB are the principal providers of these funds. The lending criteria, the decision to lend and the credit risk are our responsibility and subject to certain limitations set by the bodies supplying the funds.

### ***Data processing***

We have available an up-to-date technological environment supported by a Data Center (CTI –*Centro de Tecnologia da Informação*) located in Cidade de Deus, Osasco, SP, with 11,900 sq. m in area, especially built to harbor information technology (IT) infrastructure and contains protections designed to ensure availability of services offered by us.

Data is continually replicated in a processing center (secondary site) located at Alphaville, in the city of Barueri - SP, featuring equipment with enough capacity to take over the main system's activities in case of a problem at our Technology Center (CTI). All service channels have telecommunications services that work with either of the two processing centers.

We hold annual exercises simulating situations in which our IT center is rendered out of service in order to ensure that we have effective contingency structures, processes and procedures in place. All these exercises are monitored by our business managers. In addition to all backup copies of electronic files stored and maintained at our IT center, second copies are saved and maintained in the Alphaville processing center, where all the activities related to the development of systems application are located. We regularly test the media in force and its disposal process is made in compliance with the environmental regulations. The process of data protection aims to ensure the confidentiality, integrity and availability of information in accordance with its level of criticality.

If the public energy supply is interrupted, both centers have sufficient capacity to operate

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independently for 72 hours non-stop. After this period, Technology Centers can operate continuously, depending only on the fuel that feeds the generators that supply electric energy.

Our infrastructure has systems to prevent against attacks from external connections and the internet, systems for the analysis of fraudulent behaviour, unauthorized access, malicious codes, analysis of network behaviour, protection against invasion (intrusion detector), firewall, antivirus and antispam systems, all to provide protection to our IT environment. We continuously upgrade the security over our software and hardwares, digital certification in WEB servers and the encryption equipment.

We have a Security Operations Center (SOC) in the area of IT Security that treats and responds to security incidents, monitors the environment (24/7) and develops prevention measures through sources of intelligence information.

Our safety tools monitor software, hardware and share information from stations and servers. In addition, we have a system of prevention against loss of Information Data, the DLP (Data Loss Prevention), designed to ensure the protection of company data. Annually, a "Penetration Test" is performed by an independent audit firm and the IT security processes are certified by the ISO 27000 – Information Security.

Our internet systems have a separate infrastructure, enabling different customer segments (individuals, corporate, staff) to use resources independently in order to provide better service, and due to the critical nature of such services.

The IT structure is also backed by processes implemented in light of the ITIL (IT Infrastructure Library) and COBIT (Control Objectives for Information and related Technology). It applies recognized practices for IT service management and is ISO 20000 IT Service Management certified.

As to the physical security of the data center, its entrance has a baffle gate and a double contention door that isolates the entrant between the doors. Video cameras monitor the entrance and internal areas of the datacenter, and the access is restricted and authorized through the authentication of passes and vascular biometrics (restricted environments).

### ***Seasonality***

We generally have some seasonality in certain parts of our business. There is certain seasonality in our consumer financing business (including our credit card business, financing of goods and others), with increased levels of credit card transactions and financing of goods at the end of the year and a subsequent decrease of these levels at the beginning of the year. We also have certain seasonality in our collection fees at the beginning of the year, which is when taxes and other fiscal contributions are generally paid in Brazil. In our PGBL and VGBL business, seasonality happens at the end of the year, when the Christmas bonuses and profit sharing are usually paid.

## **Competition**

We face significant competition in all of our principal areas of operation, since the Brazilian financial and banking services markets are highly competitive and have undergone an intensive consolidation process in the past few years.

As of December 31, 2017, state-owned financial institutions held 44.1% of the National Financial System's ("SFN") assets, followed by domestic private financial institutions (taking into consideration financial conglomerates) with a 41.9% share and foreign-controlled financial institutions, with a 14.0% share.

Public-sector financial institutions play an important role in the banking sector in Brazil. Essentially, they operate within the same legal and regulatory framework as private-sector financial institutions, except that certain banking transactions involving public entities must be made exclusively through public-sector financial institutions (including, but not limited to, depositing federal government funds or judicial deposits).

In April 2012, Circular No. 3,590/12 was issued, determining that the following transactions should be analyzed by the Central Bank with respect to their effects on competition, notwithstanding the review related to the stability of the financial system:

- transfers of ownership control;
- takeovers;
- mergers;
- business transfers; and
- other means of business concentration.

In August 2012, the CMN set out new requirements and procedures for incorporation, authorization for operations, cancellation of authorization, changes of control, corporate restructurings and conditions for

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exercising positions in statutory or contractual bodies.

***Loans and advances***

Competition in loans and advances has been increasing in recent years. Our main competitors are Itaú Unibanco, Banco do Brasil and Santander Brasil. As of December 2017, our total market share was 11.0% and, among private banks, it was 24.0%, according to Central Bank.

***Credit cards***

The credit card market in Brazil is highly competitive. Our primary competitors are Banco do Brasil, Itaú Unibanco, and Santander Brasil. Management believes that the primary competitive factors in this area are interest rates, annual fees, card distribution network and benefits offered.

***Consortia***

In December 2017, according to Central Bank, the consortia market included 156 administrators, divided between the bank, manufacturer and independent administrators.

Our main competitors are Porto Seguro and Caixa Econômica Federal in the real estate segment; Banco do Brasil and Itaú in the automobile and motorcycle segment; and Randon and Conseg in the trucks/tractors/machines and equipment segment.

We believe one of our competitive differentials is the credibility of the Bradesco brand and our extensive distribution network, with the largest service network in the entire whole of Brazil.

***Investment Bank***

The investment bank market in Brazil is very competitive, involving the participation of national and international financial institutions. Among the main players are Itaú BBA, BTG Pactual, Santander and other international institutions. Bradesco BBI has nonetheless achieved significant success in this market. For more information on our Investment Bank, see "Item 4.B. Business Overview – Services related to capital markets and investment banking activities."

***Leasing***

In general, our main competitors in the Brazilian leasing market are Santander Leasing, Banco IBM, HP Financial Service, Banco Itaucard and Safra Leasing. We currently enjoy certain competitive advantages, as we have a larger service network than any of our private sector competitors.

### ***Fund management***

As of December 31, 2017, the fund management industry in Brazil managed funds worth R\$4.1 trillion in shareholders' equity according to ANBIMA's investment funds management ranking. BRAM held a portion of R\$613.7 billion, representing a growth of 7.8% as compared to the 12 previous months or 14.8% of market share. We are one of the leading institutions as measured by the number of investment fund quotaholders with 3.2 million. Our main competitors are BB DTVM and Itaú Unibanco.

### ***Insurance, pension plans and capitalization bonds***

#### ***Insurance sector***

As leader of the Brazilian insurance market, with a 25.9% market share according to SUSEP as of December 31, 2017, Grupo Bradesco Seguros faces growing competition from several domestic and multinational companies in all branches of this sector.

Our principal competitors are BB Seguridade, Itaú Unibanco Seguros S.A., SulAmérica Seguros, Porto Seguro, Caixa Seguros and Zurich/Santander, which account for a combined total of approximately 53.1% of all premiums generated in the market, as reported by SUSEP, in December 2017.

In recent years, there has been a change in the insurance sector in Brazil, as foreign companies have begun to form associations with national insurers. In this respect, the main competitive factors are price, financial stability, and recognition of the name and services provided by companies. With respect to services, competition primarily involves the ability to serve the branches that market such services, including the level of claims handling automation, and development of long-term relationships with customers.

We believe that the penetration of our service network, present in all municipalities in Brazil, gives Grupo Bradesco Seguros a significant competitive edge over most insurance companies, thereby promoting cost savings and marketing synergies.

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Regarding the healthcare sector, although most insurance activities are carried out by companies with nationwide operations, there is also competition from companies that operate locally or regionally.

***Pension plan sector***

The Brazilian government's monetary stabilization policies stimulated the pension plan sector and attracted new international players.

With 27.9% of total contributions in the sector (SUSEP), Bradesco Vida e Previdência's main competitive advantages are: the "Bradesco" brand, our extensive branch network, our strategy and our record of being in the forefront of product innovation.

Our principal competitors are BB Seguridade, Itaú Unibanco Seguros, Caixa Seguros and Zurich/Santander.

***Capitalization bonds sector***

According to SUSEP, Bradesco Capitalização holds a 29.1% market share in capitalization bonds income and 25.9% in terms of technical provisions. Our competitive strengths in this sector include our offering of low-cost products with a higher number of prize drawings, security, financial stability, and brand recognition.

Our principal competitors are BB Seguridade, Itaú Unibanco Seguros, Santander, Caixa Seguros, Icatu and Sul América, which together represent approximately 58.6% of the total capitalization revenue generated in the market, according to information provided by SUSEP in December 2017.

**REGULATION AND SUPERVISION**

The basic institutional framework of the Brazilian Financial System was established in 1964 by Law No. 4,595/64, known as the "Banking Reform Law." The Banking Reform Law dealt with monetary, banking and credit policies and institutions, and created the CMN.

***Principal financial institutions***

As of December 31, 2017, nine financial conglomerates operated in Brazil, consisting of public-sector commercial and multiple-service banks controlled by federal and state governments (including Caixa Econômica Federal) and 144 financial conglomerates, consisting of private-sector commercial and multiple-service banks. For Brazilian regulatory purposes, insurance companies, private pension plans and capitalization bonds providers are not considered financial institutions.

***Principal regulatory agencies***

## **CMN**

CMN is responsible for overall supervision of monetary, credit, budgetary, fiscal and public debt policies. CMN has the following functions:

- regulating loans and advances granted by Brazilian financial institutions;
- regulating Brazilian currency issue;
- supervising Brazil's reserves of gold and foreign exchange;
- determining saving, foreign exchange and investment policies in Brazil; and
- regulating capital markets in Brazil.

In December 2006, CMN asked the CVM to devise a new Risk-Based Supervision System ("SBR") through Resolution No. 3,427/06 (amended by Resolution No. 3,513/07), and regulated by CVM Resolution No. 757/16, in order to: (i) identify risks to which the market is exposed; (ii) rank these risks in order of severity; (iii) establish mechanisms for mitigating these risks and the losses they might cause; and (iv) control and monitor the occurrence of risk events. Among other effects, this system allows for a fast-track reviewing process for the issuance of securities.

## **Central Bank**

The Central Bank was created by Law No. 4,595/64 and is the primary executor of the guidelines of the CMN, responsible for ensuring the purchasing power of the national currency, including responsibility for:

- implementing currency and credit policies established by the CMN;
- regulating and supervising public and private sector Brazilian financial institutions;

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- controlling and monitoring the flow of foreign currency to and from Brazil; and
- overseeing the Brazilian financial markets.

The Central Bank's chairperson is appointed by the president of Brazil for an indefinite term of office, subject to approval by the Brazilian senate.

The Central Bank supervises financial institutions by:

- setting minimum capital requirements, compulsory deposit requirements and operational limits;
- authorizing corporate documents, capital increases, acquisition of interest in new companies and the establishment or transfer of principal places of business or branches (in Brazil or abroad);
- authorizing changes in shareholder control of financial institutions;
- requiring the submission of annual and semiannual audited financial statements, quarterly revised financial statements and monthly unaudited financial information; and
- requiring full disclosure of loans and advances and foreign exchange transactions, import and export transactions and other directly related economic activities.

***CVM***

The CVM is responsible for regulating the Brazilian securities markets in accordance with securities and capital-market policies established by CMN.

***Banking regulations***

***Principal limitations and restrictions on activities of financial institutions***

Under applicable laws and regulations, a financial institution operating in Brazil:

- may not operate without the prior approval of the Central Bank and in the case of foreign banks, authorization by presidential decree;
- may not invest in the equity of any other company beyond regulatory limits;
- may not conduct credit and leasing transactions or provide guarantees of more than 25.0% of their PR to a single person or group;



- may not own real estate, except for its own use; and
- according to CMN Resolution No. 4,596/17, cannot perform transactions that may configure the granting of loans or advances for:
  - its controllers (individuals or legal entities), pursuant to Article 116 of Brazilian Corporate Law, as well as their spouses, partners and their direct relatives, in the collateral line or affinity, up to the second degree;
  - officers, managers, members of the fiscal council, of the audit committee and members of statutory or contractual bodies, as well as their spouses, partners and their direct relatives, in the collateral line or by affinity, up to the second degree;
  - individuals and their spouses or partners, as well as legal entities with a direct or indirect equity interest with percentage equal to or greater than 10%;
  - legal entities: (i) with qualified equity interest; (ii) in which capital, directly or indirectly, there is qualified equity interest; (iii) in which there is effective operational control or relevance in the deliberations, regardless of equity interest; and (iv) that have an officer or member of the board of directors in common.
- CMN Resolution No. 4,596/17 also established the definition of qualified or relevant equity interest for purposes of the grant of loans or advances by financial institutions:
  - the entity that holds, directly or indirectly, ten per cent (10%) or more of the capital of the legal entity;

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- managers or officers and their respective spouses or partners and their direct relatives, in the collateral line or by affinity, up to the second degree, of the entity who hold, together or separately, directly or indirectly 10% or more of the capital of the legal entity;
- partners or shareholders who hold ten per cent 10% or more of the financial institution's capital with, directly or indirectly, a ten per cent 10% or more of the capital of the legal entity; and
- the entity and the legal entity that have a manager or officer in common.

The restrictions with respect to the concentration limit to a single person or group do not apply to interbank deposits entered into by financial institutions subject to consolidation of their financial statements.

***Capital adequacy and leverage***

Financial institutions based in Brazil are subject to capital measurement and standards based on a weighted risk-asset ratio, according to CMN Resolutions No. 4,192/13 and No. 4,193/13. The parameters of this methodology resemble the international framework for minimum capital measurements adopted for the Basel Accord. For further information on Basel III, see “Item 5.B – Liquidity and Capital Resources – Capital Compliance – Basel III.”

According to CMN Resolution No. 4,280/13, amended by Resolution No. 4,517/16, financial institutions, except for credit cooperatives, must keep consolidated accounting records (for calculating their capital requirements) of their investments in companies whenever they hold, directly or indirectly, individually or together with partners, a controlling interest in the investee companies. If their interest does not result in control of a company, financial institutions may choose to recognize the interest as equity in the earnings of unconsolidated companies instead of consolidating such interests.

Under certain conditions and within certain limits, financial institutions may include eligible instruments when determining their capital requirements in order to calculate their operational limits, provided that this instrument complies with the requirements of regulation in force.

Since January 2015, financial institutions based in Brazil are required to calculate their capital requirements on a consolidated basis with institutions that are part of their prudential conglomerate.

The CMN Resolution No. 4,280/13 defines that the following entities located in Brazil or abroad shall be considered in the prudential conglomerate of its direct or indirect controllers: (i) financial institutions and other institutions authorized to operate by the Central Bank; (ii) consortium administrators; (iii) payment institutions; (iv) organizations that acquire credit transactions, including real estate and credit rights; and (v) other legal entities headquartered in Brazil that are solely engaged in holding interests in the entities set out above.

In December 2014, the CMN changed the scope of the rules for the management of credit, market, operational and liquidity risks and capital management in order to apply such rules at the prudential conglomerate level which is now required as the basis for calculation of the capital requirements of financial institutions. The CMN Resolution No. 4,388/14 sets forth that risk management may be carried out by a single unit responsible for the prudential conglomerate and its respective affiliates. This applies only to market risk management and not to any other risk functions. Further, this resolution also updates the application of the relevant thresholds for any calculations subject to foreign exchanges.

### ***Risk Weighting***

Pursuant to Circular No. 3,644/13, amended by Circular No. 3,809/16, the Central Bank consolidated the risk weighting factors applied to different exposures in order to calculate capital requirement through a standardized approach. According to such rule, as amended, the risk weight factors vary from 0.0% to 1,250.0% and should be applied to credit risks, depending on the nature and characteristics of the exposure. Risk-weight factors applicable to different exposures are often changed by the Central Bank.

In addition, there are specific standards of the Central Bank to determine procedures to calculate the portion of risk-weighted assets related to other exposures.

In October 2015, the Central Bank changed the procedures for calculating the portion of risk-weight assets, in connection with the calculation of the capital required for the operational risk by way of a standardized approach. Under the present model, this is calculated based on the risk of financial institutions and its direct and indirect controlled entities, based on the gross revenue for the past three years. The prudential conglomerate concept, however, does not have a retroactive data base to supply such information. In order to overcome this obstacle, a transitional model for the calculation of operational risk was adopted in January 2015.

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The total consolidated exposure of a financial institution in foreign currencies and gold cannot exceed 30.0% of its RC. In addition, if its exposure is greater than 5.0% of its RC, the financial institution must hold additional capital at least equivalent to 100% of its exposure. Since July 2007, the amount internationally offset in opposite exposures (purchases and sales) in Brazil and abroad by institutions of the same conglomerate is required to be added to the respective conglomerate's net consolidated exposure.

For more information on our capital ratios, see "Item 5.B - Liquidity and Capital Resources— Capital compliance - Basel III."

***Compulsory Deposits***

The Central Bank periodically sets compulsory deposit and related requirements for financial institutions based in Brazil. The Central Bank uses reserve requirements as a mechanism to control liquidity in the SFN.

Standards on compulsory deposits and additional reserve requirements are periodically altered by the Central Bank. For a summary of current requirements, see "Item 4.B. Business Overview – Deposit Funding."

***Asset composition requirements***

According to the Resolution No. 2,844/01, as amended, financial institutions based in Brazil may not allocate more than 25.0% of their RC to loans and advances (including guarantees) to the same customer (including customer's parent, affiliates and subsidiaries) or to securities from any issuer. They also may not act as underwriters (excluding best efforts underwriting) of securities issued by any one issuer representing more than 25.0% of their RC.

According to the Resolution No. 2,283/96, permanent assets (defined as property and equipment other than commercial leasing transactions, unconsolidated investments and deferred assets) of Brazilian financial institutions may not exceed 50.0% of their RC.

From October 2017, with the enactment of Resolution No. 4,607/17, the following transactions are excluded from the calculation of the limits mentioned above: (i) transactions of credit and leasing of responsibility of the Government; (ii) credits arising from transactions with derivatives of responsibility of the Government; and (iii) installments of credit transactions guaranteed by the government. Under the terms of Resolution No. 4,589/17, the amount of credit transactions with organizations and entities of the public sector is limited to 45% of the RC, according to the regulations in force.

***Repurchase transactions***

Repurchase transactions are subject to operational capital limits based on the financial institution's equity, as adjusted in accordance with Central Bank regulations. A financial institution may only hold repurchase

transactions in an amount up to 30 times its RC. Within that limit, repurchase transactions involving private securities may not exceed five times the amount of the financial institution's Capital. Limits on repurchase transactions involving securities issued by Brazilian governmental authorities vary in accordance with the type of security involved in the transaction and the perceived risk of the issuer as established by the Central Bank.

In September 2016, the Central Bank prohibited the execution, extension or renewal of repurchase transactions with securities issued or accepted from associated institutions, or institutions that are members of the same prudential conglomerate. However, the execution, extension or renewal of repurchase transactions based on securities issued or accepted up until September 29, 2016 will be accepted until December 31, 2017, provided that the following are observed: (i) the maximum term of 12 months; and (ii) the maintenance of the accounting balance related to the total of transactions in an amount equal to or less than 110.0% of the total accounting balance calculated on the base date of August 31, 2016, whereby from May 1, 2017, the amount will be 50.0% of the total accounting balance calculated for the same base date.

### ***Onlending of funds borrowed abroad***

Financial institutions and leasing companies are permitted to borrow foreign currency-denominated funds in the international markets (through direct loans or the issuance of debt securities) in order to on-lend such funds in Brazil. These onlendings take the form of loans denominated in *reais* but indexed to the U.S. dollar. The terms of the onlending transaction must reflect the terms of the original transaction. The interest rate charged on the underlying foreign loan must also conform to international market practices. In addition to the original cost of the transaction, the financial institution may charge onlending commission only.

Furthermore, the amount of any loan in foreign currency should be limited to the sum of foreign transactions undertaken by the financial institution to which loan funds are to be directed. Lastly, pursuant to

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the Central Bank's Circular No. 3,434/09, the total of loans and advances made against these funds must be delivered to the Central Bank as collateral, as a condition for the release of the amount to the financial institution.

#### ***Foreign currency position***

Transactions in Brazil involving the sale and purchase of foreign currency may be conducted only by institutions authorized by the Central Bank to operate in the foreign exchange market.

Beginning in 1999, the Central Bank adopted a foreign exchange free float system, which gave rise to increased volatility. Since mid-2011 the Brazilian real has depreciated against the U.S. dollar and the Central Bank has intervened in the foreign exchange market to control the foreign rate volatility.

The Central Bank does not impose limits on long positions in foreign exchange operations (i.e., in which the aggregate amount of foreign currency purchases exceeds sales) and short positions in foreign exchange operations (i.e., in which the aggregate amount of foreign currency purchases is less than sales) for banks authorized to operate in the foreign exchange market.

Standards that address foreign exchange markets are frequently changed by CMN and the Central Bank.

#### ***Registration of cross-border derivatives and hedging transactions and information on derivatives***

In December 2009, the Central Bank issued specific rules that became effective in February 2010, requiring Brazilian financial institutions to register their cross-border derivative transactions with a clearing house regulated by the Central Bank and by the CVM. Specifically, cross-border derivative transactions must (i) be registered within two business days; and (ii) cover details of underlying assets, values, currencies involved, terms, counterparties, means of settlement and parameters used.

In January 2010, registration rules were extended to cover hedging transactions in foreign OTC markets or exchanges.

In November 2010, to facilitate management of derivatives-related risk incurred by financial institutions, the CVM stipulated that market participants should create mechanisms in order to share information on derivatives contracts traded or registered in their systems, subject to banking confidentiality rules.

#### ***Treatment of loans and advances***

Financial institutions are required to classify their loans and advances into nine categories, ranging from AA to H, based on their risk. These credit risk classifications are determined in accordance with Central Bank criteria relating to:

- the conditions of the debtor and the guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, delay in payments, contingencies and credit limits; and
- the conditions of the transaction, such as its nature and purpose, the type, the level of liquidity, the sufficiency of the collateral and the total amount of the credit.

In the case of corporate borrowers, the nine categories that we use are as follows:

<b>Rating</b>	<b>Our Classification</b>	<b>Bradesco Concept</b>
AA	Excellent	First tier large company or group, with a long track record, market leadership and excellent economic and financial concept and positioning.
A	Very Good	Large company or group with sound economic and financial position that is active in markets with good prospects and/or potential for expansion.
B	Good	Company or group, regardless of size, with good economic and financial positioning.
C	Acceptable	Company or group with a satisfactory economic and financial situation but with performance subject to economic variations.
D	Fair	Company or group with economic and financial positioning in decline or unsatisfactory accounting information, under risk management.

A loan and advance transaction may be upgraded if it has credit support or downgraded if in default.

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Doubtful loans are classified according to the loss perspective, as per E-H ratings as follows:

**Rating Bradesco Classification**

E	Deficient
F	Bad
G	Critical
H	Uncollectible

A similar nine-category ranking system exists for transactions with individuals. We grade credit based on data including the individual's income, net worth and credit history, as well as other personal data.

For regulatory purposes, financial institutions are required to classify the level of risk of their loan transactions according to Central Bank criteria, taking into consideration both the borrower and guarantors' characteristics and the nature and value of the transaction, among others, in order to identify potential loan losses.

This risk evaluation must be reviewed at least every six months for loans extended to a single customer or economic group whose aggregate loan amount exceeds 5.0% of the financial institution's Capital, and once every 12 months for all loan transactions, with certain exceptions.

Past due loans and advances must be reviewed monthly. For this type of loan, regulatory provisions set the following maximum risk classifications:

**Number of Days Past Due <sup>(1)</sup> Maximum Classification**

15 to 30 days	B
31 to 60 days	C
61 to 90 days	D
91 to 120 days	E
121 to 150 days	F
151 to 180 days	G
More than 180 days	H

<sup>(1)</sup> These time periods are doubled in the case of loans with maturities in excess of 36 months.

Financial institutions are required to determine, whether any loans must be reclassified as a result of these maximum classifications. If so, they must adjust their regulated accounting provisions accordingly.

The regulations specify a minimum provision for each category of loan, which is measured as a percentage of the total amount of the loan and advance transaction, as follows:



**Classification of Loan Minimum Provision %**

AA	-
A	0.5
B	1.0
C	3.0
D	10.0
E	30.0
F	50.0
G	70.0
H <sup>(1)</sup>	100.0

(1) Financial institutions must write off any loan six months after its initial classification as an H loan.

Loans and advances of up to R\$50,000 may be classified by the method used by the financial institution itself or the arrears criteria, described above. Classifications should be at least level A, according to the Central Bank.

Financial institutions must make their lending and loan classification policies available to the Central

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Bank and to their independent accountants. They are also required to submit information relating to their loan portfolio to the Central Bank, together with their financial statements. This information must include:

- a breakdown of the business activities and nature of borrowers;
- maturities of their loans; and
- amounts of rescheduled, written-off and recovered loans.

The Central Bank requires authorized financial institutions to compile and submit their loans and advances portfolio data in accordance with several requirements and may allow discrepancies in these statements of up to 5.0% per risk level and 2.5% in the reconciled total.

***Exclusivity in loans and advances to customers***

In January 2011, Central Bank Circular No. 3,522/11 prohibited financial institutions that provide services and loan transactions from entering into agreements, contracts or other arrangements that prevent or restrict the ability of their customers to access loans and advances offered by other institutions, including payroll-deductible loans. The purpose of this rule is to increase competition among credit providers and prevent exclusivity agreements between state-owned banks and government bodies with respect to payroll-deductible loans. While there is some uncertainty as to whether the new rules affect existing contracts, all new contracts are covered by the new regulations, allowing market competition and enabling employees in the public and private sectors to obtain payroll-deductible loans from any authorized financial institution.

***Regulation of the debit balance of the credit card bill***

Through CMN Resolution No. 4,549/17, which came into force in April 2017, the Central Bank started regulating the financing of the debit balance of the credit card invoice and other post-paid instruments, not settled in full at maturity.

According to the new standard, the credit card companies will no longer be able to finance the balance due from customers through the revolving credit for more than a month. Therefore, after the maturity of the bill in the following month, if there is still a debit balance due on the amount that is the object of the revolving credit, this can be financed by a line of credit in installments, to be offered by the financial institution, with better conditions or settled in full by the client.

***Overdraft Regulations***

In April 2018, the Self-Regulation Council of the Brazilian Federation of Banks (FEBRABAN), published the Regulatory Standard No. 19/18 (Regulatory Standard on the Conscious Use of Overdraft), which will come into force on July 1, 2018, with new guidelines to promote and stimulate the proper use of overdraft facilities.

Among the Regulatory Standard No. 19/18 main guidelines, we highlight that: (i) financial institutions which have signed the regulatory standard shall, at any time, provide more advantageous conditions to the consumer to settle his overdraft balance, including the possibility of instalment payments; (ii) if the consumer uses more than 15% of the overdraft limit available during 30 consecutive days, and as long as the value is above two hundred reais, the financial institution shall proactively offer to the consumer alternatives for the settlement of the balance; and (iii) financial institutions shall promote financial guidance related to the overdraft, especially with respect to its use in emergency situations and on a temporary basis.

***Brazilian Clearing System – (Sistema de Pagamentos Brasileiro, or “SPB”)***

The SPB was regulated and restructured under legislation enacted in 2001. These regulations are intended to streamline the system by adopting multilateral clearing and boost security and solidity by reducing systemic default risk and financial institutions' credit and liquidity risks.

The subsystems in the SPB are responsible for maintaining security mechanisms and rules for controlling risks and contingencies, loss sharing among market participants and direct execution of custody positions of contracts and collateral by participants. In addition, clearing houses and settlement service providers, as important components to the system, set aside a portion of their assets as an additional

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guarantee for settlement of transactions.

Currently, responsibility for settlement of a transaction has been assigned to the clearinghouses or service providers responsible for it. Once a financial transaction has been submitted for clearing and settlement, it generally becomes the obligation of the relevant clearinghouse and/or settlement service provider to clear and settle, and it is no longer subject to the risk of bankruptcy or insolvency on the part of the market participant that submitted it for clearing and settlement.

Financial institutions and other institutions authorized by the Central Bank are also required under the rules to create mechanisms to identify and avoid liquidity risks, in accordance with certain procedures established by the Central Bank. Under these rules, institutions are required to maintain, at least:

- liquidity risk management policies and strategies, which are clearly evidenced and set operational limits and procedures aimed at exposure to liquidity risk at a level required by the Management;
- processes to identify, assess, monitor and control liquidity risk exposure during different time frames, including intraday and comprising at least a daily assessment of transactions with settlement terms below 90 days;
- an assessment, at least annually, of the processes described in the previous item;
- funding policies and strategies that provide for adequate diversification of fund sources and maturity terms;
- liquidity contingency plan, which is updated on a regular basis and sets responsibilities and procedures to face liquidity stress scenarios;
- regular stress tests with short and long-term idiosyncratic and systemic scenarios, whose results should be considered when designing or revising policies, strategies, limits and the liquidity contingency plan; and
- liquidity risk assessment as part of the process of approving new products, as well as an assessment of how compatible these products are with existing procedures and controls.

Financial institutions were positively affected by the restructuring of the SPB. Under the old system, in which transactions were processed at the end of the day, an institution could carry a balance, positive or negative, a situation which is no longer allowed. Payments must now be processed in real time, and since March 2013, the amounts over R\$1,000 are being processed by electronic transfers between institutions with immediately available funds. If a transaction is made using checks, an additional bank fee will be charged.

The Central Bank and CVM have the power to regulate and supervise the SPB.

In October 2013, Law No. 12,865/13 was enacted providing for payment arrangements and payment institutions that are part of SPB. In November 2013, in order to regulate this law: (i) the CMN established guidelines for the regulation, surveillance and supervision of payment institutions and payment arrangements that are part of SPB; and (ii) the Central Bank: (a) defined requirements and procedures to authorize the establishment and operation, cancellation of authorization, control changes, structure of management positions, name and head office location, corporate reorganizations, conditions to hold management positions in payment institutions and authorization for financial institutions to provide payment services; (b) created a regulation to govern, among others, provision of payment services in the ambit of payment arrangements that are part of SPB, and established criteria according to which payment arrangements will not be part of SPB, among others; and (c) established rules on risk management, minimum capital requirements, governance of payment institutions, preservation of value and liquidity of payment account balances.

In April 2014, the Central Bank changed the rules regarding any payment institutions and any related arrangements. The main changes were as follows: (i) it determined that the payment institutions shall deposit with the Central Bank the amounts corresponding to the electronic balance of any payment accounts, plus the electronic balance of any amounts being transferred between payment accounts within the same payment institution. To ensure the viability of the Brazilian Payment System (SPB), such deposit should be affected gradually; starting with 20.0% in 2014 and increasing to 100% in 2019; and (ii) it reviewed the definition of arrangements that may be considered an integral part of the SPB.

As of September 2015, the Central Bank issued Circular No. 3,765/15 amending Circular No. 3,682/13 and bringing significant changes in the rules applicable to payment agreements that are part of the SPB. The main changes are: (i) centralized compulsory clearing and settlement of credit or debit electronic

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orders through a clearing and settlement system authorized by the Central Bank; (ii) new requirements for interchangeably operating arrangements, the introduction of “home institution” concept, the change of criteria to maintain closed payment arrangements; and (iii) the change of terms to decrease minimum operating volumes applicable to payment arrangements that are not part of the SPB.

In July 2017, the Central Bank issued Circular No. 3,842/17, which amends Circular No. 3,682/13. The main changes are: (i) the obligation to have a centralized clearing and settlement system, regardless of the Central Bank's authorization; and (ii) the new deadlines to comply with the previous requirement.

In August 2017, the Central Bank issued Circular No. 3,843/17 establishing October 30, 2017 as the deadline to implement the centralized settlement. In October 2017, the Central Bank issued Circular No. 3,854/17, amending Circular No. 3,682/13 and the most relevant changes were: (i) the amendment of the date defined by Circular No. 3,843/17; (ii) the requirement to perform integrated tests before November 10, 2017 to ensure a secure access to the clearing and settlement system; and (iii) to ensure that the internal processes are suitable to work with the system.

In March 2018, the Central Bank issued Circular No. 3,887/18, which established the following maximum limits for the exchange rate in domestic payment arrangements, purchases and demand deposit account: (i) 0.5% for the average exchange rate, weighted by the value of the transactions calculated on a quarterly basis; and (ii) 0.8% as the maximum value to be applied in any transaction. The maximum limits mentioned by Circular No. 3,887/18 do not apply to exchange rates of transactions not made personally and transactions with corporate cards. It is expected that the reduction of the rate be transmitted from the accrediting company to the commercial establishment and then to the consumer, with the aim of promoting an increase in the competition between cards.

***Intervention***

The Central Bank will intervene in the operations and management of any financial institution not controlled by the Federal Government if the institution:

- suffers losses due to mismanagement, putting creditors at risk;
- repeatedly violates banking regulations; or
- is insolvent.

Intervention may also be ordered upon the request of a financial institution's management and may not exceed 12 months. During the intervention period, the institution's liabilities are suspended in relation to overdue obligations, maturity dates for pending obligations contracted prior to intervention, and liabilities for deposits in the institution existing on the date intervention was ordered.

***Administrative liquidation***

The Central Bank will liquidate a financial institution if:

- the institution's economic or financial situation is at risk, particularly when the institution ceases to meet its obligations as they fall due, or upon the occurrence of an event that could indicate a state of bankruptcy;
- management commits a material violation of banking laws, regulations or rulings;
- the institution suffers a loss which subjects its unsecured creditors to severe risk; or
- upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within 90 days, or, if initiated, the Central Bank determines that the pace of the liquidation may impair the institution's creditors.

As a consequence of administrative liquidation:

- lawsuits pleading claims on the assets of the institution are suspended;
- the institution's obligations are accelerated;
- the institution may not comply with any liquidated damage clause contained in unilateral contracts;
- interest does not accrue against the institution until its liabilities are paid in full; and
- the limitation period of the institution's obligations is suspended.

The Central Bank may end the extrajudicial settlement of a financial institution, in the following cases:

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- full payment of unsecured creditors;
- change of the institution's scope to an economic activity that is not part of the SFN;
- transfer of the institution's control;
- conversion into ordinary settlement; and
- sale/loss of the institution's assets, upon its completion and the distribution of the proceeds among the creditors, even if the debts are not fully paid; or
- absence of liquidity or difficult completion of the institution's remaining assets, as recognized by the Central Bank.

***Temporary Special Administration Regime***

The Temporary Special Administration Regime, known as "RAET," is a less severe form of Central Bank intervention in financial institutions, which allows institutions to continue to operate normally. RAET may be ordered in the case of an institution that:

- repeatedly makes transactions contravening economic or financial policies under federal law;
- faces a shortage of assets;
- fails to comply with compulsory deposit rules;
- has reckless or fraudulent management; or
- has operations or circumstances requiring an intervention.

***Payment of creditors in liquidation***

In the case of liquidation of a financial institution, employees' wages, indemnities and tax claims have the highest priority among claims against the bankrupt institution. In November 1995, the Central Bank created the *Fundo Garantidor de Créditos* - FGC to guarantee the payment of funds deposited with financial institutions in case of intervention, administrative liquidation, bankruptcy, or other state of insolvency. Members of the FGC are financial institutions that accept demand, time and savings deposits as well as savings and loans associations. The FGC is funded principally by mandatory contributions from all financial institutions based in Brazil accepting deposits from customers.



The FGC is a deposit insurance system that guarantees a certain maximum amount of deposits and certain credit instruments held by a customer against a financial institution (or against member financial institutions of the same financial group). The liability of the participating institutions is limited to the amount of their contributions to the FGC, with the exception that in limited circumstances, if FGC payments are insufficient to cover insured losses, the participating institutions may be asked for extraordinary contributions and advances. The payment of unsecured credit and customer deposits not payable under the FGC is subject to the prior payment of all secured credits and other credits to which specific laws may grant special privileges.

In December 2010, the CMN increased the maximum amount of the guarantee provided by the FGC from R\$60,000 to R\$70,000. In May 2013, this amount was raised again to R\$250,000 and has been kept by the Central Bank at this level since then. In 2006, it reduced the ordinary monthly FGC contribution from 0.025% to 0.0125% of the balance held in bank accounts covered by FGC insurance. In February 2016, the percentage of the contribution on instruments listed in Article 2, paragraphs I to X from Appendix II of Resolution No. 4,222/13 was changed to 0.0125%, even if correspondent credits are unsecured.

According to CMN rules, the maximum value of the balance of such deposits is limited (with a maximum aggregate of R\$5.0 billion by December 2014 or R\$3.0 billion as of January 2015) to: (i) for the balance of the deposits originally made without fiduciary assignment, the highest of the following amounts: (a) the equivalent of twice the regulatory Tier I capital, calculated yearly on the base date June earning interest monthly at the SELIC rate; (b) the equivalent of twice the regulatory Tier I capital, calculated as of December 2008, earning interest monthly at the SELIC rate as of May 2009; and (c) the equivalent of the sum of balances in time deposits plus balances of bills of exchange held in the bank in June 2008, earning interest monthly at the SELIC rate as of May 2009; and (ii) for the balance of the deposits made with fiduciary assignment, the following factors over the regulatory Tier I capital, calculated as of December of the previous year, adjusted by the SELIC rate: (i) 1.6 as of June 2013; and (ii) 2.0 as of January 2014.

Furthermore, the limit on taking time deposits with special FGC guarantees without fiduciary assignment has been reduced, in accordance with the following schedule:

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- 40.0% from January 1, 2013;
- 60.0% from January 1, 2014;
- 80.0% from January 1, 2015; and
- 100.0% from January 1, 2016.

In May 2013 Resolution No. 4,222/13 was issued, amending and consolidating the rules addressing the FGC bylaws and regulation. In addition to increasing the maximum amount of the guarantee provided by the FGC to R\$250,000, agribusiness notes (“LCA”) were included in credits guaranteed by FGC. In August 2013, the Central Bank amended and consolidated the provisions related to the calculation basis and payment of common contributions by the FGC-associated institutions. The rules governing the FGC are changed on a periodic basis.

***Internal compliance procedures***

All financial institutions must have in place internal policies and procedures to control:

- their activities;
- their financial, operational and management information systems; and
- their compliance with all applicable regulations.

The board of executive officers of a financial institution is responsible for implementing an effective structure for internal controls by defining responsibilities and control procedures and establishing corresponding goals and procedures at all levels of the institution. The board of executive officers is also responsible for verifying compliance with all internal procedures.

***Restrictions on foreign investment***

The Brazilian Constitution permits foreign individuals or companies to invest in the voting shares of financial institutions based in Brazil only if they have specific authorization from the Brazilian government. However, foreign investors without specific authorization may acquire publicly traded non-voting shares of financial institutions based in Brazil or depositary receipts representing non-voting shares offered abroad. Any investment in common shares would depend on government authorization. In January 2012, the Central Bank authorized us to create an ADR program for our common shares in the U.S. market. Foreign interest in our capital stock is currently limited to 30.0%.

***Anti-money laundering regulations, banking secrecy and financial transactions linked to terrorism***

Under Brazilian anti-money laundering rules, which the Central Bank consolidated in July 2009 through Central Bank Circular No. 3,461/09, as amended, financial institutions must:

- keep up-to-date records regarding their customers;
- maintain internal controls and records;
- record transactions involving Brazilian and foreign currency, securities, metals or any other asset which may be converted into money;
- keep records of transactions that exceed R\$10,000 in a calendar month or reveal a pattern of activity that suggests a scheme to avoid identification;
- keep records of all check transactions; and
- keep records and inform the Central Bank of any cash deposits or cash withdrawals in amounts above R\$50,000.

The financial institution must review transactions or proposals whose characteristics may indicate the existence of a crime and inform the Central Bank of the proposed or executed transaction. Records of transactions involving currency or any asset convertible to money, records of transactions that exceed R\$10,000 in a calendar month, and records of check transactions must be kept for at least ten years, unless the bank is notified that a CVM investigation is underway, in which case the ten-year obligation may be extended. Pursuant to Circular No. 3,461/09, amended by Circulars No. 3,517/10, No. 3,583/12 and No. 3,654/13, financial institutions must implement control policies and internal procedures. The Circular No. 3,858/17 increased the penalties resulting from non-compliance with the obligations described above.

The CVM directed special attention to politically exposed individuals through Instruction No. 463/08 and consolidated in Central Bank Circular No. 3,461/09, which refer to individuals politically exposed who

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hold or held prominent public positions in Brazil or abroad during the past five years and their relatives and representatives, heads of state and government, senior politicians and civil servants, judges or high-ranking military officers, and leaders of state controlled enterprises companies or political parties, among others. Central Bank Circular No. 3,654/13 expanded such list to include other members of the Judiciary, Legislative and Executive powers, as well as individuals who held or still hold relevant positions in foreign governments. Financial institutions are required to adopt certain mechanisms in order to: (i) identify the final beneficiaries of each transaction; (ii) identify whether these politically exposed individuals are involved; (iii) monitor financial transactions involving politically exposed individuals; and (iv) pay special attention to people from countries with which Brazil maintains a high number of business and financial transactions, shared borders or ethnic, linguistic or political relations.

In October 2008, the Central Bank broadened the reach of its rules for controlling financial transactions related to terrorism, so that operations carried out on behalf of, services provided to, or access to funds, other financial assets or economic resources belonging to or directly or indirectly controlled by, the following individuals or entities were required to be immediately reported to the Central Bank: (i) members of the Al-Qaeda organization, members of the Taliban and other individuals, groups, companies or entities connected with them; (ii) the former government of Iraq or its agencies or companies located outside of Iraq, as well as funds or other financial assets that might have been withdrawn from Iraq or acquired by Saddam Hussein or by other former Iraqi government senior officials or by the closest members of their families, including companies owned by, or directly or indirectly controlled by them or by individuals under their management; and (iii) individuals perpetrating or attempting to perpetrate terrorist actions or who take part in or facilitate such acts, entities owned or directly or indirectly controlled by such individuals, as well as by individuals and entities acting on their behalf or under their command.

In July 2012, Law No. 12,683/12 came into force, amending Law No. 9,613/98, and toughened the rules on money laundering offenses. According to the new law, any offense or misdemeanour – and not only serious offenses, such as drug traffic and terrorism – may be deemed as a precedent to the money laundering offense. Additionally, the law expands, to a great extent, the list of individuals and companies obliged to report transactions to the Controlling Council of Financial Activities (“COAF”), including, among them, companies providing advisory or consulting services to operations in the financial and capital markets, under the penalty of fines of up to R\$20 million. In June 2013, the CVM enacted an instruction that conformed regulation of this government agency to Law No. 12,638/12, establishing the obligation to send to the regulatory or inspection agency information regarding the non-existence of suspect financial transactions and other situations that generate the need for communications.

In October 2014, the CVM issued Instruction No. 553/14 which, among other issues, (i) firmly states that any business relationship may only be initiated or kept after the arrangements related to the registration process and the “*Conheça seu Cliente*” (Know your Customer) Policy are adhered to; and (ii) requires a statement on the purpose and nature of the business relationship with the institution, making it clear that said statement may be obtained upon the update of registration data of already-existing customers.

In November 2014, the Central Bank changed the procedures related to the Regulation of Anti-Money Laundering and Counter-Terrorism Financing (AML/CTF) to be adhered to by the payment institutions. Accordingly, in addition to the AML/CTF procedures already required, payment institutions must also: (i) adopt procedures and controls to confirm information on customer's identification, which may, among others, match the information provided by the end users against information available in public or private data bases; and (ii) implement AML/CTF risk management systems to provide for the identification and assessment of such risk, as well as carry out mitigation measures proportionate to the risks identified, particularly for high risk cases. These changes were made to meet international requirements set forth under the scope of the Financial Action Task Force (FATF), which is the body responsible for establishing AML/CTF standards to be adhered to by the countries of the G20, such as Brazil. Although rules applicable to payment institutions were expanded, a more flexible approach was applied to prepaid accounts, as the limit for simplified identification was changed from R\$1,500 to R\$5,000 and the range of information to be kept for payment accounts opened by individuals was reduced.

Further, in November 2014, SUSEP established the Permanent Committee on Anti-Money Laundering and Counter-Terrorism Financing in the Insurance, Reinsurance, Capitalization and Private Pension Plan Markets (CPLD). The CPLD is a permanent governing body acting to prevent money laundering and curtail the financing of terrorism, both in connection with SUSEP and the insurance, reinsurance, capitalization and private pension plan markets.

In October 2015, Law No. 13,170/15 was enacted, which deals with the lawsuit for the freezing of assets, values and rights of possession or ownership and all other rights, real or personal, of ownership, directly or indirectly, of individuals or entities subject to this type of sanction by the resolutions of the United

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Nations Security Council – CSNU. This standard was issued to establish a faster procedure to block the assets located in Brazil, seeking to prevent the use of the assets in question in the practice of crimes against humanity.

This law was regulated by means of Circular No. 3,780/16, which provides the procedures to be adopted by financial institutions and other institutions authorized to operate by the Central Bank to meet that standard, including with respect to communications with the competent authorities in the case of a freezing of assets.

***Anticorruption Law***

In August 2013, Law No. 12,846/13 was enacted to regulate civil and administrative liability of legal entities for performing acts against public management, either domestic or foreign.

Based on this legal provision, legal entities shall be strictly liable, in both the administrative and civil spheres, for the practice of harmful acts in their exclusive or non-exclusive interest or benefit.

This law provides for penalties in amounts ranging from 0.1% to 20.0% of the gross revenues earned in the financial year preceding the financial year in which the administrative proceedings was commenced. In applying such sanctions, the existence of internal mechanisms and procedures for integrity, auditing and encouragement of whistle-blowing as well as effective implementation of codes of ethics and conduct of the legal entity, will be taken into consideration, among others.

***Social and environmental responsibility***

We believe that environmental sustainability is directly related to the maintenance of our business and the sustainable development of Brazil. In compliance with CMN Resolution No. 4,327/14, which introduces guidelines for the Social and Environmental Responsibility Policy (“PRSA”) by financial institutions, Bradesco has a set of internal rules, as well as a governance structure responsible for ensuring the implementation of such policy.

The PRSA guides our socio environmental actions related to our business and activities, as well as the relationship with stakeholders, helping the management of risks and opportunities. The Sustainability Committee oversees Bradesco's compliance with its normative framework and voluntary commitments and ratifies the improvement plans proposed by the Sustainability Commission. In advance of Resolution No. 4,327/14, a five-year strategic plan was built under the guidelines of our Senior Management and all of our areas. Its main purpose is to establish a clear connection between the sustainability actions and the business, allowing for the diligent management of risks and opportunities. Those initiatives delivered good results and have helped us over the years to integrate market's trends and needs.

***Climate Change***

In the short and long term, climate change will create major impacts on the world's economy. Changes in the environment, such as the extension of periods of drought and the rising of sea levels, along with extreme weather events, such as tornadoes and hurricanes, are expected with greater intensity and frequency.

In addition, governments and markets have adopted policies to achieve an economy with lower levels of greenhouse gas emissions, which include initiatives related to pricing and the commercialization of emissions, as well as fostering energy efficiency and the use of renewable energies.

This new scenario of physical changes and transition presents risks and opportunities for the financial sector with direct and indirect repercussions.

***Direct risks***

We maintain controls and targets to improve our environmental performance, including the use of natural resources and the control of greenhouse gas emissions, in order to minimize negative impacts. Our inventory of emissions is published annually and the direct emissions are compensated. Additionally, we have contingency plans in place with the aim of reducing our exposure and being less impacted in cases of extreme events, which includes those originated by the weather.

***Indirect risks***

In our credit management, we have a socio environmental risk analysis that seeks to reduce the socio environmental impacts of the operations we finance. In the financings subject to the Equator Principles, we require that the projects with the goal to issue more than 25 thousand tons of carbon equivalent emissions per year conduct prior studies of feasible alternatives of reduction or compensation and compute the volume of emissions in their operations phase. Our work in the area of investments also considers

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environmental, social and governance factors, which also takes in account elements related to climate change. Since 2008, we raise the awareness of our suppliers in relation to risks and opportunities arising from climate change through the CDP Supply Chain Leadership Collaboration (“SCLC”).

Bradesco is one of the organizations that supports the Task Force on Climate-Related Financial Disclosures (“TCFD”). The TCFD seeks to disseminate the exposure of companies to financial impacts arising from climate change. The recommendations of the TCFD launched in June 2017 are guiding studies for the development of methodologies and tools to measure potential losses and revenues in the business of the organizations impacted by climate change. Bradesco's 2017 Integrated Report, available at [www.bradesco.com.br](http://www.bradesco.com.br), provides more information on the socioenvironmental management of the company, including additional data related to the TCFD's requirements.

***Audit partner rotation requirements***

Under Brazilian regulations, all financial institutions must:

- be audited by an independent accounting firm; and
- have the specialist in charge, officer, manager or audit team supervisor periodically replaced without the need to change the independent auditor firm itself. Rotation must take place after five fiscal years at most and replaced professionals may be reintegrated three years later. Terms of responsible specialists, officers, managers or audit team supervisors begin on the day the team begins work on the audit.

Each independent accounting firm must immediately inform the Central Bank of any event that may materially adversely affect the relevant financial institution's status.

For the entities regulated by SUSEP, the applicable standards determine the replacement of the independent auditor and the members responsible for the independent audit, every five fiscal years, whereby the independent accounting firm and the professionals replaced may only be reinstated after three years of their replacing. According to the applicable standards, the first mandatory replacement is expected to take place after the fiscal year ended December 31, 2019.

For the entities regulated by ANS, the applicable standards in effect since 2016 determine that the professional responsible for signing the opinion should change at least every five financial years, requiring a minimum interval of three years from its replacement.

In March 2002, an amendment to the Brazilian Corporate Law gave the members of our Board of Directors veto rights over the appointment or removal of our independent accounting firm.

For additional information on the auditors of the consolidated financial statements included in this annual report see “Item 16.C. Principal Accountant Fees and Services.”



### ***Auditing requirements***

Because we are a financial institution and registered with the local stock exchange, we are required to have our financial statements audited every six months in accordance with BR GAAP, applicable to institutions authorized to operate by the Central Bank. Quarterly financial information filed with the CVM is also subject to review by independent auditors. Additionally, as required by CMN Resolution No. 3,786/09, we are required to publish annual consolidated financial statements prepared in accordance with IFRS, accompanied by the independent auditors' report.

In January 2003, the CVM enacted regulations requiring audited entities to disclose information relating to their independent accounting firm's non-auditing services provided to the entity whenever such services accounted for more than 5.0% of the amount paid to the external auditors.

The independent auditors must also declare to the audited company's management that their provision of these services does not affect the independence and objectivity required for external auditing services.

In May 2004, the CMN enacted new auditing regulations applicable to all financial institutions based in Brazil; which were later revised. Under these regulations, we are required to appoint a member of our Management to be responsible for monitoring and supervising compliance with the accounting and auditing requirements set forth in the legislation.

Pursuant to this regulation, financial institutions having Capital of more than R\$1.0 billion, managing third party assets of at least R\$1.0 billion or having an aggregate amount of third party deposits of over R\$5.0 billion are also required to create an audit committee consisting of independent members. According to the regulation, the number of members, their appointment and removal criteria, their term of office and

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their responsibilities must be specified in the institutions' bylaws. The Audit Committee is responsible for recommending to the Board of Directors which independent accounting firm to engage, reviewing the company's financial statements, including the notes thereto, and the auditors' opinion prior to public release, evaluating the effectiveness of the auditing services provided and internal compliance procedures, assessing management's compliance with the recommendations made by the independent accounting firm, among other matters. Our Bylaws were revised in December 2003 to stipulate the existence of an audit committee. In May 2004, our Board of Directors approved the internal regulations for the Audit Committee and appointed its first members. Our Audit Committee has been fully operational since July 2004. In October 2006, the CMN amended the Resolution No. 3,198/04, changing the minimum requirements to be observed by the financial institutions when electing members for the Audit Committee. In April 2014, the CMN changed certain rules related to audit committees in order to improve the composition and operational of such committees. These rules provided that up to one third of its members may exercise another single consecutive term of office, granting more independence to the Audit Committees of privately-held institutions. See "Item 16.D. Exemptions from the listing standards for Audit Committees."

Since July 2004, we are required to publish a semi-annual audit committee report together with our financial statements. Our Audit Committee's first report was issued together with our financial statements for the second half of 2004.

***Regulation of operations in other jurisdictions***

We have branches and subsidiaries in several other jurisdictions, such as New York, London, Buenos Aires, the Cayman Islands, Hong Kong, Mexico and Luxembourg. The Central Bank supervises Brazilian financial institutions' foreign branches, subsidiaries and corporate properties, and prior approval from the Central Bank is necessary to establish any new branch, subsidiary or representative office or to acquire or increase any interest in any company abroad. In any case, the subsidiaries activities' should be complementary or related to our own principal activities. In most cases, we have had to obtain governmental approvals from local central banks and monetary authorities in foreign jurisdictions before commencing business. In each jurisdiction in which we operate, we are subject to supervision by local authorities.

***Asset management regulation***

Asset management is regulated by the CMN and the CVM.

In August 2004, the CVM issued Instruction No. 409/04, which became effective in November 2004, and has been amended a number of times since then, consolidating all previous regulations applicable to fixed-income asset funds and equity mutual funds. Prior to this ruling, fixed-income asset funds were regulated by the Central Bank, and equity mutual funds were regulated by the CVM.

In December 2014, the CVM enacted Instruction No. 555/14, which replaced Instruction No. 409/04, in order to improve electronic communications, rationalize the volume, content and manner of disclosing information, and to make investment limits less rigid for certain financial assets, particularly foreign financial assets. Additionally, CVM Instruction No. 555/14 addresses the following issues: (i) the framework for setting up funds without the need for executing an adhesion contract and the checking of the adequacy for investment in the fund to the customer's profile in connection with funds investing over 95.0% of its net equity in federal public debt bonds or equivalent risky securities; (ii) barring interest-bearing compensation that would jeopardize the independence of the fund management; (iii) providing more transparency to the distribution policy; (iv) improving performance fee regulation; and (v) providing safer rules for investments in foreign assets. CVM Instruction No. 555/14 became effective in October 2015.

Pursuant to CVM limits and our Bylaws, our investment funds must keep their assets invested in securities and types of trades available in the financial and capital markets.

Securities, as well as other financial assets which are an integral part of the investment fund portfolio, should be duly registered in the registration system with a custodian or central depository, authorized by the Central Bank or the CVM to carry out such activities.

In addition to the limitations specified in each financial investment fund's bylaws, they may not:

- invest more than 10.0% of their net assets in securities of a single issuer, if that issuer is: (i) a publicly-held institution; or (ii) another investment fund;
- invest more than 20.0% of their net assets in securities issued by the same financial institution authorized to operate by the Central Bank (including the fund administrator);

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- invest more than 5.0% of their net assets if the issuer is an individual or corporate entity that is not a publicly-held company or financial institution authorized to operate by the Central Bank; and
- be directly exposed to crypto assets. The CVM recommends avoiding also indirect exposure until the regulator issues a final rule on the matter.

There are no limits when the issuer is the government. For the purposes of these limits, the same issuer means the parent company, companies directly or indirectly controlled by the parent and its affiliates, or companies under common control with the issuer.

Under the previous regulation (CVM Instruction No. 409/04), the qualified investor funds required a minimum investment of R\$1 million per investor and were subject to concentration limitations per issuer or per type of asset as long as this is stated in their bylaws. Under the current regulation (CVM Instruction No. 555/14), this privilege is eligible only for funds for professional investors.

In addition, CVM Instruction No. 409/04 stated that funds could hold financial assets traded abroad in their portfolios as follows: (i) for foreign-debt funds and qualified investor funds that stipulated this possibility, there is no limit; (ii) for multimarket funds, up to 20.0% of net assets; and (iii) for other funds, up to 10.0% of net assets. CVM Instruction No. 555/14 changed these limits to: (i) no limits, for funds classified as “Fixed Income – Foreign Debt,” funds exclusively intended for professional investors that include in their denomination the suffix “Foreign Investment,” and certain funds exclusively intended for qualified investors; (ii) up to 40.0% of its net equity for funds exclusively intended for qualified investors that do not follow certain provisions set forth in this Instruction; and (iii) up to 20.0% of its net equity for general public funds.

Also in December 2014, the CVM established a new concept for qualified and professional investors. Companies and individuals are to be deemed professional investors if they hold financial investments above R\$10.0 million, and are deemed to be qualified investors if they hold financial investments above R\$1 million. These definitions became effective in October 2015.

***Regulation of brokers and dealers***

Broker and dealer firms are part of the SFN and are subject to CMN, Central Bank and CVM regulation and supervision. Brokerage and distribution firms must be authorized by the Central Bank and are the only institutions in Brazil authorized to trade on Brazil's stock exchanges and commodities and futures exchanges. Both brokers and dealers may act as underwriters for public placement of securities and engage in the brokerage of foreign currency in any exchange market.

Brokers must observe B3 rules of conduct previously approved by the CVM, and must designate an executive officer responsible for observance of these rules.

Broker and dealer firms may not:

Partnerships with retail companies – Bradesco Expresso

- with few exceptions, execute transactions that may be characterized as the granting loans to their customers, including the assignment of rights;
- collect commissions from their customers related to transactions of securities during the primary distribution; or
- acquire assets, including real estate properties, which are not for their own utilization; with certain exceptions.

Broker and dealer firms' employees, managers, partners, controlling and controlled entities may trade securities on their own account only through the broker they are related to.

### ***Regulation of Internet brokerage services***

The CVM approved regulations on Internet brokerage activities, which may be carried out only by registered companies. Brokers' web pages must contain details of their systems, fees, security and procedures for executing orders. They must also contain information about how the market functions generally and the risks involved with each type of investment offered.

Brokers that carry out transactions over the Internet must guarantee the security and operability of their systems, which must be audited at least twice a year.

### ***Leasing regulation***

The basic legal framework governing leasing transactions is established by Law No. 6,099/74, as amended (the "Leasing Law") and related regulations issued periodically by the CMN. The Leasing Law

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provides general guidelines for the incorporation of leasing companies and the business activities they may undertake. The CMN, as regulator of the Financial System, is responsible for issuing Leasing Law related regulations and overseeing transactions made by leasing companies. Laws and regulations issued by the Central Bank for financial institutions in general, such as reporting requirements, capital adequacy and leverage regulations asset composition limits and treatment of doubtful loans, are also applicable to leasing companies.

***Insurance regulation***

The Brazilian insurance business is regulated by Decree Law No. 73/66, as amended, which created two regulatory agencies, the CNSP and SUSEP. SUSEP is responsible for implementing and overseeing CNSP's policies and ensuring compliance with such policies by insurance companies, insurance brokers and insured individuals. Insurance companies require government approval to operate, as well as specific approval from SUSEP to offer each of their products. Insurance companies may underwrite policies only through qualified brokers.

Insurance companies must set aside reserves in accordance with CNSP criteria. Investments covering these reserves must be diversified and meet certain liquidity criteria, rules for which were consolidated by CNSP Resolution No. 321/15, as amended, solvency and security criteria. Insurance companies may invest a substantial portion of their assets in securities. As a result, insurance companies are major investors in the Brazilian financial markets and are subject to CMN rules and conditions for their investments and coverage of technical reserves.

Insurance companies may not, among other activities:

- act as financial institutions by lending or providing guarantees;
- trade in securities (subject to exceptions); or
- invest outside of Brazil without specific permission from the authorities.

Insurance companies must operate within certain retention limits approved by SUSEP pursuant to CNSP rules. These rules reflect the economic and financial situation of insurance companies and the conditions of their portfolios. Insurers must also meet certain capital requirements as provided by SUSEP regulations.

Under Complementary Law No. 126/07, the ceding party (local insurer or reinsurer) must offer local reinsurers preference when contracting reinsurance or retrocession to the extent of the following percentages of risks ceded: (i) 60.0% in the first three years as of January 2007; and (ii) 40.0% in subsequent years.

The Complementary Law also places more severe restrictions on ceding risk to foreign reinsurance companies and contracting of insurance abroad. Insurance companies must reinsure amounts exceeding their retention limits.

Since CNSP Resolution No. 168/07 was amended by CNSP Resolution No. 353/17, it does not require the insurance company to hire a minimum number of local reinsurers. However, in accordance with Article 15 of the CNSP Resolution No. 168/07, the insurance company must give preference to local reinsurers in at least 40% of the assignment of reinsurance agreements to each automatic or optional contract. In addition, as per CNSP Resolution No. 168/07 as amendment by CNSP Resolution No. 353/17, there are no more limits on the transference of risks by insurers to companies that belong to its financial conglomerate as long as the operations of reinsurance and retrocession ensure the effective transfer of risk between the parties, and are executed at arms-length.

In 2013, CNSP issued Resolution No. 302/13 which regulates the minimum capital requirement and to solvency regularization plans for insurance companies, capitalization bond entities, EAPCs, and local reinsurance companies. The main changes in such regulation were the following:

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- consolidation of the correction plans and the plans of solvency recovery into a single plan, as the solvency regularization plan (“PRS”);
- establishment of a liquidity minimum ratio (20.0%) over the minimum capital requirement (“CMR”), so that the companies can promptly react to unexpected losses incurred by their capital;
- changes to the base capital for EAPCs constituted as business corporations; and
- exclusion of all references to solvency margin, once all risk portions were already established in the capital requirement rules.

The CNSP Resolution No. 302/13 was revoked by CNSP Resolution No. 316/14, which maintained a large part of the prior rules. The main change was the definition of the capital installment amounts applicable to EAPC, which are now applicable to insurance companies. In December 2014, the CNSP issued Resolution No. 317/14, addressing criteria for calculating risk capital based on the market risk of local insurance companies, EAPC, capitalization companies and reinsurance companies. The CNSP Resolutions No. 316/14 and No. 317/14 were revoked by Resolution No. 321/15, which went into effect in August 2015, and began regulating technical provisions, assets which reduce the need for coverage of technical provisions, risk capital based on the underwriting, operating and market credit risks, adjusted net worth, criteria for investments, accounting standards, accounting audit and independent actuarial audit and Audit Committee relating to insurance companies, EAPCs, capitalization companies and reinsurers.

Insurance companies are exempt from ordinary financial liquidation procedures in case of bankruptcy, and instead follow the special procedure administered by SUSEP. Financial liquidation may be either voluntary or compulsory.

As was already the case in relation to entities subject to CMN, SUSEP issued rules in December 2008 with specific internal controls for preventing and fighting money laundering crimes. These rules include a series of provisions on notifying proposed transactions with politically exposed individuals and suppression of terrorist financing activities. These rules were amended and consolidated by Circular No. 445/12.

There is currently no restriction on foreign investment in insurance companies.

***Health insurance***

Private health insurance and health plans are regulated by Law No. 9,656/98, as amended, which we refer to as the "Health Insurance Law," containing general provisions applicable to health insurance companies and the general terms and conditions of agreements entered into between health insurance companies and their customers.



The ANS is responsible for regulating and supervising supplemental health services provided by health insurance companies pursuant to directives set forth by the Supplemental Health Council (*Conselho de Saúde Suplementar*).

Until 2002, SUSEP had authority over insurance companies, which were authorized to offer private health plans. Since 2002, pursuant to ANS regulations and supervision, only operators of private health plans may offer such plans. We created Bradesco Saúde in 1999 to fulfill this requirement.

### ***Private pension plans***

Open pension plans are subject, for purposes of inspection and control, to the authority of the CNSP and the SUSEP, which are under the regulatory authority of the Ministry of Finance. The CMN, CVM and Central Bank may also issue regulations pertaining to private pension plans, particularly related to assets guaranteeing technical reserves.

Private pension entities must set aside reserves and technical provisions as collateral for their liabilities.

EAPCs and insurance companies have been allowed to create, trade and operate investment funds with segregated assets since January 2006. Notwithstanding the above, certain provisions of Law No. 11,196/05 will only become effective when SUSEP and CVM issue regulatory texts. In September 2007, CVM issued Instruction No. 459/07, which addresses the set up, management, operation and disclosure of information on investment funds exclusively related to supplementary pension fund plans. In January 2013, the CMN determined new rules to govern the application of reserves, provisions and funds of insurance companies, capitalization companies and EAPCs.

### ***Taxes on our main transactions***

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### ***Taxes on financial transactions (“IOF”) on loan transactions***

IOF levied on loan transactions has as its taxable event the delivery of the obligation amount or value, or the event of making it available to the interested party.

Rate applicable to loan and advances of any type, including credit opening is 0.0041% per day to legal entity borrowers and since January 2015, 0.0082% to individual borrowers.

This IOF rate will be charged on principal available to borrowers regarding the loans and advances, but for cases in which the amount of principal is not predetermined, in addition to the IOF levied on principal, there will be additional IOF at the same rate levied on interest and other charges, so that the calculation base will comprise the sum of daily outstanding debt balances calculated on the last day of each month.

Since January 2008, besides IOF on the transactions mentioned above, loans and advances have been subject to IOF additional rate of 0.38% irrespective of the repayment period or whether the borrower is an individual or a legal entity. For legal entities, IOF rate calculation base is not the sum of outstanding debt balances, IOF shall not exceed 1.8765% and for individuals, it will not exceed a 3.373% rate, which corresponds to the result of applying the daily rate to each amount of principal stipulated for the transaction, multiplied by 365 days, plus an additional rate of 0.38% even if the loan is to be repaid by installment.

IOF on loan transactions is levied on transactions between individuals and legal entities domiciled in Brazil, as well as on transactions whose creditor resides in Brazil, even if the debtor is located abroad. However, the IOF is not levied on loan transactions where the lender is located abroad and the borrower is in Brazil.

### ***IOF on insurance transactions***

IOF levied on insurance transactions has as its taxable event the receipt of premium. Applicable rates are as follows:

- 0.0% on: (i) reinsurance transactions; (ii) transactions related to mandatory insurance, linked to residential housing loans granted by an agent of the national housing system (SFH); (iii) insurance transactions for export credits and international merchandise transportation; (iv) aeronautical insurance and civil liability of airlines; (v) premiums intended to finance life insurance plans with survival coverage; and (vi) guarantee insurance;
- 0.38% of premiums paid, in the case of life insurance and similar policies, for personal or workplace accidents, including mandatory insurance for personal injuries caused by vehicles or ships or cargo to persons transported or others;
- 2.38% private health insurance business; and

- 7.38% for all other insurance transactions.

***Income and social contribution taxes on income***

Federal taxes on company income include two components, income tax known as "IRPJ" and tax on net profits, known as "Social Contribution" or "CSLL." Income tax charges are calculated based on a rate of 15.0% plus a surcharge of 10.0% on taxable income exceeding R\$240 thousand per year. Considering the above, the IRPJ is assessed at a combined rate of 25.0% of adjusted net income. Social contribution tax payable by financial institutions is calculated based on a rate of 20.0% from September 2015 through December 2018, and a rate of 15.0% as from January 2019. For further information on our income tax expense, see Note 17 to our consolidated financial statements in "Item 18. Financial Statements."

Due to taxation on universal bases, companies based in Brazil are taxed based on their global income rather than income produced exclusively in Brazil. As a result, profits, capital gains and other income obtained abroad by Brazilian entities are computed in the determination of their taxable profits on an annual basis.

With respect to affiliates, by the general rule of Law No. 12,973/14, affiliates abroad will have their dividends (and not the corporate profit) taxed at the time of effective distribution, nevertheless, with two exceptions: (i) cases in which they are domiciled in a tax haven; or (ii) that adopt a sub-taxation scheme, or in which they are treated as subsidiary. With regard to the rules applicable to the subsidiaries, the new discipline introduced by Law No. 12,973/14 foresees that the legal entities in Brazil with a stake in a subsidiary abroad must: (i) record in sub accounts the investment account, in proportion to the stake held, the share of the adjustment of the investment value equivalent to corporate profits (those calculated before local income tax), earned by the subsidiaries, directly and indirectly, in Brazil or abroad, concerning the calendar year in which they were calculated in the balance sheet; and (ii) compute these values in their

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calculation of actual income and from the calculation base of the Social Contribution.

In June 2010, legislation in Brazil introduced thin capitalization rules, and limited deduction for interest paid or credited by a company based in Brazil to: (i) an addressee domiciled abroad, whether or not holding equity interest in the company paying; and (ii) an addressee resident, domiciled or incorporated in a tax haven or locality with a low or privileged tax regime.

In cases where the creditor is a related party domiciled abroad and holds an equity interest in the company based in Brazil making a payment, debt may not exceed the equivalent to twice such shareholders' interest in the total equity of the company based in Brazil. In case of a related party with no shareholding interest, the limit will be equivalent to twice the total equity of the company resident in Brazil. If there is more than one creditor, total debt owed foreign companies may not exceed the equivalent of twice the total value of the interests of all the related parties in the equity of the company resident in Brazil. If the creditor is domiciled in a low tax jurisdiction the debt amount may not exceed 30.0% of the equity of the company based in Brazil. Any amounts exceeding the limits above such limit may not be deducted for purposes of withholding income and social contributions taxes.

Also beginning in June 2010, tax deductions for any payment to a beneficiary resident or domiciled in a country considered a tax haven became subject to the following requirements in addition to others already stipulated in the legislation: (i) identification of the actual beneficiary of the person domiciled abroad; (ii) proof of the ability of the person located abroad to complete the transaction; and (iii) documented proof of payment of the respective price and of receipt of the assets, rights, or utilization of service.

In November 2010, the Brazilian tax authorities issued a normative instruction altering the tax treatment applicable to variation in the monetary value of taxpayers' credit rights and obligations due to varying exchange rates. Under this new instrument, as of the 2011 calendar year, the election of tax regime for taxation of exchange-rate variations may only be exercised in January of each calendar year and may only be altered during the fiscal year if there is "material variation in the exchange rate," as published by a Finance Ministry Directive.

***PIS and Cofins***

Two federal taxes are imposed on the gross revenues of corporate entities: PIS and Cofins. Nonetheless, many revenues, such as: dividends, equity earnings from unconsolidated companies, revenues from the sale of non-current assets (investments, fixed assets and intangible assets) and, as a general rule, export revenues paid in foreign currency are not included in the calculation base for PIS and Cofins. Revenues earned by corporations domiciled in Brazil are subject to PIS and Cofins taxes corresponding to interest on equity.

Brazilian legislation authorizes certain adjustments to the calculation base of those taxes depending on the business segment and on other aspects.

Between 2002 (PIS) and 2003 (Cofins), the government implemented a non-cumulative collection system of PIS and Cofins taxes, allowing taxpayers to deduct from their calculation basis credits originating from certain transactions. In order to offset these credits, the rates of both PIS and Cofins were substantially increased. Subsequent to the changes made to PIS and Cofins, as of May 2004, both taxes are applicable on imports of goods and services when the taxpayer is the importing company domiciled in Brazil.

Since August 2004, the PIS and Cofins rates due on financial revenues were of 0.0%, including those arising from operations carried out for purposes of hedge, earned by legal entities subject to the system of non-accrual of these contributions. In April 2015, Decree No. 8,426/15 establishes that from July 2015, the rates shall be reestablished to 0.65% and 4.0%, respectively, including with respect to the revenue arising from hedge operations. However, even before the production of the effects of Decree No. 8,426/15, the normative was changed with the promulgation of Decree No. 8,451/15, which reassured the maintenance of the zero rate for contributions to PIS and Cofins, specifically in relation to financial revenues arising from: (i) monetary variation, depending on the exchange rate, of export operations of goods and services, as well as obligations incurred by the legal entity, including loans and financing; and (ii) of hedge operations carried out on the stock exchange, of commodities and of futures, or in the organized OTC market.

Certain economic activities are expressly excluded from the procedures of the non-accrual collection of the PIS and Cofins. This is the case of financial institutions, which shall remain subject to PIS and Cofins by the "accrued" procedures, which does not permit the discount of any credits, as provided by Article 10, paragraph I, of Law No. 10,833/03. In spite of this impossibility of accrual of credits, the legislation in force enables the exclusion of certain expenditure in the calculation by such entities of the bases of calculation of the PIS and Cofins (as is the case, for example, of the expenses incurred by the banks in financial mediation operations and expenditure on severance payments corresponding to accidents occurring in the case of

## **4.B. Business Overview**

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private insurance companies). In such cases, the income received by the financial institutions is subject to Contribution to the PIS and Cofins at the rates of 0.65% and 4.0%, respectively.

In July 2010, the Brazilian tax authorities introduced digital tax records for PIS and Cofins taxes. Under the new rule, financial and similar institutions must keep digital records for PIS and Cofins taxes relating to taxable events occurring as of January 2012.

### ***Foreign Account Tax Compliance Act (FATCA)***

#### ***Compliance with the Foreign Account Tax Compliance Act (FATCA) and Common Reporting Standard (CRS) (Tax Compliance Laws for Foreign Accounts)***

Our Organization observes the laws and regulations applicable to its business, whether at national or international level. In this sense, it complies with the FATCA and CRS provisions, which aim to enhance the transparency of fiscal information and to fight against tax evasion, practices of money laundering and the financing of terrorism, through the establishment of Compliance rules that require financial institutions to provide registration and financial data of people with fiscal residence in other participating countries.

FATCA is an American law that defines procedures and obligations applicable to foreign entities in order to identify financial resources of North American taxpayers (US Person) located abroad and to establish Compliance rules that require financial institutions to provide registration and financial data on these people.

The Decree Law No. 8,506/15, signed and ratified the agreement between the Government of the Federative Republic of Brazil and the Government of the United States of America for the improvement of international tax compliance and implementation of the FATCA.

The CRS is the derivative instrument of the Convention on Mutual Assistance in Tax Matters, OECD and of the Multilateral Competent Authority Agreement, with goals aligned to the guidelines of the FATCA.

The Brazilian Federal Revenue (“RFB”) Normative Instruction No. 1,680/16, features on the identification of financial accounts in accordance with the CRS and regulates the procedures for identification, diligence and reporting to be made by financial institutions and entities subject to the norm.

The financial institutions and entities subject should address this information to the RFB, through e-Financeira, following the obligations of Normative Instruction No. 1,571/16.

### ***Centralized Registration and Deposit of Financial Assets and Securities***

In August 2017, the Brazilian Congress converted MP No. 775/17, issued by the President of Brazil in April 2017, into the Law No. 13,476/17. The new law consolidates the provisions on creation of liens over

financial assets and securities. On the same day, the CMN issued Resolution No. 4,593/17 to regulate the provisions set by Law 13,476/17 and consolidate the regulation on centralized deposits and registry of financial assets and securities issued or owned by financial institutions and other institutions authorized to operate by the Central Bank. The CMN has established a deadline of 180 days for this rule to become effective. Resolution No. 4,593/17 presents a clearer definition of financial assets which includes, in addition to traditional financial instruments such as certificates and bank deposit receipts, credit securities subject to discount and credit card receivables. In addition, the rule establishes that the record of financial assets and securities is applicable to bilateral operations (meaning operations directly with clients), with some exemptions in certain situations; and the centralized deposit is applicable to credit securities with payment obligations and securities issued by financial institutions or other institutions authorized to operate by the Central Bank as a condition for engaging in certain negotiations and in assumption of custody. The Central Bank will issue regulations governing the implementation of such rules, including the creation of an electronic system for constitution of liens and encumbrances.

### ***Selected Statistical Information***

Selected statistical data shown in this section as of and for the years ended December 31, 2017, 2016 and 2015 is derived from our audited consolidated financial statements prepared in accordance with IFRS, included elsewhere in this annual report, except for average balances, whose calculation methods are shown below. The data for the years ended December 31, 2014 and 2013, is derived from our audited consolidated financial statements prepared in accordance with IFRS which are not included herein.

We have included the following information for analytical purposes. You should read this information (for the years ended December 31, 2017, 2016 and 2015) in conjunction with "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements in "Item 18. Financial Statements."

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Form 20-F***Average balance sheet and interest rate data***

The following tables present the average balances of our interest-earning assets and liabilities, other assets and liabilities accounts, related interest income and expenses, and the average real yield/rate for each period. We calculate the average balances using the end-of-month account balances, which include related accrued interest.

***Interest-earning and non-interest earning assets***

For the year ended December 31,	R\$ in thousands, except %					
	Average balance	2017 Interest and similar income	Average rate	Average balance	2016 Interest and similar income	Average rate
<b>Interest-earning assets</b>						
Financial assets held for trading	209,289,723	13,684,574	6.5%	180,250,789	23,576,526	13.1%
Financial assets available for sale	113,911,212	11,351,320	10.0%	122,649,627	11,572,618	9.4%
Investments held to maturity	41,836,244	4,883,103	11.7%	41,834,019	6,514,933	15.6%
Financial assets pledged as collateral	193,203,196	21,268,934	11.0%	150,544,635	21,739,202	14.4%
Loans and advances to banks	57,277,934	5,073,435	8.9%	67,961,405	8,689,348	12.8%
Loans and advances to customers	363,674,189	65,021,090	17.9%	373,112,857	69,874,022	18.7%
Central Bank compulsory deposits	58,875,557	4,881,319	8.3%	55,847,576	5,667,516	10.1%
Other interest-earning assets	871,012	68,553	7.9%	722,571	66,210	9.2%
<b>Total interest-earning assets</b>	<b>1,038,939,067</b>	<b>126,232,328</b>	<b>12.2%</b>	<b>992,923,479</b>	<b>147,700,375</b>	<b>14.9%</b>
<b>Non-interest-earning assets</b>						
Cash and balances with banks	14,561,569	-	-	19,121,670	-	-
Central Bank compulsory deposits	5,668,761	-	-	5,967,948	-	-
Financial assets available for sale (shares)	10,426,747	-	-	10,528,712	-	-
Non-performing loans and advances to customers <sup>(1)</sup>	20,059,794	-	-	21,033,366	-	-
Impairment of loans and advances	(34,631,652)	-	-	(24,802,018)	-	-
Investments in associates and joint ventures	7,509,425	-	-	6,416,824	-	-
Property and equipment, net of accumulated depreciation	7,660,382	-	-	6,722,918	-	-
Intangible assets and goodwill, net of accumulated amortization	15,369,482	-	-	11,569,568	-	-
Current and deferred income tax	57,857,166	-	-	56,987,580	-	-



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Other non-interest-earning assets	70,823,130	-	-	73,931,728	-	-
<b>Total non-interest-earning assets</b>	<b>175,304,804</b>	-	-	<b>187,478,296</b>	-	-
*	*	*	*	*	*	*
<b>Total assets</b>	<b>1,214,243,871</b>	<b>126,232,328</b>	<b>10.4%</b>	<b>1,180,401,775</b>	<b>147,700,375</b>	<b>12.5%</b>

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***Interest-bearing and non-interest-bearing liabilities***

For the year ended December 31,		2017		R\$ in thousands, except	
Average balance	Interest and similar expense	Average rate	Average balance	Interest and similar expense	Average rate
<b>Interest-bearing liabilities</b>					
Interbank deposits	1,397,862	152,550	10.9%	1,205,451	127,617
Savings deposits	96,511,751	5,730,457	5.9%	93,598,769	6,712,509
Time deposits	122,959,605	7,536,161	6.1%	111,471,035	8,746,203
Obligations for repurchase agreements	238,407,697	22,564,515	9.5%	232,718,923	26,767,039
Borrowings and onlendings	58,617,611	3,068,552	5.2%	65,927,057	3,865,411
Funds from securities issued	138,281,213	13,262,613	9.6%	151,629,726	17,124,502
Subordinated debt	52,065,114	5,100,017	9.8%	52,348,349	6,298,555
Insurance technical provisions and pension plans	226,765,103	18,174,550	8.0%	198,174,725	21,395,550
<b>Total interest-bearing liabilities</b>	<b>935,005,956</b>	<b>75,589,415</b>	<b>8.1%</b>	<b>907,074,035</b>	<b>91,037,386</b>
<b>Non-interest-bearing liabilities</b>					
Demand deposits	31,014,556	-	-	32,645,961	-
Other non-interest-bearing liabilities	138,586,108	-	-	143,993,002	-
<b>Total non-interest-bearing liabilities</b>	<b>169,600,664</b>	<b>-</b>	<b>-</b>	<b>176,638,963</b>	<b>-</b>
* * * * *					
<b>Total liabilities</b>	<b>1,104,606,620</b>	<b>75,589,415</b>	<b>6.8%</b>	<b>1,083,712,998</b>	<b>91,037,386</b>
* * * * *					
<b>Equity attributable to controlling shareholders</b>	<b>109,139,400</b>	<b>-</b>	<b>-</b>	<b>96,263,256</b>	<b>-</b>
<b>Non-controlling interest</b>	<b>497,851</b>	<b>-</b>	<b>-</b>	<b>425,521</b>	<b>-</b>
<b>Total liabilities and equity</b>	<b>1,214,243,871</b>	<b>75,589,415</b>	<b>6.2%</b>	<b>1,180,401,775</b>	<b>91,037,386</b>

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***Changes in interest and similar income and expenses – volume and rate analysis***

The following table shows the effects of changes in our interest income and expense arising from changes in average volumes and average yield/rates for the periods presented. We calculated the changes in volume and interest rate based on the analysis of average balances during the period and changes in average interest rates on interest-earning assets and interest-bearing liabilities. We allocated the net change from the combined effects of volume and rate proportionately to the average volume and rate, in absolute terms, without considering positive and negative effects:

For the year ended December 31,	R\$ in thousands					
	Average volume	2017/2016 Average yield/rate	Increase/(decrease) due to changes in Net change	2016/2015 Average volume	2016/2015 Average yield/rate	Net change
<b>Interest earning assets</b>						
Financial assets held for trading	3,335,431	(13,227,383)	(9,891,952)	9,349,835	243,764	9,593,599
Financial assets available for sale	(850,398)	629,100	(221,298)	2,898,616	(2,955,491)	(56,875)
Investments held to maturity	346	(1,632,176)	(1,631,830)	1,421,564	(160,247)	1,261,317
Financial assets pledged as collateral	5,363,861	(5,834,129)	(470,268)	337,840	1,131,171	1,469,011
Loans and advances to banks	(1,223,911)	(2,392,002)	(3,615,913)	599,583	(259,429)	340,154
Loans and advances to customers	(1,738,916)	(3,114,016)	(4,852,932)	6,635,310	322,198	6,957,508
Central Bank compulsory deposits	294,432	(1,080,629)	(786,197)	1,212,325	(132,221)	1,080,104
Other interest earning assets	12,464	(10,121)	2,343	7,558	(253)	7,305
<b>Total interest earning assets</b>	<b>5,193,309</b>	<b>(26,661,356)</b>	<b>(21,468,047)</b>	<b>22,462,631</b>	<b>(1,810,508)</b>	<b>20,652,123</b>
<b>Interest bearing liabilities</b>						
Interbank deposits	20,896	4,037	24,933	62,733	(9,930)	52,803
Savings deposits	203,401	(1,185,453)	(982,052)	180,254	81,997	262,251
Time deposits	838,253	(2,048,295)	(1,210,042)	2,104,319	699,498	2,803,817
Partnerships with retail companies – Bradesco Expresso						179

Obligations for repurchase agreements	640,261	(4,842,785)	(4,202,524)	2,397,114	860,140	3,257,254
Borrowings and onlendings	(405,211)	(391,648)	(796,859)	93,999	679,228	773,227
Funds from securities issued	(1,423,745)	(2,438,144)	(3,861,889)	6,108,709	(554,813)	5,553,896
Subordinated debt	(33,900)	(1,164,638)	(1,198,538)	1,654,115	(25,390)	1,628,725
Insurance technical provisions and pension plans	2,801,238	(6,022,238)	(3,221,000)	4,417,198	876,005	5,293,203
<b>Total interest bearing liabilities</b>	<b>2,641,193</b>	<b>(18,089,164)</b>	<b>(15,447,971)</b>	<b>17,018,441</b>	<b>2,606,735</b>	<b>19,625,176</b>

### ***Net interest margin and spread***

The following table shows the average balance of our interest-earning assets, interest-bearing liabilities, and net interest and similar income, and compares net interest margin with net interest spread for the periods indicated:

	<b>For the year ended December 31,</b>		
	<b>R\$ in thousands, except %</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Average balance of interest earning assets	1,038,939,067	992,923,479	830,573,056
Average balance of interest bearing liabilities	935,005,956	907,074,035	744,656,465
<b>Net interest income</b> <sup>(1)</sup>	<b>50,642,913</b>	<b>56,662,989</b>	<b>55,636,042</b>
*	*	*	*
Interest rate on the average balance of interest earning assets	12.2%	14.9%	15.3%
Interest rate on the average balance of interest bearing liabilities	8.1%	10.0%	9.6%
<b>Net yield on interest earning assets</b> <sup>(2)</sup>	<b>4.1%</b>	<b>4.9%</b>	<b>5.7%</b>
*	*	*	*
<b>Net interest margin</b> <sup>(3)</sup>	<b>4.9%</b>	<b>5.7%</b>	<b>6.7%</b>

(1) Total interest income less total interest expenses;

(2) Difference between the yield on the rates of the average interest earning assets and the rate of the average interest bearing liabilities; and

(3) Net interest income divided by average interest earning assets.

### ***Return on equity and assets***

The following table shows selected financial indices for the periods indicated:

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For the year ended December 31,	R\$ in thousands, except % and per share information		
	2017	2016	2015
Net income attributable to controlling shareholders in IFRS	17,089,364	17,894,249	18,132,906
Accounting practices differences ( IFRS X BR GAAP)	(2,431,609)	(2,810,671)	(943,271)
Net income in BR GAAP	14,657,755	15,083,578	17,189,635
Average total assets	1,214,243,871	1,180,401,775	957,909,378
Average equity attributable to controlling shareholders	109,139,400	96,263,256	85,887,584
Net income attributable to controlling shareholders as a percentage of average total assets	1.4%	1.5%	1.9%
Net income attributable to controlling shareholders as a percentage of average equity attributable to controlling shareholders	15.7%	18.6%	21.1%
Dividends payout ratio to net income <sup>(1)</sup>	44.0%	41.4%	32.2%

(1) Dividends and Interest on Equity (net of taxes) divided by net income, discounting legal reserves, according to BR GAAP.

***Financial assets held for trading, available for sale, investments held to maturity and financial assets pledged as collateral***

The following table shows, as of the dates indicated, the breakdown of our financial assets held for trading, available for sale at fair value and our investments held to maturity at amortized cost. For more information on the treatment of our financial assets held for trading, available for sale and investments held to maturity see Notes 20, 21 and 22 to our consolidated financial statements included in "Item 18. Financial Statements":

December 31,	R\$ in thousands, except %		
	2017	2016	2015
<b>Financial assets held for trading</b>			
Brazilian government securities	202,249,272	161,103,399	93,833,116
Bank debt securities	8,348,269	18,600,127	15,322,751
Derivative financial instruments	13,866,885	16,755,442	18,870,917
Corporate debt and marketable equity securities	12,339,790	10,383,682	7,674,357
Mutual funds	4,377,508	4,303,781	21,711,385
Brazilian sovereign bonds	307	1,358,025	1,426,416
Foreign government securities	528,010	635,390	784,507
<b>Total financial assets held for trading</b>	<b>241,710,041</b>	<b>213,139,846</b>	<b>159,623,449</b>
Financial assets held for trading as a percentage of total assets	19.7%	17.9%	15.5%

**Financial assets available for sale**

Brazilian government securities	103,281,758	59,198,028	66,215,852
Corporate debt securities	39,978,630	42,142,708	35,761,813
Marketable equity securities	11,037,807	9,817,561	9,323,746
Bank debt securities	1,183,853	1,559,043	4,643,044
Brazilian sovereign bonds	728,127	401,214	4,791
Foreign government securities	3,202,547	-	1,746,204
<b>Total financial assets available for sale</b>	<b>159,412,722</b>	<b>113,118,554</b>	<b>117,695,450</b>
Financial assets available for sale as a percentage of total assets	13.0%	9.5%	11.5%

\*

\*

\*

\*

**Investments held to maturity**

Brazilian government securities	26,738,940	30,241,947	27,405,022
Corporate debt securities	12,259,564	12,739,187	12,557,446
Brazilian sovereign bonds	7,614	20,894	41,092
<b>Total investments held to maturity</b>	<b>39,006,118</b>	<b>43,002,028</b>	<b>40,003,560</b>
Investments held to maturity as a percentage of total assets	3.2%	3.6%	3.9%

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The following table shows our financial assets pledged as collateral as of the dates indicated. For additional information about our financial assets pledged as collateral, see Note 23 to our consolidated financial statements included in "Item 18. Financial Statements":

	R\$ in thousands, except %		
	December 31, 2017	2016	2015
<b>Financial assets held for trading</b>			
Brazilian government securities	801,182	6,282,141	291,498
<b>Total of financial assets held for trading</b>	<b>801,182</b>	<b>6,282,141</b>	<b>291,498</b>
Financial assets held for trading as a percentage of total assets	0.1%	0.5%	0.0%
<b>Financial assets available for sale</b>			
Brazilian government securities	53,039,884	55,530,423	28,866,615
Corporate debt securities	825,287	3,899,878	2,488,929
Bank debt securities	4,904,070	4,742,273	1,817,967
Brazilian sovereign bonds	713,555	102,841	-
<b>Total of financial assets available for sale</b>	<b>59,482,796</b>	<b>64,275,415</b>	<b>33,173,511</b>
Financial assets available for sale as a percentage of total assets	4.9%	5.4%	3.2%
<b>Investments held to maturity</b>			
Brazilian sovereign bonds	-	431	-
<b>Total of investments held to maturity</b>	<b>-</b>	<b>431</b>	<b>-</b>
Investments held to maturity as a percentage of total assets	-	-	-
*	*	*	*
<b>Loans and advances to banks</b>			
Interbank investments	123,691,195	84,728,590	111,024,912
<b>Total of loans and advances to banks</b>	<b>123,691,195</b>	<b>84,728,590</b>	<b>111,024,912</b>
Loans and advances to banks as a percentage of total assets	10.1%	7.1%	10.8%
<b>Total financial assets pledged as collateral</b>	<b>183,975,173</b>	<b>155,286,577</b>	<b>144,489,921</b>
Financial assets pledged as collateral as a % of total assets	15.0%	13.0%	14.1%

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***Maturity distribution***

The following table shows maturity dates and weighted average yield as of December 31, 2017, for our financial assets held for trading, financial assets available for sale and investments held to maturity:

December 31, 2017	R\$ in thousands, except %									
	Due in 1 year or less		Due after 1 year up to 5 years		Due after 5 years up to 10 years		Due after 10 years		No stated maturity	
	Balance	Average yield	Balance	Average yield	Balance	Average yield	Balance	Average yield	Balance	Average yield
<b>Financial assets held for trading</b>										
Brazilian government securities	7,764,054	6.4%	140,761,502	6.8%	51,509,560	8.7%	2,214,156	5.4%	-	-
Corporate debt and marketable equity securities <sup>(1)</sup>	3,477,123	6.0%	3,952,808	6.3%	1,682,605	6.2%	182,558	7.0%	3,044,695	-
Bank debt securities	6,985,811	6.8%	1,352,297	6.8%	-	-	10,162	6.5%	-	-
Mutual funds <sup>(2)</sup>	-	-	-	-	-	-	-	-	4,377,508	-
Derivative financial instruments	13,187,430	-	105,519	-	571,182	-	2,754	-	-	-
Foreign government securities	172,770	7.0%	355,240	5.1%	-	-	-	-	-	-
Brazilian sovereign bonds	-	-	-	-	214	3.9%	93	10.3%	-	-
<b>Total financial assets held for trading</b>	<b>31,587,188</b>		<b>-146,527,366</b>		<b>- 53,763,561</b>		<b>- 2,409,723</b>		<b>- 7,422,203</b>	
	*	*	*	*	*	*	*	*	*	*



**Financial assets available for sale**

Brazilian government securities	24,844,455	6.4%	55,932,632	7.4%	6,727,447	9.1%	15,777,224	5.4%	-
Brazilian sovereign bonds	718.00	8.0%	447,526	5.2%	279,883.00	2.6%	-	-	-
Corporate debt securities	3,105,720	7.3%	26,492,752	6.6%	9,128,969	6.5%	1,251,189	7.8%	-
Bank debt securities	13,627	6.2%	943,176	5.0%	227,050	5.2%	-	-	-
Marketable equity securities <sup>(2)</sup>	-	-	-	-	-	-	-	-	- 11,037,807
Foreign government securities	3,202,547	7.3%	-	-	-	-	-	-	-
<b>Total financial assets available for sale</b>	<b>31,167,067</b>		<b>- 83,816,086</b>		<b>- 16,363,349</b>		<b>- 17,028,413</b>		<b>- 11,037,807</b>
	*	*	*	*	*	*	*	*	*

**Investments held to maturity**

Brazilian government securities	20,332	6.0%	8,312,769	4.4%	63,422	5.5%	18,342,416	5.3%	-
Brazilian sovereign bonds	7,614	8.0%	-	-	-	-	-	-	-
Floating rate – bills of exchange	1,466	10.8%	1,972,171	9.4%	1,870,444	9.4%	8,415,484	9.4%	-
<b>Total investments held to maturity</b>	<b>29,412</b>		<b>- 10,284,940</b>		<b>- 1,933,866</b>		<b>- 26,757,900</b>		<b>-</b>

**Overall Total**      **62,783,667**                      **- 240,628,392**                      **- 72,060,776**                      **- 46,196,036**                      **- 18,460,010**

(1) For no stated maturity, it mainly corresponds to marketable equity securities; and

(2) Investments in these assets are redeemable at any time in accordance with our liquidity needs. Average yield is not stated, as future yields are not quantifiable.



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The following table shows maturity dates and weighted average yield as of December 31, 2017, for our financial assets pledged as collateral:

December 31, 2017	R\$ in thousands, except %							
	Due in 1 year or less		Due after 1 year to 5 years		Due after 5 years to 10 years		Due after 10 years	
	Balance	Average yield	Balance	Average yield	Balance	Average yield	Balance	Average yield
<b>Financial assets held for trading</b>								
Brazilian government securities	1,258	8.4%	485,214	8.8%	304,644	9.6%	10,066	
<b>Total of financial assets held for trading</b>	<b>1,258</b>	<b>-</b>	<b>485,214</b>	<b>-</b>	<b>304,644</b>	<b>-</b>	<b>10,066</b>	
	*	*	*	*	*	*	*	*
<b>Financial assets available for sale</b>								
Brazilian government securities	15,596,002	8.5%	37,343,117	9.2%	87,945	10.0%	12,820	
Corporate debt securities	27,959	8.8%	95,455	8.7%	701,874	8.2%	-	
Brazilian sovereign bonds	-	-	358,250	8.9%	355,304	6.6%	-	
Bank debt securities	1,127,402	7.7%	2,683,381	6.6%	1,093,287	7.8%	-	
<b>Total of financial assets available for sale</b>	<b>16,751,363</b>	<b>-</b>	<b>40,480,203</b>	<b>-</b>	<b>2,238,410</b>	<b>-</b>	<b>12,820</b>	
	*	*	*	*	*	*	*	*
<b>Loans and advances to banks</b>								
Interbank investments	123,691,195	7.0%	-	-	-	-	-	-
<b>Total of loans and advances to banks</b>	<b>123,691,195</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Overall Total</b>	<b>140,443,816</b>	<b>-</b>	<b>40,965,417</b>	<b>-</b>	<b>2,543,054</b>	<b>-</b>	<b>22,886</b>	



**4.B. Business Overview**

## Form 20-F

The following table shows our financial assets held for trading, financial assets available for sale and investments held to maturity by currency as of the dates indicated:

	R\$ in thousands			Total
	At fair value		Amortized cost	
	Financial assets held for trading	Financial assets available for sale	Investments held to maturity	
<b>December 31, 2017</b>				
Denominated in <i>reais</i>	240,442,057	154,379,847	38,998,504	433,820,408
Denominated in foreign currency <sup>(1)</sup>	1,267,984	5,032,875	7,614	6,308,473
*	*	*	*	*
<b>December 31, 2016</b>				
Denominated in <i>reais</i>	210,043,774	110,274,881	42,981,134	363,299,789
Denominated in foreign currency <sup>(1)</sup>	3,096,072	2,843,673	20,894	5,960,639
*	*	*	*	*
<b>December 31, 2015</b>				
Denominated in <i>reais</i>	155,144,937	110,208,119	39,962,468	305,315,524
Denominated in foreign currency <sup>(1)</sup>	4,478,512	7,487,331	41,092	12,006,935

<sup>(1)</sup> Predominantly U.S. dollars.

The following table shows our financial assets pledged as collateral by currency as of the dates indicated:

	R\$ in thousands				Total
	At fair value		Amortized cost		
	Financial assets held for trading	Financial assets available for sale	Loans and advances to banks	Investments held to maturity	
<b>December 31, 2017</b>					
Denominated in <i>reais</i>	801,182	53,039,884	123,691,195	-	177,532,261
Denominated in foreign currency <sup>(1)</sup>	-	6,442,912	-	-	6,442,912
*	*	*	*	*	*
<b>December 31, 2016</b>					
Denominated in <i>reais</i>	6,282,141	55,530,423	84,728,590	431	146,541,585
Denominated in foreign currency <sup>(1)</sup>	-	8,744,992	-	-	8,744,992
*	*	*	*	*	*
<b>December 31, 2015</b>					
Denominated in <i>reais</i>	291,498	28,866,614	111,024,912	-	140,183,024

Denominated in foreign currency <sup>(1)</sup> - 4,306,897 - - 4,306,897  
 (1) Predominantly U.S. dollars.

***Loans and advances to customers***

The following tables summarize our outstanding loans and advances to customers by category of transaction. Substantially all of our loans and advances to customers are to borrowers domiciled in Brazil and are denominated in reais. The majority of our loans and advances are denominated in reais and indexed to fixed or floating interest rates. A smaller portion of them are denominated in, or indexed to, the U.S. dollar and subject to interest rates:

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December 31,	R\$ in thousands				
	2017	2016	2015	2014	2013
<b>Type of loans and advances to customers</b>					
Working capital	52,700,584	60,390,890	65,501,431	62,155,974	59,180,627
Personal credit <sup>(1)</sup>	60,570,146	56,255,740	49,681,429	45,807,489	41,922,683
BNDES/Finame onlendings	30,655,666	35,816,560	38,158,108	42,168,754	40,543,267
Vehicle financing	24,741,298	23,699,948	26,484,476	30,354,903	32,209,642
Housing loans	59,963,375	60,458,038	48,114,515	40,103,169	27,870,462
Export financing	38,272,982	41,983,307	38,180,619	26,141,531	25,662,214
Credit cards	37,568,984	37,407,733	30,943,428	28,072,447	25,473,079
Rural loans	13,642,478	14,422,799	13,710,274	17,057,992	13,651,917
Guaranteed account	6,587,239	8,583,285	9,831,248	10,500,353	10,422,370
Import financing	5,318,042	7,140,346	11,026,017	9,195,381	8,598,811
Leasing	2,249,859	2,738,611	3,072,777	4,319,148	5,713,481
Insurance premiums receivable	4,301,472	5,517,932	4,757,182	4,257,787	3,717,227
Overdraft facilities	3,582,020	4,209,637	3,904,890	3,665,539	3,312,666
Others	33,659,520	33,459,047	26,957,274	25,396,213	25,701,122
<b>Total portfolio</b>	<b>373,813,665</b>	<b>392,083,873</b>	<b>370,323,669</b>	<b>349,196,680</b>	<b>323,979,568</b>
<b>Impairment of loans and advances</b>	<b>(27,055,566)</b>	<b>(24,780,839)</b>	<b>(25,455,204)</b>	<b>(21,132,677)</b>	<b>(19,858,234)</b>
<b>Net loans and advances to customers</b>	<b>346,758,099</b>	<b>367,303,034</b>	<b>344,868,465</b>	<b>328,064,003</b>	<b>304,121,334</b>

<sup>(1)</sup> Including payroll-deductible loans.

The main types of loans and advances presented are as follows:

- **working capital** – this line of credit is used to meet company cash requirements, finance operational cycle and honor commitments such as purchases of raw materials, goods, and other items;
- **personal credit** – this credit is for individuals, with the objective of financing personal needs or the purchase of consumer goods;
- **BNDES/FINAME onlendings** – BNDES financing programs are intended for financing the implementation, expansion and modernization of production activities and infrastructure. FINAME operations consist of financing of machinery and equipment manufactured in Brazil;
- **vehicle financing** – this is a direct consumer credit (CDC) line linked with financing of new and used vehicles;

- **housing loans** – these loans are used to acquire real estate that are usually long-term and mortgage loans to construction companies;
- **export financing** –these are advances on exchange contracts to customers exporting goods or services, individuals and companies, exporting through exchange contracts that are normally short- and medium-term loans, onlending of funds from BNDES-EXIM, export credit notes and bonds, pre-payment for export and operations structured by our units abroad;
- **credit card** – this credit line is based on previously approved limits for acquisition of goods or services;
- **rural credit** –this line of credit is for farmers and agricultural cooperatives, funds to cover current costs, investment and marketing of agricultural products;
- **guaranteed account** –this is a revolving credit line to be used by companies to meet their emergency financial needs;
- **import financing** –this is a foreign currency financing/refinancing line intended for paying for the acquisition of goods and services made abroad;
- **leasing** – leasing contracts consist primarily of leases of equipment and automobiles to both corporate and individual borrowers;
- **insurance premium receivable** – refers to the sum to be paid by the insured to the insurer to assume the risk to which the insured person is exposed; and
- **overdraft limit** – pre-approved credit limit, available in the checking account, to be used when the client needs to make payments or transfers has no available balance.

***Impairment of loans and advances***

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## **4.B. Business Overview**

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Impairment of loans and advances represent our estimates of incurred losses in our portfolio of loans and advances. The assessment of this estimate is based on frequent revisions of individual loans and loans collectively assessed for impairment. For further information on the methodology of calculating the impairment of loans and advances, see Note 3.1 to our consolidated financial statements in "Item 18. Financial Statements."

### ***Charge-offs on loans and advances to customers***

Loans and advances are charged-off against the impairment when the loan is considered uncollectible or is considered permanently impaired. Loans and advances are charged off usually when they are between 180 and 360 days overdue. However, longer-term loans and advances, that have original terms greater than 36 months, are charged off when they are between 360 and 540 days overdue.

We generally classify overdue loans as non-performing loans before charging them off. Impairment of loans and advances related to any loans remains on our books until the loan is charged-off.

For more information on our categorization of loans, see "Regulation and Supervision – Bank regulations – Treatment of loans and advances."

### ***Indexation***

The majority of our portfolio of loans and advances is denominated in *reais*. However, a portion of our portfolio of loans and advances is indexed or denominated in foreign currencies, predominantly the U.S. dollar. Our loans and advances indexed to and denominated in foreign currency consist primarily of onlending of Eurobonds and export and import financing, and represented 8.1% in 2017, 10.3% in 2016 and 13.6% in 2015 of our portfolio of loans and advances. In many cases, our customers hold derivative instruments to minimize exchange rate variation risk.

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Table of Contents**4.B. Business Overview**  
Form 20-F***Maturities and interest rates of loans and advances to customers***

The following tables show the distribution of maturities of our loans and advances to customers by type, as well as the composition of our loans and advances to customers' portfolio by interest rate and maturity, as of the dates indicated:

As of December 31, 2017	R\$ in thousands						
	Due within 30 days or less	Due in 31 to 90 days	Due in 91 to 180 days	Due in 181 to 360 days	Due in 1 to 3 years	Due after 3 years	No stated maturity
<b>Type of loans and advances to customers</b>							
Working capital	4,152,599	2,920,572	2,337,619	7,677,640	10,050,124	22,552,897	3,009,000
Personal credit	3,778,349	3,440,702	2,478,403	7,000,890	10,426,881	30,916,782	2,528,000
BNDES/Finame onlendings	951,008	745,214	748,741	3,133,952	5,275,011	19,713,048	88,000
Vehicle financing	1,449,408	1,339,798	1,177,678	3,324,947	5,379,922	11,103,128	966,000
Housing loans	879,004	834,601	673,911	1,656,908	2,866,597	50,948,967	2,103,000
Export financing	3,081,676	2,102,616	2,894,204	5,947,846	4,877,376	18,963,719	405,000
Credit cards	-	-	-	-	-	-	37,568
Rural loans	432,525	770,263	518,708	2,014,761	6,989,825	2,650,030	266,000
Guaranteed account	1,702,334	1,926,444	1,611,321	957,737	162,488	3,877	223,000
Import financing	927,465	819,812	591,090	1,634,402	771,705	559,096	14,000
Leasing	176,811	119,579	104,723	287,334	429,826	1,072,286	59,000
Insurance premiums receivable	4,275,166	-	-	-	-	26,306	-
Overdraft facilities	1,065,148	758,731	402,416	157,809	254,641	31,773	911,000
Others	9,879,091	4,789,618	1,729,761	3,020,774	2,626,384	5,050,513	6,563,000
<b>Total loans and advances to customers</b>	<b>32,750,584</b>	<b>20,567,950</b>	<b>15,268,575</b>	<b>36,815,000</b>	<b>50,110,780</b>	<b>163,592,422</b>	<b>54,708,000</b>

(1) Primarily composed of non-performing loans and advances to customers over 60 days, excluding credit cards over 60 days.

As of December 31, 2017	R\$ in thousands							
	Due within 30 days or less	Due in 31 to 90 days	Due in 91 to 180 days	Due in 181 to 360 days	Due in 1 to 3 years	Due after 3 years	No stated maturity	Total loans, gross

**Types of  
interest rates  
of loans and  
advances to  
customer by  
maturity**

Fixed rates	28,114,418	17,154,613	11,684,985	27,219,239	36,869,807	89,307,225	53,812,477	264,162,764
Floating rates	4,636,166	3,413,337	3,583,590	9,595,761	13,240,973	74,285,197	895,877	109,650,901
<b>Total</b>	<b>32,750,584</b>	<b>20,567,950</b>	<b>15,268,575</b>	<b>36,815,000</b>	<b>50,110,780</b>	<b>163,592,422</b>	<b>54,708,354</b>	<b>373,813,665</b>

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**4.B. Business Overview**

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**Outstanding foreign loans**

The majority of our outstanding cross-border commercial loans that are denominated in foreign currencies are raised in U.S. dollars by subsidiaries of Brazilian companies through our Cayman branch. These loans represented, on average, 3.4% of our total assets over the last three years (this percentage is calculated as the average of the year-end balances for the last three years of loans and advances to customers, divided by the average of the last three years of the total assets). We believe that there are no significant cross-border risks on these transactions, since a substantial part of the related credit risk is guaranteed by the parent company in Brazil. The remainder of our outstanding cross-border transactions mainly includes investments in securities, which represented, on average, 1.8% of our total assets over the last three years (this percentage is calculated as the average of the year-end balances for the last three years of outstanding cross-border transactions, divided by the average of the last three years of the total assets).

**Loans and advances to customers by economic activity**

The following table summarizes our loans and advances to customers by borrowers' economic activity, as of the dates indicated:

As of December 31, Loans and advances portfolio	R\$ in thousands, except %					
	2017		2016		2015	
	% of loans and advances portfolio	Loans and advances portfolio	% of loans and advances portfolio	Loans and advances portfolio	% of loans and advances portfolio	
<b>Public sector</b>		<b>9,676,927</b>	<b>2.6%</b>	<b>8,813,581</b>	<b>2.2%</b>	<b>10,250,375</b> <b>2.8%</b>
Petrol, derived and aggregated activities		9,410,382	2.5%	8,813,581	2.2%	6,956,808 1.9%
Electricity		1,322	-	-	-	609 -
Other sectors		265,223	0.1%	-	-	3,292,958 0.9%
<b>Private sector</b>		<b>364,136,738</b>	<b>97.4%</b>	<b>383,270,292</b>	<b>97.8%</b>	<b>360,073,293</b> <b>97.2%</b>
<b>Corporate</b>		<b>190,148,345</b>	<b>50.9%</b>	<b>212,344,421</b>	<b>54.2%</b>	<b>212,213,504</b> <b>57.3%</b>
Real estate activities and construction		29,383,442	7.9%	33,888,418	8.6%	32,472,376 8.8%
Retail		23,935,638	6.4%	25,346,471	6.5%	25,660,190 6.9%
Services		17,996,533	4.8%	18,172,147	4.6%	9,719,563 2.6%
Transportation and concession		14,190,284	3.8%	17,044,780	4.3%	18,324,581 4.9%
Automotive		10,014,454	2.7%	13,148,526	3.4%	12,004,305 3.2%
Food		8,866,028	2.4%	10,870,635	2.8%	7,898,203 2.1%
Wholesale		9,045,916	2.4%	10,704,646	2.7%	10,576,376 2.9%
Electricity		7,360,804	2.0%	8,255,265	2.1%	8,696,201 2.3%
Steel and metallurgy		7,001,290	1.9%	7,800,237	2.0%	7,668,680 2.1%

Sugar and alcohol	7,042,811	1.9%	7,514,693	1.9%	7,792,773	2.1%
Other sectors	55,311,145	14.8%	59,598,603	15.2%	71,400,256	19.3%
<b>Individuals</b>	<b>173,988,393</b>	<b>46.5%</b>	<b>170,925,871</b>	<b>43.6%</b>	<b>147,859,789</b>	<b>39.9%</b>
Total portfolio	373,813,665	100.0%	392,083,873	100.0%	370,323,668	100.0%
Impairment of loans and advances	(27,055,566)	(7.2)%	(24,780,839)	(6.3)%	(25,455,204)	(6.9)%
<b>Total net of loans and advances to customers</b>	<b>346,758,099</b>	<b>92.8%</b>	<b>367,303,034</b>	<b>93.7%</b>	<b>344,868,464</b>	<b>93.1%</b>

### ***Non-performing loans and advances and impairment of loans and advances***

The following table summarizes our non-performing loans and advances (loans and advances overdue for over 60 days), as well as those neither due nor impaired, foreclosed assets, and certain asset quality indicators for the dates shown. We use some of these indicators for monitoring purposes and to support decision-making when granting loans and advances. For further information regarding the performance of some of these ratios, see Item "5.A. Operating Results":

December 31,	R\$ in thousands, except %				
	2017	2016	2015	2014	2013
Non-performing loans and advances to customers, over 60 days	20,783,181	23,373,999	18,288,316	14,779,382	13,650,513
Foreclosed assets	1,520,973	1,578,966	1,247,106	1,006,461	832,546
<b>Total non-performing loans and advances to customers and foreclosed assets</b>	<b>22,304,154</b>	<b>24,952,965</b>	<b>19,535,422</b>	<b>15,785,843</b>	<b>14,483,059</b>
<b>Total loans and advances to customers</b>	<b>373,813,665</b>	<b>392,083,873</b>	<b>370,323,668</b>	<b>349,196,681</b>	<b>323,979,568</b>
<b>Impairment of loans and advances</b>	<b>27,055,566</b>	<b>24,780,839</b>	<b>25,455,204</b>	<b>21,132,677</b>	<b>19,858,234</b>
Non-performing loans and advances as a percentage of total loans and advances to customers	5.6%	6.0%	4.9%	4.2%	4.2%
Non-performing loans and advances and foreclosed assets as a percentage of total loans and advances to customers	6.0%	6.4%	5.3%	4.5%	4.5%
Impairment of loans and advances as a percentage of total loans and advances	7.2%	6.3%	6.9%	6.1%	6.1%
Impairment of loans and advances as a percentage of non-performing loans and advances to customers	130.2%	106.0%	139.2%	143.0%	145.5%
Impairment of loans and advances as a percentage of non-performing loans and advances to customers and foreclosed assets	121.3%	99.3%	130.3%	133.9%	137.1%
Net charge-offs for the period as a percentage of the average balance of loans and advances to customers (including non-performing loans and	3.9%	4.1%	3.0%	2.7%	3.2%

advances)

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**4.B. Business Overview**

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**Impairment of loans and advances**

The following table shows the impairment of our loans and advances by type for the periods indicated:

December 31,	R\$ in thousands, except %				
2017	2016	2015	2014	2013	
<b>Balance at the beginning of the period</b>	<b>24,780,839</b>	<b>25,455,204</b>	<b>21,132,677</b>	<b>19,858,234</b>	<b>19,914,294</b>
<b>Charge-off from assets</b>					
Working capital	(3,170,932)	(3,171,768)	(2,143,675)	(1,507,974)	(1,447,051)
BNDES/Finame onlendings	(465,169)	(619,139)	(382,409)	(272,469)	(232,101)
Personal credit	(2,619,915)	(2,493,626)	(1,855,512)	(1,633,867)	(1,447,057)
Credit cards	(2,953,025)	(1,979,265)	(1,471,292)	(1,410,131)	(1,626,581)
Export financing	(276,113)	(121,744)	(256,309)	(35,501)	(58,366)
Leasing	(121,844)	(180,191)	(172,419)	(252,447)	(381,582)
Housing loans	(418,558)	(215,987)	(186,184)	(154,943)	(94,700)
Rural loans	(259,170)	(174,167)	(92,887)	(60,724)	(69,683)
Guaranteed account	(403,987)	(460,516)	(281,858)	(250,973)	(252,838)
Import financing	(79,058)	(310,948)	(327,775)	(45,435)	(6,910)
Overdraft facilities	(1,483,415)	(1,414,061)	(883,620)	(692,735)	(676,805)
Others <sup>(1)</sup>	<b>(9,369,779)</b>	<b>(10,390,738)</b>	<b>(6,489,564)</b>	<b>(6,624,258)</b>	<b>(7,026,270)</b>
<b>Total charge-off from assets</b>	<b>(21,620,965)</b>	<b>(21,532,150)</b>	<b>(14,543,504)</b>	<b>(12,941,457)</b>	<b>(13,319,944)</b>
<b>Recoveries</b>	-	-	-	-	-
Working capital	1,059,299	753,566	546,963	308,980	294,657
BNDES/Finame onlendings	249,578	222,901	124,143	101,297	69,533
Personal credit	747,811	569,391	547,700	519,378	492,383
Credit cards	409,119	340,405	238,747	504,319	370,184
Export financing	1,074,567	623,261	30,822	14,972	7,139
Leasing	64,202	95,960	82,692	95,361	83,813
Housing loans	286,345	151,977	1,634	736	720
Rural loans	114,815	65,502	36,953	35,380	42,177
Guaranteed account	95,567	59,991	71,281	46,621	36,268
Import financing	47,254	119,381	32,640	1,120	1,500
Overdraft facilities	<b>251,508</b>	190,330	168,001	164,864	162,306
Others <sup>(1)</sup>	2,634,792	2,314,842	2,263,303	2,131,486	2,079,334
<b>Total recoveries</b>	<b>7,034,857</b>	<b>5,507,507</b>	<b>4,144,879</b>	<b>3,924,514</b>	<b>3,640,014</b>
<b>Net charge-offs</b>	<b>(14,586,108)</b>	<b>(16,024,643)</b>	<b>(10,398,625)</b>	<b>(9,016,943)</b>	<b>(9,679,930)</b>

Net impairment losses on loans and advances	16,860,835	15,350,278	14,721,152	10,291,386	9,623,870
	*	*	*	*	*
<b>Balance at the end of the period</b>	<b>27,055,566</b>	<b>24,780,839</b>	<b>25,455,204</b>	<b>21,132,677</b>	<b>19,858,234</b>
Net charge offs for the period as a percentage of the average balance of loans and advances to customers (including non-performing loans and advances, over 60 days)	3.8%	4.1%	3.0%	2.7%	3.2%
(1) Primarily composed of non-performing loans and advances to customers over 60 days, excluding credit cards operations.					

Based on information available regarding our borrowers, we believe the impairment of loans and advances recognized is sufficient to cover incurred losses on our loans and advances.

#### ***Allocated impairment of loans and advances***

The following tables set forth allocated impairment of our loans and advances for the periods indicated. The allocated loss amount and the loans and advances category are stated as a percentage of total loans and advances:

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**4.B. Business Overview**

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December 31, 2017	R\$ in thousands, except %		
	Allocated impairment of loans and advances	Allocated impairment of loans and advances as a percentage of total loans and advances to customers	Loan and advances category as a percentage of total loans and advances <sup>(1)</sup>
<b>Type of loans and advances to customers</b>			
Working capital	3,750,590	1.0%	14.1%
BNDES/Finame onlendings	533,707	0.1%	8.7%
Vehicle financing	1,452,944	0.4%	6.7%
Personal credit	3,577,191	1.0%	16.5%
Credit cards	5,244,280	1.4%	9.3%
Export financing	1,214,104	0.3%	10.7%
Leasing	131,893	-	0.6%
Housing loans	1,778,502	0.5%	16.8%
Rural loans	513,691	0.1%	3.8%
Guaranteed account	201,448	0.1%	1.8%
Import financing	47,833	-	1.5%
Overdraft facilities	564,782	0.2%	0.9%
Insurance premiums receivable	384,644	0.1%	1.1%
Others	7,659,957	2.0%	7.5%
<b>Total</b>	<b>27,055,566</b>	<b>7.2%</b>	<b>100.0%</b>

(1) net of impairment of loans and advances.

December 31, 2016	R\$ in thousands, except %		
	Allocated impairment of loans and advances	Allocated impairment of loans and advances as a percentage of total loans and advances to customers	Loan and advances category as a percentage of total loans and advances <sup>(1)</sup>
<b>Type of loans and advances to customers</b>			
Working capital	2,828,062	0.8%	15.5%
BNDES/Finame onlendings	481,655	0.1%	9.8%
Vehicle financing	1,575,102	0.4%	6.0%

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Personal credit	3,292,568	0.9%	14.5%
Credit cards	4,738,899	1.3%	8.9%
Export financing	675,791	0.2%	11.3%
Leasing	140,801	-	0.7%
Housing loans	839,003	0.2%	16.2%
Rural loans	451,160	0.1%	3.9%
Guaranteed account	296,443	0.1%	2.2%
Import financing	196,166	0.1%	1.9%
Overdraft facilities	471,521	0.1%	0.7%
Insurance premiums receivable	398,771	0.1%	1.5%
Others	8,394,897	2.3%	6.9%
<b>Total</b>	<b>24,780,839</b>	<b>6.7%</b>	<b>100.0%</b>

(1) net of impairment of loans and advances.

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**4.B. Business Overview**

Form 20-F

December 31, 2015	R\$ in thousands, except %		
	Allocated impairment of loans and advances	Allocated impairment of loans and advances as a percentage of total loans and advances to customers	Loan and advances category as a percentage of total loans and advances <sup>(1)</sup>
<b>Type of loans and advances to customers</b>			
Working capital	5,922,477	1.7%	17.9%
BNDES/Finame onlendings	555,715	0.2%	10.8%
Vehicle financing	1,839,711	0.5%	7.1%
Personal credit	2,941,571	0.8%	13.4%
Credit cards	4,005,048	1.1%	7.7%
Export financing	642,533	0.2%	10.8%
Leasing	152,028	-	13.5%
Housing loans	864,111	0.2%	3.8%
Rural loans	544,530	0.2%	2.7%
Guaranteed account	297,873	0.1%	0.8%
Import financing	164,967	-	3.1%
Overdraft facilities	578,631	0.2%	0.8%
Insurance premiums receivable	277,173	0.1%	1.4%
Others	6,668,836	1.9%	6.2%
<b>Total</b>	<b>25,455,204</b>	<b>7.2%</b>	<b>100.0%</b>

(1) net of impairment of loans and advances.

December 31, 2014	R\$ in thousands, except %		
	Allocated impairment of loans and advances	Allocated impairment of loans and advances as a percentage of total loans and advances to customers	Loan and advances category as a percentage of total loans and advances <sup>(1)</sup>
<b>Type of loans and advances to customers</b>			
Working capital	2,512,775	0.8%	17.8%
BNDES/Finame onlendings	1,070,517	0.3%	12.6%
Vehicle financing	1,892,497	0.6%	8.7%

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Personal credit	2,877,236	0.9%	13.1%
Credit cards	3,405,529	1.0%	7.5%
Export financing	616,625	0.2%	7.7%
Leasing	294,371	0.1%	1.3%
Housing loans	1,047,221	0.3%	11.9%
Rural loans	427,932	0.1%	5.0%
Guaranteed account	241,252	0.1%	3.1%
Import financing	45,570	-	2.7%
Overdraft facilities	493,240	0.1%	0.9%
Insurance premiums receivable	200,768	0.1%	1.3%
Others	6,007,144	1.8%	6.4%
<b>Total</b>	<b>21,132,677</b>	<b>6.4%</b>	<b>100.0%</b>

(1) net of impairment of loans and advances.

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**4.B. Business Overview**

Form 20-F

December 31, 2013	R\$ in thousands, except %		
	Allocated impairment of loans and advances	Allocated impairment of loans and advances as a percentage of total loans and advances to customers	Loan and advances category as a percentage of total loans and advances <sup>(1)</sup>
<b>Type of loans and advances to customers</b>			
Working capital	2,018,116	0.7%	18.5%
BNDES/Finame onlendings	862,551	0.3%	13.0%
Vehicle financing	2,298,898	0.7%	9.8%
Personal credit	2,893,310	0.9%	12.9%
Credit cards	3,072,543	1.0%	7.4%
Export financing	453,652	0.1%	8.2%
Leasing	463,771	0.1%	1.8%
Housing loans	796,768	0.3%	8.9%
Rural loans	314,732	0.1%	4.2%
Guaranteed account	224,615	0.1%	3.3%
Import financing	39,942	-	2.8%
Overdraft facilities	416,282	0.1%	0.9%
Insurance premiums receivable	218,945	0.1%	1.2%
Others	5,784,109	1.9%	7.1%
<b>Total</b>	<b>19,858,234</b>	<b>6.4%</b>	<b>100.0%</b>

(1) net of impairment of loans and advances.

***Loans and advances to banks***

The following tables summarize our outstanding loans and advances to banks by type, and changes in impairment on loans and advances for the periods shown:

December 31,	R\$ in thousands		
	2017	2016	2015
<b>Loans and advances to banks outstanding by type of operation</b>			
<b>Repurchase agreements</b>			
<b>Own portfolio position</b>			
Financial treasury bills	4,517,178	28,000,310	199,996
National treasury bills	2,447,381	13,211,900	11,637,051
National treasury notes	10,485,142	42,584,901	17,058,798

Debentures	-	271,279	362,215
Others	37,476	6,461	4,293
<b>Short position</b>			
Brazilian government securities	3,558,414	1,103,295	370,759
<b>Subtotal</b>	<b>21,045,591</b>	<b>85,178,146</b>	<b>29,633,112</b>
Interbank deposits	7,336,988	5,387,769	1,017,666
Foreign currency transactions	2,278,744	2,341,124	2,149,301
Bank deposit certificates	544,160	454,104	833,909
Credit acquisition with co-obligation	1,047,722	1,484,391	2,037,739
Impairment of loans and advances	(5,481)	(7,398)	(51,317)
<b>Total of loans and advances to banks, net of impairment</b>	<b>32,247,724</b>	<b>94,838,136</b>	<b>35,620,410</b>

	R\$ in thousands		
	December, 31 2017	2016	2015
<b>Change in impairment of loans and advances</b>			
<b>Balance at the beginning of the year</b>	<b>7,398</b>	<b>51,317</b>	<b>44,265</b>
Additions/Reductions	(1,917)	(43,919)	7,052
<b>Balance at the end of the year</b>	<b>5,481</b>	<b>7,398</b>	<b>51,317</b>

#### ***Average deposit balances and interest rates***

The following table shows the average balances of deposits as well as the average interest rate paid on deposits for the periods indicated:

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**4.B. Business Overview**

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For the year ended December 31,	2017		2016		Average rate
	Average balance	Average rate	Average balance	Average rate	
<b>R\$ in thousands, except %</b>					
<b>Deposits</b>					
<b>Non-interest-bearing deposits</b>					
Demand deposits	31,014,556	-	32,645,961	-	26,9
<b>Total non-interest-bearing deposits</b>	<b>31,014,556</b>	<b>-</b>	<b>32,645,961</b>	<b>-</b>	<b>26,9</b>
<b>Interest-bearing deposits</b>					
Interbank deposits	1,397,862	10.9%	1,205,451	10.6%	6
Savings deposits	96,511,751	5.9%	93,598,769	7.2%	91,0
Time deposits	122,959,605	6.1%	111,471,035	7.8%	83,9
<b>Total interest-bearing deposits</b>	<b>220,869,218</b>	<b>-</b>	<b>206,275,255</b>	<b>-</b>	<b>175,6</b>
<b>Total deposits</b>	<b>251,883,774</b>	<b>-</b>	<b>238,921,216</b>	<b>-</b>	<b>202,6</b>

***Maturity of deposits***

The following table shows the distribution of our deposits by maturity at the date indicated:

December 31, 2017	R\$ in thousands				Total
	Due in 3 months or less	Due after 3 months to 6 months	Due after 6 months to 1 year	Due after 1 year	
<b>Domestic deposits</b>					
<b>Non-interest-bearing deposits</b>					
Demand deposits <sup>(1)</sup>	31,422,680	-	-	-	31,422,680
<b>Total non-interest-bearing deposits</b>	<b>31,422,680</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>31,422,680</b>
<b>Interest-bearing deposits</b>					
Interbank deposits	281,898	183,683	1,232,372	43,107	1,741,060
Savings deposits <sup>(1)</sup>	103,332,697	-	-	-	103,332,697
Time deposits	4,837,888	3,752,971	9,777,143	97,316,853	115,684,855
<b>Total interest-bearing deposits</b>	<b>108,452,483</b>	<b>3,936,654</b>	<b>11,009,515</b>	<b>97,359,960</b>	<b>220,758,612</b>
<b>Total domestic deposits</b>	<b>139,875,163</b>	<b>3,936,654</b>	<b>11,009,515</b>	<b>97,359,960</b>	<b>252,181,292</b>
<b>International deposits <sup>(2)</sup></b>					
<b>Non-interest-bearing deposits</b>					
Demand deposits	2,665,936	-	-	-	2,665,936
<b>Total non-interest-bearing deposits</b>	<b>2,665,936</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,665,936</b>

	*	*	*	*	*
<b>Interest-bearing deposits</b>					
Interbank deposits	427,565	-	-	-	427,565
Time deposits	8,775,569	168,881	754,490	233,629	9,932,569
<b>Total interest-bearing deposits</b>	<b>9,203,134</b>	<b>168,881</b>	<b>754,490</b>	<b>233,629</b>	<b>10,360,134</b>
	*	*	*	*	*
<b>Total international deposits</b>	<b>11,869,070</b>	<b>168,881</b>	<b>754,490</b>	<b>233,629</b>	<b>13,026,070</b>
	*	*	*	*	*
<b>Total deposits</b>	<b>151,744,233</b>	<b>4,105,535</b>	<b>11,764,005</b>	<b>97,593,589</b>	<b>265,207,362</b>

(1) Demand deposits and savings deposits are classified as due in up to three months, without taking into account the average turnaround history; and

(2) Denominated in currencies other than *reais*, primarily U.S. dollars.

The following table shows maturity of our outstanding time deposits with balances of over US\$100,000 (or its equivalent), by maturity, as of the date indicated:

December 31, 2017	R\$ in thousands	
	Domestic currency	International currency
Maturity within 3 months	3,029,684	8,680,028
Maturity after 3 months but within 6 months	2,251,683	168,881
Maturity after 6 months but within 12 months	4,813,657	738,693
Maturity after 12 months	37,332,970	233,629
<b>Total deposits in excess of US\$100,000</b>	<b>47,427,994</b>	<b>9,821,231</b>

### ***Obligations for repurchase agreements***

The following table summarizes our obligations for repurchase agreements for the periods indicated:

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**4.C. Organizational Structure**

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For the year ended December 31,	R\$ in thousands, except %		
	2017	2016	2015
<b>Obligations for repurchase agreements</b>			
Amount outstanding	233,467,544	241,978,931	222,291,364
Maximum amount outstanding during the period	301,397,114	246,668,210	238,178,168
Weighted average interest rate at period end <sup>(1)</sup>	6.8%	12.5%	13.8%
Average amount during the period	238,407,697	232,718,923	211,686,661
Weighted average interest rate during the period	9.5%	11.5%	11.1%

<sup>(1)</sup> We calculated the average balances using the end-of-month account balances, including related accrued interest.

**4.C. Organizational Structure**

We are a publicly-held company controlled by Cidade de Deus Participações, a holding company owned by the Aguiar Family, Fundação Bradesco and another holding company, Nova Cidade de Deus Participações S.A., or "Nova Cidade de Deus." Nova Cidade de Deus is owned by Fundação Bradesco and by BBD Participações. For further information about our shareholding structure, see "Item 7.A. Major Shareholders." For further information about our significant subsidiaries as of December 31, 2017, see Exhibit 8.1 to this annual report.

**4.D. Property, Plants and Equipment**

As of December 31, 2017, we owned 905 properties and leased 3,835 properties throughout Brazil and 10 properties abroad, all of which we used for the operation of our network of branches and our business. We own the buildings where our headquarters are located in Cidade de Deus, Osasco, São Paulo metropolitan region, State of São Paulo. Rental agreements have an average duration of five years.

**ITEM 4.A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

## 5.A. Operating Results

This discussion should be read in conjunction with our audited consolidated financial statements, the notes thereto and other financial information included elsewhere in this annual report.

### **Overview**

Our results of operations are affected by, among others, the following factors:

### **Brazilian Economic Conditions**

Our results of operations are directly affected by economic conditions in Brazil. Such economic conditions directly impact our customers' ability to pay their financial obligations on time, which affects our impairment of loans and advances and our balance of outstanding loans and advances. In addition, the impact of economic conditions on exchange rates affects our net interest income, since part of our financial assets and liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars.

In 2015, GDP recorded a retraction of 3.8% compared to the previous year. The *real* depreciated to R\$3.9048 against the U.S. dollar on December 31, 2015, compared with R\$2.6562 against the U.S. dollar on December 31, 2014. The COPOM increased the basic interest rate from 11.75% on December 31, 2014 to 14.25% on December 31, 2015. The inflation, measured by the IPCA, was 10.7% for the year ended December 31, 2015.

In 2016, GDP retracted by 3.6% compared to the previous year. The *real* appreciated to R\$3.2591 against the U.S. dollar on December 31, 2016, compared with R\$3.9048 per U.S. dollar on December 31, 2015. The COPOM decreased the basic interest rate from 14.25% on December 31, 2015 to 13.75% on December 31, 2016. The inflation, measured by the IPCA, was 6.3% for the year ended December 31, 2016.

In 2017, GDP increased by 1.0% compared to the previous year. The *real* depreciated to R\$3.3080 against the U.S. dollar on December 31, 2017, compared with R\$3.2591 per U.S. dollar on December 31, 2016. The COPOM decreased the basic interest rate from 13.75% on December 31, 2016 to 7.00% on December 31, 2017. The inflation, measured by the IPCA, was 3.0% for the year ended December 31, 2017.

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**5.A. Operating Results**

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The following table shows Brazilian inflation measured by IPCA, the appreciation/(depreciation) of the *real* against the U.S. dollar, the exchange rate at the end of each year and the average exchange rate for the periods indicated:

	In R\$, except %		
	2017	2016	2015
Inflation (IPCA)	3.0%	6.3%	10.7%
Appreciation/(depreciation) of the <i>real</i> against the U.S. dollar	(1.5)%	16.5%	(47.0)%
Period-end exchange rate-US\$1.00	3.3080	3.2591	3.9048
Average exchange rate US\$1.00 <sup>(1)</sup>	3.2074	3.4849	3.3314

<sup>(1)</sup> Average exchange rate considering the closing exchange rates at the end of each month starting December of the previous year.

Sources: FGV and the Central Bank.

The following table shows GDP variation in real terms and average interbank interest rates for the periods indicated:

	2017	2016	2015
Change in <i>real</i> GDP <sup>(1)</sup>	1.0%	(3.6)%	(3.5)%
Average base interest rates <sup>(2)</sup>	10.0%	14.0%	13.3%
Average interbank interest rates <sup>(3)</sup>	9.9%	14.0%	13.2%

<sup>(1)</sup> Calculated by dividing the change in *real* GDP during a year by the *real* GDP of the previous year; GDP 2017 = estimates;

<sup>(2)</sup> Calculated in accordance with Central Bank methodology (based on nominal rates); and

<sup>(3)</sup> Calculated in accordance with B3 methodology (ex-Clearing and Custody Chamber -"CETIP") (based on nominal rates).

Sources: The Central Bank, the Brazilian Geography and Statistics Institute and B3.

***Effects of the global financial markets on our financial condition and results of operations***

The global economic environment was generally favorable during 2017. The political risks in Europe dissipated, the economy resumed growth and inflation rates remained stable in the major economies. In this sense, we see a positive scenario on the liquidity aspect with a reduction of the risk and the maintenance of monetary policies.

For 2018, we expect continued economic growth considering (i) the increase of investments in the last months of 2017, suggesting a longer season of growth and (ii) the spread of the economic expansion around the countries, affecting the prices of raw materials such as metallic commodities and oil.

The gap between the rate of growth and the adjustments of prices increased gradually. A new economic acceleration in 2018 will raise the risk of inflation – we project an expansion of 3.8% for global GDP, compared to the forecast of 3.6% in 2017. Thus, although we expect that the monetary policy will stabilize, the risk balance suggests more volatility in the assets (interest rates, currencies, stock markets, etc.) compared to what happened last year.

In the USA, business activities and the approval of tax reform created a positive environment in the economy and reinforced our expectation of an expansion of 2.6%, in 2018. We believe that the inflation scenario should not bring major concerns to the Federal Reserve, which may maintain the current conservative monetary policy: we estimate four additional high interest rates this year, one per quarter.

In Europe, the result of the intense political timetable for 2017 was positive for the European Union, particularly with regard to the consolidation of the French and German Governments, which have strengthened a pro-European unification agenda. The political agenda of the continent deserves attention in 2018, particularly the developments of the Italian elections, the parliamentary address in Catalonia and the continuity of Brexit negotiations. Although the economy has grown significantly, inflation remained stable. Thus, regarding the deployment of the monetary policy, unlike the Federal Reserve, the ECB (European Central Bank) has adopted an expansionist policy. However, the expectation is that this tone should move towards neutrality between the end of 2018 and beginning of 2019.

Overall, in spite of the moderate growth in China, the maintenance of global demand over the coming months (especially for the developed countries) should create a scenario of inflation slightly different from the one observed in 2017, with prices showing some acceleration during the year, reflecting the pressure of prices of commodities or responding to the increase of wages.

***Effects of interest rates and devaluation/appreciation on net interest income***

During periods of high interest rates, our interest income increases due to increasing interest rates on our interest-earning assets. At the same time, our interest expense increases as interest rates on our

**5.A. Operating Results**

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interest-bearing liabilities also increase. Changes in the volumes of our interest-earning assets and interest-bearing liabilities also affect our interest income and interest expense. For example, an increase in our interest income attributable to an increase in interest rates may be offset by a decrease in the volume of our outstanding loans.

In addition, when the *real* depreciates, we incur: (i) losses on our liabilities denominated in, or indexed to, foreign currencies, such as our U.S. dollar-denominated long-term debt and foreign currency loans, as the cost in *reais* of the related interest expense increases; and (ii) gains in our assets denominated in, or indexed to, foreign currencies, such as our dollar-indexed securities and loans and advances, as the income from such assets as measured in *reais* increases. Conversely, when the *real* appreciates, as was the case, for example, in 2010 and 2016, we incurred: (i) losses on our assets denominated in, or indexed to, foreign currencies; and (ii) gains in our liabilities denominated in, or indexed to, foreign currencies.

In 2016, our net interest income increased by 1.8% in relation to 2015, from R\$55,636 million in 2015 to R\$56,663 million in 2016. This growth is mainly related to an increase in the business volume of R\$5,444 million, mainly due to the consolidation of HSBC Brasil. This increase was partially offset by changes in average interest rates, which includes the effect from the appreciation of the *real* and impacted in R\$4.417 million as a result of the decrease in the average net interest margin, from 6.7% in 2015 to 5.7% in 2016.

In 2017, our net interest income decreased by 10.6% in relation to 2016, from R\$56,663 million in 2016 to R\$50,643 million in 2017. This decrease is mainly related to changes in average interest rates, impacting our results by R\$8,572 million as a result of the decrease in the average net interest margin, from 5.7% in 2016 to 4.9% in 2017. This decrease was partially offset by the increase in the volume of business, which contributed with R\$2,552 million to our net interest income.

The following tables show our foreign-currency denominated or indexed assets and liabilities as of the dates indicated:

December 31,	R\$ in thousands		
	2017	2016	2015
<b>Assets</b>			
Cash and balances with banks	2,252,743	2,254,550	8,305,430
Financial assets held for trading	1,267,984	3,096,072	4,478,512
Financial assets available for sale	5,032,875	2,843,673	7,487,331
Investments held to maturity	7,614	20,894	41,092
Financial assets pledged as collateral	6,442,912	8,744,991	4,306,897
Loans and advances to banks	2,317,915	2,402,807	2,368,658
Loans and advances to customers	30,206,339	37,774,932	50,250,575
Property and equipment, net of accumulated depreciation	22,301	25,823	27,617
	14,355	14,138	29,354

Intangible assets and goodwill, net of accumulated amortization

Taxes to be offset	40,744	33,558	44,450
Deferred income tax assets	1,239	262,502	1,388,929
Other assets	14,398,923	12,328,661	12,373,038
<b>Total assets</b>	<b>62,005,944</b>	<b>69,802,601</b>	<b>91,101,883</b>

**Off balance sheet accounts – notional value**

**Derivatives**

Futures	45,761,604	100,581,577	96,679,181
Forward	61,945,267	70,938,623	72,408,901
Options	3,873,614	1,480,183	744,507
<i>Swaps</i>	83,452,524	129,516,898	171,025,037
<b>Total assets with derivatives (a)</b>	<b>257,038,953</b>	<b>372,319,882</b>	<b>431,959,509</b>

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**5.A. Operating Results**

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December 31,	R\$ in thousands		
	2017	2016	2015
<b>Liabilities</b>			
Deposits from banks	27,717,074	29,842,987	36,944,658
Deposits from customers	12,517,759	17,436,355	27,576,216
Financial liabilities held for trading	520,154	324,190	1,300,208
Funds from securities issued	3,078,089	5,815,118	9,477,171
Subordinated debt	11,637,722	11,455,186	13,714,437
Insurance technical provisions and pension plans	5,002	653	946
Other provisions	1,954	13,816	13,218
Current income tax liabilities	6,794	12,990	27,137
Other liabilities	7,757,774	10,424,283	6,747,195
<b>Total liabilities</b>	<b>63,242,322</b>	<b>75,325,578</b>	<b>95,801,186</b>
<b>Off balance sheet accounts – notional value</b>			
<b>Derivatives</b>			
Futures	80,477,183	131,518,068	114,575,804
Forward	63,854,548	72,763,569	72,557,432
Options	4,188,412	1,851,857	1,194,413
Swap	99,508,626	142,154,441	181,459,003
<b>Total liabilities with derivative (b)</b>	<b>311,271,091</b>	<b>423,613,513</b>	<b>465,587,838</b>
<b>Net exposure (a-b)</b>	<b>(54,232,138)</b>	<b>(51,293,631)</b>	<b>(33,628,329)</b>

We use swaps, futures contracts and other hedging instruments in order to minimize the potential impact of currency changes on our operations. For more information on our use of derivatives for hedging purposes, see Notes 2(f) and 20(c) to our consolidated financial statements in "Item 18. Financial Statements."

Our net exposure in relation to our total assets amounted to 4.4% as of December 31, 2017, 4.3% as of December 31, 2016 and 3.3% as of December 31, 2015.

**Taxes**

Our income tax expenses comprise IRPJ, which is levied at a rate of 15.0% on our adjusted net income, plus an additional 10.0% and the Social Contribution Tax, which is levied at a rate of 15.0% on our adjusted net income, both are federal taxes.

In January 2008, the government increased the social contribution tax rate for the financial sector from 9.0% to 15.0%. From May 2008 to August 2015, financial institutions incurred the social contribution tax on adjusted net income at a 15.0% rate. The legality of this increase is being challenged in actions brought before the STF. If the STF decides that this increase is not legal, we will be entitled to recover any amount we have paid under the 15.0% tax rate regime in excess of what we would have incurred for the social

contribution tax under the 9.0% regime. For the period between September 2015 and December 2018, the rate applicable for financial institutions and for the insurance industry was changed to 20.0%, pursuant to Law No. 13,169/15. The rate will return to 15.0% beginning in January 2019. For the other companies, the social contribution is calculated considering a rate of 9.0%.

Corporations based in Brazil may pay shareholders interest on equity as an alternative form of making a portion of dividend distributions, which are deductible from taxable income. We intend to maximize the amount of dividends we pay in the form of interest on equity. For further information on our tax expenses, see "Item 4.B. Business Overview – Regulation and Supervision – Taxation – Income Tax and social contribution on profits" and "Item 10.B. Memorandum and Articles of Association – Organization – Allocation of net income and distribution of dividends" and "Item 10.E. Taxation – Brazilian tax considerations – Distributions of interest on equity."

***Impact of material acquisitions and strategic alliances on our future financial performance***

We believe that the acquisitions and strategic alliances conducted in the last years will contribute to increase our future results. The amount of these increases is uncertain, and we therefore cannot estimate their impact on our future financial performance. For more information, see "Item 4.A. History and Development of the Company – Recent acquisitions" and "Item 4.A. History and Development of the Company – Other strategic Alliances."

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***Critical accounting policies***

Our significant accounting policies are described in Note 2 to our audited consolidated financial statements in "Item 18. Financial Statements." The following section describes the areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts involve making assumptions about highly uncertain matters. In each case, other estimates or changes in the estimates between periods could cause a material impact on our financial condition and results of operations, as shown in our financial statements.

***Impairment of loans and advances***

At the end of each reporting period, we review the impairment of loans and advances, evaluating the estimated loss on impairment of loans and advances.

The determination of the impairment of loans and advances, by its nature requires judgments and assumptions about the portfolio of loans and advances, for both specific products and portfolios and on an individual basis. When we analyze our portfolio as a whole, several factors can affect our estimate of the likely range of losses, depending on the methodology we use for measuring historical delinquency rates and the historical period we consider in making those measurements.

Additional factors that may affect the determination of impairment of loans and advances include:

- general economic conditions and conditions in the relevant industry;
- past experience with the relevant debtor or industry, including recent loss experience;
- trends affecting quality of loans;
- value of collateral for loans and advances;
- volume, composition and growth of our loans and advances;
- the government's monetary policy; and
- any delays in receiving information needed to value loans and advances or confirm existing impairment.

We use models to analyze portfolio of loans and advances and determine the extent of impairment. Statistical loss factors and other risk indicators are applied to loan and advances pools with similar risk characteristics in arriving at an estimate of incurred losses in the portfolio to calculate the models. Although

models are often monitored and reviewed, by their nature, they depend on judgments made in relation to information and/or forecasts used. The volatility of the economy is one of the reasons that may lead to greater uncertainty in our models than would be expected in more stable macroeconomic environments. Consequently, our impairment of loan and advances may not be indicative of actual future losses.

For a sensitivity analysis, we assess the impact of an increase in the probability of default (PD) over the amount of impairment. In this assessment, an increase of 10.0% in the PD as of December 31, 2017, would have increased the impairment by R\$503.7 million. This sensitivity analysis is hypothetical, and is only meant to illustrate the impact that the expected delinquency has on determining impairment.

The process of determining the level of impairment of loans and advances requires the use of estimates and judgment. Actual losses in the period as shown in subsequent periods may differ from initial calculations based on such estimates and assumptions.

For additional information regarding our practices related to the impairment of loans and advances, see "Item 4.B. Business Overview – Selected Statistical Information – Impairment of loans and advances and Non-performing loans and advances and impairment of loans and advances."

### ***Fair value of financial instruments***

The financial instruments recorded at fair value in our consolidated financial statements consist primarily of financial assets held for trading, including derivatives and financial assets available for sale. The fair value of a financial instrument is the amount for which it could be traded in an arm's length transaction between willing parties, without any forced sale and settlement.

These financial instruments are categorized in a ranking based on the lowest level of information significant for measuring fair value. For instruments classified as Level 3, we have to use a significant amount of our own judgment to measure fair market value. We base our judgment on our knowledge and observations of the relevant markets for individual assets and liabilities and these judgments may vary based on market conditions. In applying our judgment, we analyze a series of third-party prices and transaction volumes to understand and assess the extent of available market benchmarks and the judgment or modelling required in processes with third parties. Based on these factors, we determine whether fair values are observable in active markets or if markets are inactive.

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The fair values of financial assets held for trading and available for sale are primarily based on actively traded markets where prices are based on direct market quotes, observed transactions or market prices for similar assets. Liquidity is a significant factor in the determination of the fair values of financial assets held for trading and available for sale. Situations of illiquidity generally are triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, the financial assets are classified within Level 3 of the valuation hierarchy once the fair value is determined, based on unobservable inputs that are supported by limited available market information and that are significant to the fair value of the assets, as well as other factors which require Management to exercise significant judgment or estimation. As of December 31, 2017, R\$7,239 million, or 1.6%, of financial assets held for trading, available for sale, pledged as collateral and net derivatives were classified as Level 3 fair value assets.

Exchange-traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivatives contracts are listed on the exchange. Therefore, the majority of our derivative positions are classified as Level 2 of the valuation hierarchy and are determined using quantitative models that require the use of multiple inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, including the period to maturity. These inputs are used to value the position. Most market inputs are observable and can be obtained mainly from B3 and the secondary market.

The imprecise nature of estimating non-observable market data may impact amounts of revenue or loss posted for a particular position. In addition, although we believe our valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments may result in a different estimate of fair value on reporting date. For a detailed discussion of the determination of fair value of financial instruments, see Note 3 to our consolidated financial statements in "Item 18. Financial Statements."

***Impairment of financial assets available for sale***

Periodically, we assess the existence of impairment of financial assets available for sale if there is a prolonged or significant decrease in their fair value, see Note 2(f) (viii) (b) to our consolidated financial statements in "Item 18. Financial Statements."

Determining a prolonged or significant decrease in value requires the use of judgment, as to what normal volatility is for asset prices, among other factors.

In addition, valuations use market prices or valuation models that require the use of certain assumptions or judgment to estimate fair value.

***Classification of securities***

The classification of securities into financial assets held for trading, available for sale, or investments held to maturity categories is based on Management's intention to hold or trade such securities at the time of acquisition. The accounting treatment of the securities we hold depends on whether we classify them at acquisition as financial assets held for trading, available for sale or investments held to maturity. Changes in circumstances may modify our strategy with respect to a specific security, requiring transfers among the three categories.

***Impairment of goodwill***

At least every year, we have to determine if the current carrying value of goodwill has been impaired. The first step in the process is identifying independent cash generating units and their allocations of goodwill. A unit's carrying amount, including allocated goodwill, is then compared to value in use to see whether there is impairment. If a cash-generating unit's value in use is less than carrying amount, goodwill is impaired. Detailed calculations to reflect changes in the market in which a business operates may be required (e.g. competition and regulatory change). Calculations are based on discounted cash flows before tax at an interest rate adjusted by appropriate risk for the operational unit; in both cases determining these values requires the use of judgment. Although predictions are compared to current performance and external economic data, expected cash flows reflect our outlook for future performance.

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***Income tax***

The determination of our income tax liability (including social contribution) is a complex task that is related to our analysis of deferred tax assets and liabilities and income tax payable. In general, our assessment requires us to estimate future amounts of current and deferred income tax. Our assessment of the possibility of realizing deferred tax is subjective and involves assessments and assumptions that are inherently uncertain. Realization of deferred tax assets is subject to changes in future interest rates and developments of our strategies. Support for our assessments and assumptions may change over time because of unanticipated events or circumstances that affect the determination of our tax liability.

Significant judgment is required to determine whether an income tax position will be sustained upon examination, even after the outcome of any administrative or judicial proceeding based on the technical merits. Judgment is also required to determine the value of a benefit eligible for recognition in our consolidated financial statements.

Additionally, we monitor interpretation of tax legislation and decisions made by tax authorities and courts, in order to adjust any previous judgment as to accrued income tax. This monitoring may also arise from our income tax planning and or settlement of income tax disputes and may be significant for our operating income in any given period. For further information on our income tax, see Note 17 to our consolidated financial statements in "Item 18. Financial Statements."

For additional information regarding our income tax, see "Item 4.B. Business Overview – Regulation and Supervision – Taxation – Income and social contribution taxes on profits."

***Insurance technical provisions and pension plans***

Our insurance technical provisions and pension plans are liabilities for amounts we estimate will be due to our policyholders and plan participants at a certain point in the future. These values represent the future claims/benefits stated in contracts, such as retirement payments, pensions, individual and group life insurance, health insurance and damage insurance, among other items.

Benefits and claims stated in contracts also include provisions for claims incurred but not reported relating to health, property and life insurance. We recognize claims in the period in which the service was provided to our policyholders. However, claim costs incurred in a particular period are not known with certainty until we receive the reports, process them, and pay out the claims. We determine the amount of such provision using actuarial methods based on historical warnings/payments of claims to determine our estimates of claim liabilities. Methods used to determine these estimates and to make technical provisions are regularly reviewed and updated. For additional information, see Note 2(o) to our consolidated financial statements.

In long-term health insurance contracts, the establishment of Other Technical Provisions can also be used to cover any resulting differences between the expected value of the future claims and future related

expenses and the expected value of future premiums.

For certain products offered such as pension plans and funds the participants go through two distinct phases as part of the contract: first accumulating assets, then enjoying benefits. During the accumulation phase, technical provisions increase as contributions are received and interest is credited (based on contractual arrangements) and decrease by redemptions paid. If it is necessary to complement the technical provisions, the Complementary Reserve for Coverage (PCC) will be established, which value is calculated in accordance with the Liability Adequacy Test (LAT). The LAT is prepared with statistical and actuarial methods based on realistic assumptions, taking into account the biometric table BR-EMS of both genders, adjusted by the criteria of longevity compatible with the latest versions disclosed (*improvement*) and interest rate curves (ETTJ) free from risk, as authorized by SUSEP. Improvement is a technique that updates the biometric table automatically, considering the expected increase in future life.

The technical provisions are computed using assumptions of mortality, disability, cancellation, interest rates, inflation and costs, which are based on our experience and are periodically reassessed in relation to the sector patterns

For sensitivity analysis purposes, regarding life and damage, except for life individual insurance, the impact of a 1 percentage point increase in claims in the last 12 months, with the calculation base date being December 31, 2017, would lead to a R\$158.4 million decrease on income and shareholders' equity after taxes and contributions.

In relation to life insurance with living benefits, individual life insurance and pension plans, we assessed the impact of decreasing interest rates, increasing beneficiary longevity and increase in the income-conversion option on income and shareholders' equity after taxes and contributions. In this assessment, a decrease of 5.0% in interest rates would lead to R\$179.0 million decrease on income and

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shareholders' equity after taxes and contributions. The increase of 0.2 percentage point in the longevity of beneficiaries would represent a negative impact of R\$41.1 million on income and shareholders' equity after taxes and contributions, while an increase of 5 percentage points in the conversion into income would represent a negative impact of R\$40.1 million on income and shareholders' equity after taxes and contributions.

***Use of estimates and judgements***

Upon issuance of the financial statements, we also make estimates and assumptions concerning useful lives of certain non-financial assets and possible impairment of a specific asset or group of assets. Estimates are by nature based on judgment and available information. Therefore, actual results may differ from these estimates. For further information on the use of estimates and judgements, see Note 4 to our consolidated financial statements in "Item 18. Financial Statements."

***Other matters***

IFRS 9 replaces the IAS 39 - Financial Instruments: Recognition and Measurement guidance. IFRS 9 applies to financial instruments shall be applied retrospectively on the effective date of the IFRS, January 1, 2018. IFRS 9 includes: (i) new models for the classification and measurement of financial instruments; (ii) measurement of expected credit losses for financial assets; and (iii) new requirements on hedge accounting. The new standard maintains the principal existing guidance on the recognition and derecognition of financial instruments in IAS 39. For further information on IFRS 9, see Note 42 to our consolidated financial statements in "Item 18. Financial Statements."

***Commitments and contingencies***

We have contractual obligations to make certain payments to third parties, in accordance with the amounts presented in the following table:

Contractual Obligations	R\$ in thousands				Total
	Less than 1 year <sup>(1)</sup>	1 to 3 years	3 to 5 years	More than 5 years	
Time deposits	28,066,940	96,232,127	1,290,985	27,371	125,617,424
Obligations for repurchase agreements	227,346,812	6,023,807	75,942	20,984	233,467,544
Borrowings	17,278,885	746,718	496,110	-	18,521,713
Onlendings	11,052,779	9,850,619	4,558,129	5,307,767	30,769,294

Funds from securities issued	83,262,737	47,552,456	3,590,523	768,374	135,174,090
Subordinated debt	10,808,462	8,581,038	12,186,204	18,603,697	50,179,401
Insurance technical provisions and pension plans	210,850,589	28,239,001	-	-	239,089,590
Other obligations	88,358,128	2,990,664	2,157,812	4,310,220	97,816,824
<b>Total</b>	<b>677,025,332</b>	<b>200,216,430</b>	<b>24,355,705</b>	<b>29,038,412</b>	<b>930,635,880</b>

(1) Based on our historical experience, we expect that most of our obligations that are contractually due within one year will be rolled over.

### ***Off-balance sheet financial guarantees***

In addition to our loans and advances, we have credit-related transactions with our customers for attending to their financing needs. In accordance with IFRS, these transactions are not recorded on our balance sheet. The following table summarizes these transactions as of December 31, 2017:

<b>Contractual Obligations</b>	<b>R\$ in thousands</b>				<b>Total</b>
	<b>Payments due as of December 31, 2017</b>				
	<b>Less than 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>More than 5 years</b>	
Financial guarantees	16,778,332	13,834,843	4,827,351	43,426,822	78,867,348
Letters of credit	294,229	-	-	-	294,229
<b>Total</b>	<b>17,072,561</b>	<b>13,834,843</b>	<b>4,827,351</b>	<b>43,426,822</b>	<b>79,161,577</b>

We guarantee our customers' performance in obligations with third parties. We have the right to seek reimbursement from our customers for any amounts paid under these guarantees. Additionally, we may hold cash or other collateral with high liquidity to guarantee these obligations. These agreements are subject to the same credit evaluation as other loans granted.

Letters of credit are conditional commitments issued by us to guarantee the performance of a customer's obligations with third parties. We issue commercial letters of credit to facilitate foreign trade transactions and to support public and private borrowing agreements, including commercial papers, bond financing and similar transactions. These instruments are short-term commitments to pay a third party beneficiary under certain contractual conditions, for the shipment of products. Contracts are subject to the



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same credit evaluations as other loans granted.

We expect many of these guarantees to expire without the need to advance any cash. Therefore, in the ordinary course of business, we expect that these transactions will have virtually no impact on our liquidity.

***Results by operational segment***

We operate and manage our business through two segments: (i) the banking segment; and (ii) the insurance, pension plans and capitalization bonds segment.

The following data about different segments were prepared based on reports made for Management to assess performance and make decisions on allocating funds for investments and other purposes. Our Management uses various data, including financial data prepared under accounting practices adopted in Brazil and non-financial metrics compiled on different bases. Our consolidated financial statements and consolidated financial data included in this analysis are prepared in accordance with IFRS, when results by segments significantly differ to results derived from our consolidated financial statements, such differences will be explained in conjunction with the explanations of the results that precede them. See Note 5 to our consolidated financial statements in "Item 18. Financial Statements."

For a description of our operational segment's operations, see "Item 4.B. Business Overview."

***Results of operations for the year ended December 31, 2017 compared with the year ended December 31, 2016***

The following tables set forth the principal components of our net income for 2017 and 2016, on a consolidated basis and by segment.

<b>Consolidated</b>	<b>R\$ in thousands, except %</b>		
	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>% change</b>
Net interest income	50,642,913	56,662,989	(10.6)%
Net Impairment losses on loans and advances	(16,860,835)	(15,350,278)	9.8%
Non interest income	123,205,938	115,171,491	7.0%
Non interest expense	(133,244,457)	(124,578,746)	7.0%
<b>Income before income taxes</b>	<b>23,743,559</b>	<b>31,905,456</b>	<b>(25.6)%</b>
Income tax and social contribution	(6,428,956)	(13,912,730)	-
<b>Net income for the year</b>	<b>17,314,603</b>	<b>17,992,726</b>	<b>(3.8)%</b>
Net income attributable to controlling shareholders	17,089,364	17,894,249	(4.5)%
Net income attributable to non-controlling interest	225,239	98,477	128.7%

**R\$ in thousands, except %**  
**For the year ended December 31,**

Segment	Banking			Insurance, Pension Plans and Capitalization Bonds		
	2017	2016	% Change	2017	2016	% Change
Net interest income	46,997,327	49,156,109	(4.4)%	1,857,926	5,374,229	(65.4)%
Net Impairment losses on loans and advances	(17,895,929)	(18,829,460)	(5.0)%	-	-	-
Non interest income	40,812,449	41,414,563	(1.5)%	83,890,316	75,664,123	10.9%
Non interest expense	(59,751,778)	(54,448,727)	9.7%	(76,554,425)	(71,473,806)	7.1%
<b>Income before income taxes</b>	<b>10,162,069</b>	<b>17,292,485</b>	<b>(41.2)%</b>	<b>9,193,817</b>	<b>9,564,546</b>	<b>(3.9)%</b>
Income tax and social contribution	(887,289)	(7,995,420)	(88.9)%	(4,156,153)	(3,915,822)	6.1%
<b>Net income</b>	<b>9,274,780</b>	<b>9,297,065</b>	<b>(0.2)%</b>	<b>5,037,664</b>	<b>5,648,724</b>	<b>(10.8)%</b>
Net income attributable to controlling shareholders	9,272,962	9,293,766	(0.2)%	4,812,425	5,550,662	(13.3)%
Net income attributable to non-controlling interest	1,818	3,299	(44.9)%	225,239	98,062	129.7%

**Net interest income**

The table below shows the main components of our net interest income before impairment of loans and advances for 2017 and 2016, on a consolidated basis and by segment:

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	R\$ in thousands, except %		
	2017	2016	% Change
<b>Consolidated</b>			
Interest and similar income	126,232,328	147,700,375	(14.5)%
Interest and similar expenses	(75,589,415)	(91,037,386)	(17.0)%
<b>Net interest income</b>	<b>50,642,913</b>	<b>56,662,989</b>	<b>(10.6)%</b>
<b>Banking</b>			
Interest and similar income	108,302,148	118,585,106	(8.7)%
Interest and similar expenses	(61,304,821)	(69,428,997)	(11.7)%
<b>Net interest income</b>	<b>46,997,327</b>	<b>49,156,109</b>	<b>(4.4)%</b>
<b>Insurance, Pension Plans and Capitalization Bonds</b>			
Interest and similar income	20,032,476	26,769,779	(25.2)%
Interest and similar expenses	(18,174,550)	(21,395,550)	(15.1)%
<b>Net interest income</b>	<b>1,857,926</b>	<b>5,374,229</b>	<b>(65.4)%</b>

The following table shows, on a consolidated basis and by segment, how much of the increase in our net interest income was attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, how much was attributable to changes in average interest rates and how much was attributable to variation to the effects of the appreciation/(depreciation) of the real for 2017 and 2016, respectively:

	R\$ in thousands		
	Consolidated	Banking	Insurance, Pension Plans and Capitalization Bonds
	2017/2016 Increase/(decrease)		
Due to changes in average volume of interest earning assets and interest bearing liabilities	2,552,116	1,348,099	1,134,326
Due to changes in average interest rates	(8,648,291)	(3,582,978)	(4,650,628)
Due to Brazilian real appreciation/depreciation	76,099	76,097	(1)
<b>Net change</b>	<b>(6,020,076)</b>	<b>(2,158,782)</b>	<b>(3,516,303)</b>

**Banking**

Our net interest income decreased by 4.4% from R\$49,156 million in 2016 to R\$46,997 million in 2017. This decrease was mainly due to changes in the average interest rates, which had a negative impact in our revenues by R\$3,583 million, partially offset by the increase in the average volume of business contributing R\$1,348 million to the result, as a result of a 1.3% increase in the average balance of interest-earning assets, increasing our revenues by R\$1,237 million, partly as a result of the increase of: (a) 28.3% in the average balance of assets pledged as collateral; and (b) 5.4% of compulsory deposits to the Central Bank. The impact on our net interest income, due to the appreciation/(depreciation) of the *real*, was R\$76 million.

***Insurance, pension plans and capitalization bonds***

Our net interest income decreased by 65.4%, from R\$5,374 million in 2016 to R\$1,858 million in 2017. This reduction was mainly due to changes in average interest rates, negatively impacting our results by R\$4,651 million, as a result of the decrease in the average rate on interest-earning assets, from 12.2% in 2016 to 7.7% in 2017, partially offset by the average interest rate paid on our interest-bearing liabilities, from 10.8% in 2016 to 8.0% in 2017. This reduction was partially offset by an increase in the average volume of business, contributing R\$1,134 million to our result, mainly influenced by the increase of 18.3% in the average volume of interest-earning assets.

***Interest and similar income***

The following tables show, on a consolidated basis and by segment, the average balance of the principal components of our interest-earning assets and the average interest rates earned in 2017 and 2016:

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Consolidated	R\$ in thousands, except %		
	For the year ended December 31,		
	2017	2016	% Change
<b>Average balance of interest earning assets</b>			
Financial assets held for trading	209,289,723	180,250,789	16.1%
Financial assets available for sale	113,911,212	122,649,627	(7.1)%
Investments held to maturity	41,836,244	41,834,019	0.0%
Financial assets pledged as collateral	193,203,196	150,544,635	28.3%
Loans and advances to banks	57,277,934	67,961,405	(15.7)%
Loans and advances to customers	363,674,189	373,112,857	(2.5)%
Compulsory deposits with the Central Bank	58,875,557	55,847,576	5.4%
Other interest earning assets	871,012	722,571	20.5%
<b>Total</b>	<b>1,038,939,067</b>	<b>992,923,479</b>	<b>4.6%</b>
<b>Average interest rate earned</b>	<b>12.2%</b>	<b>14.9%</b>	

Segment	R\$ in thousands, except %					
	Banking			Insurance, Pension Plans and Capitalization Bonds		
	2017	2016	% Change	2017	2016	% Change
<b>Average balance of interest-earning assets</b>						
Financial assets held for trading	30,035,898	30,557,643	(1.7)%	182,077,230	149,325,995	21.9%
Financial assets available for sale	87,337,876	100,437,376	(13.0)%	26,572,946	22,211,842	19.6%
Investments held to maturity	12,395,622	12,485,593	(0.7)%	29,440,622	29,348,426	0.3%
Financial assets pledged as collateral	193,203,196	150,544,635	28.3%	-	-	
Loans and advances to banks	55,316,158	67,987,562	(18.6)%	20,848,251	17,991,407	15.9%
Loans and advances to customers	363,674,189	373,112,828	(2.5)%	-	-	
Compulsory deposits with the Central Bank	58,875,557	55,847,576	5.4%	-	-	
Other interest earning assets	871,012	722,571	20.5%	-	-	
<b>Total</b>	<b>801,709,508</b>	<b>791,695,784</b>	<b>1.3%</b>	<b>258,939,049</b>	<b>218,877,670</b>	<b>18.3%</b>
<b>Average interest rate earned</b>	<b>13.5%</b>	<b>15.0%</b>		<b>7.7%</b>	<b>12.2%</b>	

For further information about average interest rates by type of assets, see "Item 4.B. Business Overview – Selected Statistical Information – Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest and similar income was attributable to changes in the average volume of interest-earning assets; how much was attributable to changes in average interest rates and how much was attributable to variation to the effects of the appreciation/(depreciation) of the *real* against the U.S. dollar, in each case comparing

2017 and 2016:

	R\$ in thousands		
	Consolidated	Banking	Insurance, Pension Plans and Capitalization Bonds
	2017/2016 Increase/(decrease)		
Due to changes in average volume of interest earning assets	5,193,309	1,236,592	3,935,564
Due to changes in average interest rates	(26,911,891)	(11,770,083)	(10,672,866)
Due to Brazilian real appreciation/depreciation	250,535	250,533	(1)
<b>Net change</b>	<b>(21,468,047)</b>	<b>(10,282,958)</b>	<b>(6,737,303)</b>

**Banking**

Interest and similar income decreased by 8.7%, from R\$118,585 million in 2016 to R\$108,302 million in 2017. This decrease was mainly due to changes in the average interest rates, from 15.0% in 2016 to 13.5% in 2017, impacting our interest and similar income in the amount of R\$11,770 million, mainly, through transactions with: (a) loans and advances to customers; (b) loans and advances to banks; (b) financial assets available for sale; (c) financial assets held for trading; (d) financial assets assigned as collateral; (e) compulsory deposits to the Central Bank; (f) investments held to maturity, partially offset by the increase in the average rate of transactions with: (i) financial assets available for sale; (ii) by the increase in the average volume of interest-earning assets, with a positive impact of R\$1,237 million; and (iii) appreciation/(depreciation) of *real*, which represented income of R\$251 million.

Interest and similar income from loans and advances to customers decreased by 6.4%, from R\$68,452 million in 2016 to R\$64,084 million in 2017. This decrease is related to: (i) a decrease of the

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average interest rate, due to changes in Brazilian interest rates, with the SELIC rates varying from 13.7% in 2016 to 7.0% in 2017, (ii) 2.5% in the average balance of our portfolio of loans and advances to customers, from R\$373,113 million in 2016 to R\$363,674 million in 2017, impacting our interest and similar income by R\$1,705 million. The transactions that contributed the most with the reduction of the volume were the BNDES/Finame transfers, other corporate loans and advances and import and export financings, partially offset by the growth of loans and advances to individuals.

Interest and similar income originating from loans and advances to banks decreased by 41.6%, from R\$8,689 million in 2016 to R\$5,073 million in 2017. This decrease was due to: (i) changes in the average interbank interest rates, from 14.0% in 2016 to 9.9% in 2017; (ii) changes in the average interest rates, impacting the results by R\$2,178 million, due to changes in the and (iii) the 18.6% decrease in the average balance of these assets, from R\$67,988 million in 2016 to R\$55,316 million in 2017, impacting our interest and similar income by R\$1,438 million.

Interest and similar income originating from financial assets held for trading decreased by 37.1%, from R\$3,906 million in 2016 to R\$2,456 million in 2017. This decrease was largely due to changes in the average interest rates earned, from 12.8% in 2016 to 8.2% in 2017, which impacted our income in the amount of R\$1,385 million. The reductions in average rates earned reflect the decrease in the average of interbank interest rates, which decrease from 14.0% in 2016 to 9.9% in 2017, as well as other economic indicators, such as the IPCA, which decrease from 6.3% in 2016 to 3.0% in 2017, and the IGP-M, which in 2016 registered a positive variation of 7.2%, and in 2017 a negative variation of 0.5%.

Interest and similar income originating from financial assets pledged as collateral decreased by 2.2% or R\$470 million, from R\$21,739 million in 2016 to R\$21,269 million in 2017. This variation was mainly due to a decrease in the average interest rate, from 14.4% in 2016 to 11.0% in 2017, due to changes in the average interbank interest rates, from 14.0% in 2016 to 9.9% in 2017, impacting our revenues by R\$5,834 million, partially offset by the increase of 28.3% in average balance of these assets, from R\$150,545 million in 2016 to R\$193,203 million in 2017, with a positive impact in our interest and similar income in the amount of R\$5,364 million.

Interest and similar income originating from compulsory deposits with the Central Bank decreased by 13.9%, from R\$5,668 million in 2016 to R\$4,881 million in 2017. This decrease was due to changes in the average interest rates, from 10.1% in 2016 to 8.3% in 2017, impacting the interest and similar income by R\$1,081 million. This effect was partially offset by the increase in the average volume of these assets, from R\$55,848 million in 2016 to R\$58,876 million in 2017, increasing our interest and similar income in the amount of R\$294 million.

Interest and similar income originating from financial assets available for sale increased by 7.2%, from R\$8,600 million in 2016 to R\$9,223 million in 2017. This increase is related to an increase in the average interest rate, from 8.6% in 2016 to 10.6% in 2017, contributing R\$1,838 million to our revenues. This increase was impacted by the decrease in the average balance of these transactions, from R\$100,437

million in 2016 to R\$87,338 million in 2017, decreasing our revenues by R\$1,215 million.

Interest and similar income originating from investments held to maturity decreased by 14.8% from R\$1,465 million in 2016 to R\$1,248 million in 2017. This was mainly due to changes in the average interest rates, from 11.7% in 2016 to 10.1% in 2017, impacting our interest and similar income by R\$207 million.

***Insurance, pension plans and capitalization bonds***

Our interest and similar income decreased by 25.2%, from R\$26,770 million in 2016 to R\$20,032 million in 2017. This decrease was due to: (i) changes in the average interest rates, from 12.2% in 2016 to 7.7% in 2017, impacting our revenues by R\$10,673 million. This decrease was partially offset by the average volume of transactions, contributing R\$3,936 million to our revenues. The reductions in average rates earned reflect the fall in the average of interbank interest rates, which fell from 14.0% in 2016 to 9.9% in 2017, as well as other economic indicators, such as for example the IPCA, which went from 6.3% in 2016 to 3.0% in 2017, and the IGP-M, which in 2016 registered a positive variation of 7.2%, and in 2017 a negative variation of 0.5%.

***Interest and similar expenses***

The tables below show, on a consolidated basis and by segment, the average balance of the main components of our interest-bearing liabilities and the average interest rates paid on them in 2017 and 2016:

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Consolidated	R\$ in thousands, except %		
	For the year ended December 31,		
	2017	2016	% Change
<b>Average balance of interest-bearing liabilities</b>			
Interbank deposits	1,397,862	1,205,451	16.0%
Savings deposits	96,511,751	93,598,769	3.1%
Time deposits	122,959,605	111,471,035	10.3%
Obligations for repurchase agreements	238,407,697	232,718,923	2.4%
Borrowings and onlendings	58,617,611	65,927,057	(11.1)%
Funds from securities issued	138,281,213	151,629,726	(8.8)%
Subordinated debt	52,065,114	52,348,349	(0.5)%
Insurance technical provisions and pension plans	226,765,103	198,174,725	14.4%
<b>Total</b>	<b>935,005,956</b>	<b>907,074,035</b>	<b>3.1%</b>
<b>Average interest rate paid</b>	<b>8.1%</b>	<b>10.0%</b>	

Segment	R\$ in thousands, except %					
	Banking			Insurance, Pension Plans and Capitalization Bonds		
	2017	2016	% Change	2017	2016	% Change
<b>Average balance of interest bearing liabilities</b>						
Interbank deposits	1,397,862	1,205,451	16.0%	-	-	-
Savings deposits	96,511,751	93,598,769	3.1%	-	-	-
Time deposits	123,100,139	111,553,878	10.4%	-	-	-
Obligations for repurchase agreements	257,372,107	253,043,296	1.7%	-	-	-
Borrowings and onlendings	58,617,611	65,927,057	(11.1)%	-	-	-
Funds from securities issued	140,866,165	152,132,556	(7.4)%	-	-	-
Subordinated debt	52,065,114	52,348,349	(0.5)%	-	-	-

Insurance technical provisions and pension plans	-	-	-	226,765,103	198,174,725	14.4%
<b>Total</b>	<b>729,930,749</b>	<b>729,809,356</b>	<b>0.0%</b>	<b>226,765,103</b>	<b>198,174,725</b>	<b>14.4%</b>
<b>Average interest rate paid</b>	<b>8.4%</b>	<b>9.5%</b>		<b>8.0%</b>	<b>10.8%</b>	

For further information on average interest rates by type of liability, see "Item 4.B. Business Overview – Selected Statistical Information – Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest and similar expenses was attributable to changes in the average volume of interest-bearing liabilities, how much was attributable to changes in average interest rates and how much was attributable to variation in the effects of the appreciation/(depreciation) of the real in the *real*/U.S. dollar rate, in each case comparing 2017 to 2016:

	R\$ in thousands		
	Consolidated	Banking	Insurance, Pension Plans and Capitalization Bonds
	2017/2016 Increase/(decrease)		
Due to changes in average volume of interest bearing liabilities	2,641,193	(111,507)	2,801,238
Due to changes in average interest rates	(18,263,600)	(8,187,105)	(6,022,238)
Due to Brazilian real appreciation/depreciation	174,436	174,436	-
<b>Net change</b>	<b>(15,447,971)</b>	<b>(8,124,176)</b>	<b>(3,221,000)</b>

### **Banking**

Our interest and similar expenses decreased by 11.7% from R\$69,429 million in 2016 to R\$61,305 million in 2017. This decrease was largely due to a decrease of the average interest rate paid, from 9.5% in 2016 to 8.4% in 2017, positively impacting the expenses by R\$8,187 million. The variation of the average balance of the obligations on which interests apply decreased our expenses by R\$112 million, highlighting: (i) funds from issuance of securities, in the amount of R\$1,206 million; and (ii) borrowing and on-lending, in the amount of R\$391 million. These decreases were partially offset by the increase in the average balance of: (i) time deposits, impacting the result by R\$842 million; (ii) obligations for repurchase agreements, increase of expenses in the amount of R\$452 million; and (iii) savings deposits, increase of expenses by R\$203 million.

### **Insurance, pension plans and capitalization bonds**

Our interest and similar expenses decreased by 15.1%, from R\$21,396 million in 2016 to R\$18,175 million in 2017. This decrease reflects the decrease of the average interest rate for insurance and pension plan

technical provisions, from 10.8% in 2016 to 8.0% in 2017, decreasing our expenses by R\$6,022 million. This effect was partially offset by the increase of 14.4% in the average volume of technical provisions, impacting our expenses by R\$2,801 million.

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***Net impairment losses on loans and advances to customers***

In view of conceptual differences between net impairment losses on loans and advances to customers under BR GAAP and IFRS, and to provide a better understanding of the information presented, we present below a reconciliation of those accounting practice differences, as well as the related analysis of the net impairment losses on loans and advances to customers under IFRS.

	<b>R\$ in thousands, except %</b>		
	<b>2017</b>	<b>2016</b>	<b>% Change</b>
<b>Net Impairment losses on loans and advances</b>			
Banking - BR GAAP	(17,895,929)	(18,829,460)	(5.0)%
<b>Accounting Practices Differences (IFRS x BR GAAP)</b>	<b>1,035,094</b>	<b>3,479,182</b>	<b>(70.2)%</b>
Consolidated - IFRS	(16,860,835)	(15,350,278)	9.8%

***Main difference between accounting practices for net impairment losses on loans and advances***

The main difference between the accounting practice between BR GAAP (CMN Resolution No. 2,682/99), and IFRS (IAS 39), is the form of recognition and measurement of impairment losses on loans and advances. While the practice adopted by the Central Bank is a provision based on a mix of future expected losses and incurred losses, including certain minimum prescribed provisions by category of loans, under IFRS the recognition and measurement of impairment losses is based on actual losses incurred. For further information, see "Item 4.B. Business Overview – Regulation and Supervision – Banking Regulations – Treatment of loans and advances" and Note 3.1 to our consolidated financial statements in "Item 18. Financial Statements."

The following table shows changes in our impairment on loans and advances, net impairment losses on loans and advances, loans recovered and loan charge-offs for the years ended 2017 and 2016, as well as our ratio of net impairment losses on loans and advances to loans and advances to customers (shown as a percentage of the average balance of our loans and advances to customers) in all cases based on consolidated financial information prepared in accordance with IFRS:

	<b>R\$ in thousands, except %</b>		
	<b>2017</b>	<b>2016</b>	<b>% Change</b>
<b>Impairment provision of loans and advances at the beginning of the year</b>	<b>24,780,839</b>	<b>25,455,204</b>	<b>(2.6)%</b>
Net impairment losses on loans and advances	16,860,835	15,350,278	9.8%
Loan recoveries	7,034,857	5,507,507	27.7%
Loan charge-offs	(21,620,965)	(21,532,150)	0.4%
<b>Impairment provision of loans and advances at the end of the year</b>	<b>27,055,566</b>	<b>24,780,839</b>	<b>9.2%</b>

Ratio of net impairment losses on loans and advances to average loans and advances to customers	4.4%	3.9%
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The balance of our impairment of loans and advances to customers increased by 9.2%, from R\$24,781 million in 2016 to R\$27,056 million in 2017. This increase was primarily due to the increase of: (i) 9.8% in net impairment losses on loans and advances, from R\$15,350 million in 2016 to R\$16,861 million in 2017; and (ii) 27.7% in the loans recovered, from R\$5,508 million in 2016 to R\$7,035 million in 2017.

The balance of loans and advances to customers classified as past due but not impaired decreased by 4.7%, from R\$337,337 million in 2016 to R\$321,596 million in 2017. Of this total, 96.2% of loans were rated "low risk." The impairment of loans and advances as a percentage of total loans and advances to customers changed from 6.3% in 2016 to 7.2% in 2017, highlighting the bigger loss allocated to the transactions of real estate financing, working capital and credit card.

Calculations of impairment of loans and advances include an individual analysis of impaired loans and advances to customers, and an analysis of losses on loans and advances to individually non-significant customers, as follows:

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	As of December 31,		% Change
	2017	2016	
Impairment provision of loans and advances to individually significant customers	7,208,200	6,575,000	9.6%
Impairment provision of loans and advances to individually non-significant customers	19,847,366	18,205,839	9.0%
<b>Total</b>	<b>27,055,566</b>	<b>24,780,839</b>	<b>9.2%</b>

The total of related losses on loans and advances to individually non-significant customers increased 9.0% or R\$1,642 million, highlighting losses allocated to real estate financing transactions, from R\$839 million in 2016 to R\$1,779 million in 2017, and credit card transactions, from R\$4,739 million in 2016 to R\$5,244 million in 2017.

Our level of loan losses, defined as the amount of net charge-offs compared to the average balance of loans and advances to customers, including overdue loans, decreased from 4.1% in 2016 to 3.8% in 2017.

Our loans and advances to customers portfolio decreased by 4.7% from R\$392,084 million in 2016 to R\$373,814 million in 2017. We highlight: (i) the decrease of 9.7% in loans and advances to legal entities, from R\$221,158 million in 2016 to R\$199,825 million in 2017, particularly in the following products: working capital, export financing and onlending BNDES/Finame; and (ii) growth of 1.8% in loans and advances to individuals, particularly with regard to real estate financing transactions and payroll-deductible loans and vehicles.

We believe that our impairment of loans and advances is sufficient to cover losses incurred regarding our portfolio, which can be evidenced, among other indicators, by our coverage ratio, measured by the total loss by impairment of loans and advances as a percentage of non-performing loans and advances to customers, which increased from 106.0% in 2016 to 130.2% in 2017.

**Non-interest income**

The following tables show, on a consolidated basis and by segment, the principal components of our non-interest income for 2017 and 2016:

Consolidated	R\$ in thousands, except %		
	For the year ended December 31, 2017	2016	% Change
Net fee and commission income	22,748,828	20,341,051	11.8%

Net gains/(losses) on financial assets and liabilities held for trading	9,623,108	16,402,770	(41.3)%
Net gains/(losses) on financial assets available for sale	570,358	(1,341,400)	(142.5)%
Premiums retained from insurance and pension plans	70,046,635	65,027,122	7.7%
Equity in the earnings of associates and joint ventures	1,718,411	1,699,725	1.1%
Other non-interest income	18,498,598	13,042,223	41.8%
<b>Total</b>	<b>123,205,938</b>	<b>115,171,491</b>	<b>7.0%</b>

Segment	R\$ in thousands, except %				
	Banking			Insurance, Pension Pla Capitalization Bon	
	2017	2016	% Change	2017	2016
Net fee and commission income	24,143,561	20,696,785	16.7%	787,014	651,482
Net gains/(losses) on financial assets and liabilities held for trading	6,011,351	14,918,934	(59.7)%	3,641,626	1,250,639
Net gains/(losses) on financial assets available for sale	(685,560)	(1,417,647)	(51.6)%	713,425	805,051
Premiums retained from insurance and pension plans	-	-	-	70,046,635	65,027,122
Equity in the earnings of associates and joint ventures	1,497,268	1,538,058	(2.7)%	217,035	168,691
Other non-interest income	9,845,829	5,678,433	73.4%	8,484,581	7,761,138
<b>Total</b>	<b>40,812,449</b>	<b>41,414,563</b>	<b>(1.5)%</b>	<b>83,890,316</b>	<b>75,664,123</b>

### Banking

Our non-interest income decreased by 1.5%, from R\$41,415 million in 2016 to R\$40,812 million in 2017. This decrease was mainly due to: (i) net gain/losses of financial assets and liabilities classified as held for trading, from gains of R\$14,919 million in 2016 to gains of R\$6,011 million in 2017, primarily reflecting on the result obtained in the derivative financial instruments in 2016, mainly due to results deriving from futures contracts (which include the hedge for investments abroad, which effect of exchange variation is recorded in other financial expenses - net gains /losses on foreign currency transactions); (ii) the decrease of 2.7% or R\$41 million in the result from investment in affiliated companies and joint ventures, from R\$1,538 million in 2016 to R\$1,497 million in 2017, partially offset by: (iii) an increase of 16.7% in the net fee and commission income, from R\$20,697 million in 2016 to R\$24,144 million in 2017, due to the increase of: (a) 10.3% of revenues related to checking accounts mainly due to the expansion of the portfolio of services rendered and an increase in volume of business; and (b) 9.5% in revenues from credit cards, mainly due to an increase in the financial volume traded and an increased amount of transactions carried out in the period; (c) 35.5% in fees from fund management, mainly due to the increased volume of funds raised and managed; (d) 19.4% in revenues from the management of consortiums, mainly due to the greater volume of bids received; the elevation of the average ticket; and the increase in billing on sales, which active quotas went from 1,334 thousand in 2016 to 1,411 thousand in 2017; and (e) 10.6% in the revenues from collections, mainly due to the greater volume of processed documents; (iv) the net loss of available-for-sale financial assets, from R\$1,418 million in 2016 to R\$686 million in 2017, due to greater gains with fixed income securities, partially offset by the recognition of impairment on debentures; and (v) largely due to the provision for guarantees provided, comprising sureties, letters of credit and standby letter of credit in compliance with the CMN Resolution No. 4,512/16.

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***Insurance, pension plans and capitalization bonds***

Our non-interest income increased by 10.9%, from R\$75,664 million in 2016 to R\$83,890 million in 2017. This performance was due mainly to: (i) an increase of 7.7% in retained insurance premiums and pension plans income, from R\$65,027 million in 2016 to R\$70,047 million in 2017, resulting basically from: (a) increase of income from insurance premiums issued, which went from R\$62,471 million in 2016 to R\$65,865 million in 2017; and (b) an increase in pension plan contributions, from R\$3,680 million in 2016 to R\$5,090 million in 2017; and (ii) the net gains/losses on financial assets and liabilities held for trading, which went from a gain of R\$1,251 million in 2016 to a gain of R\$3,642 million in 2017, related to fixed income securities.

***Main difference between balances by segment and consolidated balances***

In addition to the above explanations, we highlight below the main difference between our non-interest income by segment (according to BR GAAP) and our consolidated non-interest income (according to IFRS) for the year ended December 31, 2017:

- ***Net fee and commission income:*** the difference of R\$2,182 million refers to: (i) the effective interest rate method in the amount of R\$1,279 million; and (ii) the elimination and adjustments for other operations in the amount of R\$903 million.

***Non-interest expense***

The following tables show, on a consolidated basis and by segment, the principal components of our non-interest expense for 2017 and 2016:

<b>Consolidated</b>	<b>R\$ in thousands, except %</b>		
	<b>For the year ended December 31,</b>		
	<b>2017</b>	<b>2016</b>	<b>%</b>
			<b>Change</b>
Personnel expenses	(20,723,265)	(17,003,783)	21.9%
Administrative expenses	(16,882,461)	(16,149,563)	4.5%
Depreciation and amortization	(4,568,568)	(3,658,413)	24.9%
Changes in the insurance technical provisions and pension plans	(34,805,771)	(32,781,918)	6.2%
Retained claims	(25,594,962)	(24,542,433)	4.3%
Selling expenses for insurance and pension plans	(3,405,912)	(3,547,008)	(4.0)%
Net gains/(losses) on foreign currency transactions	1,422,957	150,757	843.9%
Net gains/(losses) on investments held to maturity	(54,520)	-	-
Other non-interest expense	(28,631,955)	(27,046,385)	5.9%

**Total**

**(133,244,457) (124,578,746) 7.0%**

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Segment	R\$ in thousands, except %					
	Banking			Insurance, Pension Plans and Capitalization Bonds		
	2017	2016	% Change	2017	2016	% Change
Personnel expenses	(19,261,590)	(15,733,611)	22.4%	(1,589,077)	(1,387,935)	14.5%
Administrative expenses	(17,175,352)	(14,979,689)	14.7%	(1,391,439)	(1,331,349)	4.5%
Depreciation and amortization	(5,555,033)	(3,786,599)	46.7%	(393,618)	(365,656)	7.6%
Changes in the insurance technical provisions and pension plans	-	-	-	-(34,805,771)	(32,781,918)	6.2%
Retained claims	-	-	-	-(25,594,962)	(24,542,433)	4.3%
Selling expenses for insurance and pension plans	-	-	-	(3,405,912)	(3,547,008)	(4.0)%
Net gains/(losses) on foreign currency transactions	1,422,957	150,757	843.9%	-	-	-
Other non-interest expense	(19,182,760)	(20,099,585)	(4.6)%	(9,373,646)	(7,517,507)	24.7%
<b>Total</b>	<b>(59,751,778)</b>	<b>(54,448,727)</b>	<b>9.7%</b>	<b>(76,554,425)</b>	<b>(71,473,806)</b>	<b>7.1%</b>

***Banking***

Our non-interest expenses increased by 9.7%, from R\$54,449 million in 2016 to R\$59,752 million in 2017. This increase was mainly due to the increase of: (i) 22.4% in personnel expenses from R\$15,734 million in 2016 to R\$19,262 million in 2017, due to an increase in expenses from salaries, payroll charges and benefits as a result of: (a) an increase in salaries, in accordance with the respective 2016 and 2017 collective bargaining agreements; and (b) the effect of the consolidation of HSBC Brasil; (ii) 14.7% in administrative expenses, mainly due to: (a) the increased volume of business and services in the period, partially impacted by the effect of the consolidation of HSBC Brasil; and (b) contract adjustments; (iii) 46.7% in depreciation and amortization expenses, due to, principally, the amortization of goodwill related to the acquisition of HSBC Brasil in 2016; and partially offset by a 4.6% decrease in other non-financial expenses, partly as a result of our launch of a Special Voluntary Severance Program Scheme (PDVE) in 2017 which provided voluntary severance to employees meeting certain eligibility requirements.

***Insurance, pension plans and capitalization bonds***

Our non-interest expenses increased by 7.1%, from R\$71,474 million in 2016 to R\$76,554 million in 2017. This increase was mainly due to the increase of: (i) 6.2% in our expenses from variation of insurance and pension plan technical provisions from R\$32,782 million in 2016 to R\$34,806 million in 2017; and (ii) 4.3% in retained claims, from R\$24,545 million to R\$25,595 in 2017, driven by the health insurance segment.

**Income tax and social contribution**

We prepare the information about segments so that Management can assess the performance and make decisions regarding the allocation of resources for investments and other purposes. The calculation of the income tax and social contribution, as required by the current Brazilian laws and regulations, is performed for each legal entity and disclosed on a consolidated basis. Consequently, there is no direct relationship with the presentation per segment. Management's decisions for tax purposes are based on analysis by individual legal entities and on a consolidated basis; consequently, Management includes consolidated data, which were discussed and analyzed, as a relevant disclosure in relation to the decision-making process.

The following table shows, on a consolidated basis, the breakdown of our income tax and social contribution charges:

<b>Consolidated</b>	<b>R\$ in thousands, except %</b>	
	<b>2017</b>	<b>2016</b>
<b>Income before income tax and social contribution</b>	<b>23,743,559</b>	<b>31,905,456</b>
<b>Total income tax and social contribution charges at current rates <sup>(1)</sup></b>	<b>(10,684,602)</b>	<b>(14,357,455)</b>
<b>Effect of additions and exclusions in the tax calculation:</b>		
Equity in the earnings of associates and joint ventures	773,285	764,876
Interest on equity (paid and payable)	3,241,955	3,139,102
Other <sup>(2)</sup>	240,406	(3,459,253)
<b>Income tax and social contribution for the period</b>	<b>(6,428,956)</b>	<b>(13,912,730)</b>
Effective rate	27.1%	43.6%

<sup>(1)</sup> Current rates: (i) 25.0% for income tax; (ii) of 15.0% for the social contribution to financial and similar companies, and of the insurance industry, and of 20.0%, from September 2015 to December 2018, in accordance with Law n° 13,169/15; and (iii) of 9.0% for the other companies;

<sup>(2)</sup> Basically, includes: (i) the exchange rate variation of assets and liabilities, derived from investments abroad; (ii) the equalization of the effective rate of social contribution in relation to the rate (45%) as shown; and (iii) the deduction incentives.

Our income tax and social contribution expenses decreased by R\$7,484 million in 2017 compared to 2016. This decrease was primarily due to: (i) a decrease of R\$8,162 million in income before tax; and (ii) the effects of additions and deductions on the calculation of taxes, as follows: (a) change in other amounts,

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which went from an addition in the income tax and social contribution of R\$3,459 million in 2016 to an exclusion of R\$240 million in 2017, primarily due to exchange rate variation of assets and liabilities, deriving from investments abroad, which is non-taxable/deductible. This was mainly due to the 1.5% depreciation of the *real* against the U.S. dollar in 2017, as compared to 2016, there was a 16.5% appreciation of the *real* against the U.S. dollar; and (c) the increase in the effect of interest on own capital, in the amount of R\$103 million. For more information on income tax and social contribution, see Note 17 to our consolidated financial statements in “Item 18. Financial Statements.”

***Net Income***

As a result of the above, our net income attributable to controlling shareholders decreased by 4.5%, from R\$17,894 million in 2016 to R\$17,089 million in 2017. Our net income for the year also decreased by 3.8%, from R\$17,992 million in 2016 to R\$17,315 million in 2017.

***Results of operations for the year ended December 31, 2016 compared with the year ended December 31, 2015***

The following tables set forth the principal components of our net income for 2016 and 2015, on a consolidated basis and by segment.

<b>Consolidated</b>	<b>R\$ in thousands, except %</b>		
	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>% Change</b>
Net interest income	56,662,989	55,636,042	1.8%
Net Impairment losses on loans and advances	(15,350,278)	(14,721,152)	4.3%
Non interest income	115,171,491	77,043,849	49.5%
Non interest expense	(124,578,746)	(108,355,156)	15.0%
<b>Income before income taxes</b>	<b>31,905,456</b>	<b>9,603,583</b>	<b>232.2%</b>
Income tax and social contribution	(13,912,730)	8,634,322	-
<b>Net income for the year</b>	<b>17,992,726</b>	<b>18,237,905</b>	<b>(1.3)%</b>
Net income attributable to controlling shareholders	17,894,249	18,132,906	(1.3)%
Net income attributable to non-controlling interest	98,477	104,999	(6.2)%

<b>Segment</b>	<b>R\$ in thousands, except %</b>				
	<b>Banking</b>			<b>Insurance, Pension Capitalization</b>	
	<b>2016</b>	<b>2015</b>	<b>% Change</b>	<b>2016</b>	<b>2015</b>
Net interest income	49,156,109	46,934,849	4.7%	5,374,229	5,970,000
Net Impairment losses on loans and advances	(18,829,460)	(16,479,985)	14.3%	-	-
Non interest income	41,414,563	15,639,366	164.8%	75,664,123	66,340,000

Non interest expense	(54,448,727)	(46,839,516)	16.2%	(71,473,806)	(63,800,000)
<b>Income before income taxes</b>	<b>17,292,485</b>	<b>(745,286)</b>	-	<b>9,564,546</b>	<b>8,510,000</b>
Income tax and social contribution	(7,995,420)	12,621,169	-	(3,915,822)	(3,190,000)
<b>Net income for the year</b>	<b>9,297,065</b>	<b>11,875,883</b>	<b>(21.7)%</b>	<b>5,648,724</b>	<b>5,320,000</b>
Net income attributable to controlling shareholders	9,293,766	11,874,609	(21.7)%	5,550,662	5,210,000
Net income attributable to non-controlling interest	3,299	1,274	158.9%	98,062	110,000

**Net interest income**

The table below shows the main components of our net interest income before impairment of loans and advances for 2016 and 2015, on a consolidated basis and by segment:

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	R\$ in thousands, except %		
	2016	2015	% Change
<b>Consolidated</b>			
Interest and similar income	147,700,375	127,048,252	16.3%
Interest and similar expense	(91,037,386)	(71,412,210)	27.5%
<b>Net interest income</b>	<b>56,662,989</b>	<b>55,636,042</b>	<b>1.8%</b>
<b>Banking</b>			
Interest and similar income	118,585,106	106,807,027	11.0%
Interest and similar expense	(69,428,997)	(59,872,178)	16.0%
<b>Net interest income</b>	<b>49,156,109</b>	<b>46,934,849</b>	<b>4.7%</b>
<b>Insurance, Pension Plans and Capitalization Bonds</b>			
Interest and similar income	26,769,779	22,076,041	21.3%
Interest and similar expense	(21,395,550)	(16,102,347)	32.9%
<b>Net interest income</b>	<b>5,374,229</b>	<b>5,973,694</b>	<b>(10.0)%</b>

The following table shows, on a consolidated basis and by segment, how much of the increase in our net interest income was attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, how much was attributable to changes in average interest rates and how much was attributable to variation to the effects of the appreciation/(depreciation) of the real for 2016 and 2015, respectively:

	R\$ in thousands		
	Consolidated	Banking	Insurance, Pension Plans and Capitalization Bonds
	2016/2015 Increase/(decrease)		
Due to changes in average volume of interest earning assets and interest bearing liabilities	5,444,190	2,725,776	263,365
Due to changes in average interest rates	(4,366,345)	(453,498)	(862,854)
Due to Brazilian real appreciation/depreciation	(50,898)	(51,018)	24
<b>Net change</b>	<b>1,026,947</b>	<b>2,221,260</b>	<b>(599,465)</b>

**Banking**

Our net interest income increased by 4.7% from R\$46,935 million in 2015 to R\$49,156 million in 2016. This increase was mainly due to an increase in the average volume of business contributing R\$2,726 million to the result, as a result of: (i) a 12.7% increase in the average balance of interest-earning assets, increasing our revenues by R\$12,199 million, mainly due to the increase of: (a) 10.5% in the average balance of loans and advances to customers; (b) 32.4% in the average balance of financial assets available for sale; and (c) 86.8% in the average balance of investments held to maturity, partially offset by: (ii) the 14.7% increase in the average balance of the interest-bearing liabilities, which impacted the results by R\$9,473 million, in particular the increase of: (a) 55.3% in the average balance of funds from securities issued; and (b) 32.8% increase in the average balance of time deposits. In general, the increase in the average volume of business was mainly due to the consolidation of HSBC Brasil. This increase was partially offset by changes in the average interest rates, which had a negative impact on our results of R\$454 million. The impact of the appreciation of the real on our net interest income was R\$51 million.

***Insurance, pension plans and capitalization bonds***

Our net interest income decreased by 10.0%, from R\$5,974 million in 2015 to R\$5,374 million in 2016. This reduction was mainly due to changes in average interest rates, impacting our results by R\$863 million, primarily as a result of the increase in the average interest rate paid on our interest-bearing liabilities, from 10.3% in 2015 to 10.8% in 2016. This reduction was partially offset by an increase in the average volume of business influenced by the consolidation of HSBC Brasil, contributing R\$263 million to our result.

***Interest and similar income***

The following tables show, on a consolidated basis and by segment, the average balance of the principal components of our interest-earning assets and the average interest rates earned in 2016 and 2015:

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Consolidated	R\$ in thousands, except %		
	For the year ended December 31,		
	2016	2015	% Change
<b>Average balance of interest earning assets</b>			
Financial assets held for trading	180,250,789	108,737,397	65.8%
Financial assets available for sale	122,649,627	95,434,117	28.5%
Investments held to maturity	41,834,019	32,732,694	27.8%
Financial assets pledged as collateral	150,544,635	148,107,052	1.6%
Loans and advances to banks	67,961,405	63,314,643	7.3%
Loans and advances to customers	373,112,857	337,673,348	10.5%
Compulsory deposits with the Central Bank	55,847,576	43,933,707	27.1%
Other interest earning assets	722,571	640,098	12.9%
<b>Total</b>	<b>992,923,479</b>	<b>830,573,056</b>	<b>19.5%</b>
<b>Average interest rate earned</b>	<b>14.9%</b>	<b>15.3%</b>	

Segment	R\$ in thousands, except %					
	Banking			Insurance, Pension Plans and Capitalization Bonds		
	2016	2015	% Change	2016	2015	% Change
<b>Average balance of interest-earning assets</b>						
Financial assets held for trading	30,557,643	26,586,105	14.9%	149,325,995	81,851,926	82.4%
Financial assets available for sale	100,437,376	75,850,112	32.4%	22,211,842	19,583,491	13.4%
Investments held to maturity	12,485,593	6,682,957	-	29,348,426	26,049,737	12.7%
Financial assets pledged as collateral	150,544,635	148,107,052	1.6%	-	-	-
Loans and advances to banks	67,987,562	63,087,209	7.8%	17,991,407	47,806,666	(62.4)%
Loans and advances to customers	373,112,828	337,649,092	10.5%	-	-	-
Compulsory deposits with the Central Bank	55,847,576	43,933,707	27.1%	-	-	-
Other interest-earning assets	722,571	640,098	12.9%	-	-	-
<b>Total</b>	<b>791,695,784</b>	<b>702,536,332</b>	<b>12.7%</b>	<b>218,877,670</b>	<b>175,291,820</b>	<b>24.9%</b>
<b>Average interest rate</b>	<b>15.0%</b>	<b>15.2%</b>		<b>12.2%</b>	<b>12.6%</b>	

For further information about average interest rates by type of assets, see "Item 4.B. Business Overview – Selected Statistical Information – Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest and similar income was attributable to changes in the average volume of interest-earning assets; how much was attributable to changes in average interest rates and how much was attributable to variation to the effects of the appreciation/(depreciation) of the *real* against the U.S. dollar, in each case comparing 2016 to 2015:

	R\$ in thousands		
	Consolidated	Banking	Insurance, Pension Plans and Capitalization Bonds
		<b>2016/2015</b>	
		<b>Increase/(reduction)</b>	
Due to changes in average volume of interest earning assets	22,462,631	12,199,018	4,680,563
Due to changes in average interest rates	(1,220,354)	169,334	13,152
Due to Brazilian real appreciation/depreciation	(590,154)	(590,273)	23
<b>Net change</b>	<b>20,652,123</b>	<b>11,778,079</b>	<b>4,693,738</b>

### **Banking**

Interest and similar income increased by 11.0%, from R\$106,807 million in 2015 to R\$118,585 million in 2016. This increase was largely due to changes in the average volume of business, which had a positive impact of R\$12,199 million on our results, particularly in interest and similar income from: (a) loans and advances to customers; (b) financial assets available for sale; (c) compulsory deposits with the Central Bank; (d) loans and advances to banks; (e) investments held to maturity; and (f) financial assets held for trading. In the overall, the consolidation of HSBC Brasil increased the average volume of business. This increase was partially offset by changes in the average interest rate earned, from 15.2% in 2015 to 15.0% in 2016, primarily impacted by: (a) the average balance of financial assets available for sale; and (b) the appreciation of the Brazilian real, impacting our interest and similar income by R\$166 million.

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Interest and similar income from loans and advances to customers increased by 10.7%, from R\$61,846 million in 2015 to R\$68,452 million in 2016. This increase is related to an increase: (i) of 10.5% in the average balance of our portfolio of loans and advances to customers, from R\$337,649 million in 2015 to R\$373,113 million in 2016, positively impacting our interest and similar income, in the amount of R\$6,506 million. The most featured transactions in the period were housing loans, payroll deductible loans and credit card transactions; and (ii) in the average interest rate, contributing with R\$100 million to our interest and similar income.

Interest and similar income from financial assets available for sale increased by 0.7%, from R\$8,538 million in 2015 to R\$8,600 million in 2016. This increase is related to an increase in the average balance of these transactions, from R\$75,850 million in 2015 to R\$100,437 million in 2016, contributing with R\$2,387 million to our revenues, which was partially offset by a decrease in the average interest rate, from 11.3% in 2015 to 8.6% in 2016, impacting our results by R\$2,325 million.

Interest and similar income from compulsory deposits with the Central Bank increased by 23.5%, from R\$4,587 million in 2015 to R\$5,668 million in 2016. This increase was primarily due to the 27.1% increase in the average balance of these assets, from R\$43,934 million in 2015 to R\$55,848 million in 2016, positively impacting our interest and similar income by R\$1,212 million.

Interest and similar income from loans and advances to banks increased by 8.2%, from R\$8,031 million in 2015 to R\$8,689 million in 2016. This increase was primarily due to the 7.8% increase in the average balance of these assets, from R\$63,087 million in 2015 to R\$67,988 million in 2016, positively impacting our interest and similar income by R\$626 million.

Interest and similar income from investments held to maturity increased by 89.4% from R\$774 million in 2015 to R\$1,465 million in 2016. This increase was mainly due to an increase in the average balance of these transactions, from R\$6,683 million in 2015 to R\$12,486 million in 2016, contributing with R\$681 million to our revenues.

Interest and similar income from financial assets held for trading increased by 44.6%, from R\$2,702 million in 2015 to R\$3,906 million in 2016. This increase was due to: (i) an increase in the average interest rate, from 10.2% in 2015 to 12.8% in 2016, positively impacting our income by R\$762 million; and (ii) a 14.9% increase in the average balance of these assets, from R\$26,586 million in 2015 to R\$30,558 million in 2016, positively impacting our interest and similar income by R\$442 million.

Interest and similar income from financial assets pledged as collateral increased by 7.2%, from R\$20,270 million in 2015 to R\$21,739 million in 2016. This variation was mainly due to an increase in the average interest rate, from 13.7% in 2015 to 14.4% in 2016, increasing our revenues by R\$1,131 million.

The effect from the appreciation of the *real* impacted our interest and similar income by R\$590 million.

***Insurance, pension plans and capitalization bonds***

Our interest and similar income increased by 21.3%, from R\$22,076 million in 2015 to R\$26,770 million in 2016. This increase was substantially due to changes in the average volume of transactions, contributing with R\$4,681 million to our revenues, as result of the consolidation of HSBC Brasil.

***Interest and similar expenses***

The tables below show, on a consolidated basis and by segment, the average balance of the main components of our interest-bearing liabilities and the average interest rates paid on them in 2016 and 2015:

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<b>Consolidated</b>	<b>R\$ in thousands, except %</b>		
	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>% Change</b>
<b>Average balance of interest bearing liabilities</b>			
Interbank deposits	1,205,451	621,904	93.8%
Savings deposits	93,598,769	91,075,494	2.8%
Time deposits	111,471,035	83,978,162	32.7%
Obligations for repurchase agreements	232,718,923	211,686,661	9.9%
Borrowings and onlendings	65,927,057	64,029,996	3.0%
Funds from securities issued	151,629,726	97,739,942	55.1%
Subordinated debt	52,348,349	38,601,843	35.6%
Insurance technical provisions and pension plans	198,174,725	156,922,463	26.3%
<b>Total</b>	<b>907,074,035</b>	<b>744,656,465</b>	<b>21.8%</b>
<b>Average interest rate paid</b>	<b>10.0%</b>	<b>9.6%</b>	

<b>Segment</b>	<b>R\$ in thousands, except %</b>			
	<b>Banking</b>			<b>Insurance, Pen Capitalizat</b>
	<b>2016</b>	<b>2015</b>	<b>% Change</b>	<b>2016</b>
<b>Average balance of interest-bearing liabilities</b>				
Interbank deposits	1,205,451	621,941	93.8%	-
Savings deposits	93,598,769	91,075,494	2.8%	-
Time deposits	111,553,878	83,995,843	32.8%	-
Obligations for repurchase agreements	253,043,296	260,100,851	(2.7)%	-
Borrowings and onlendings	65,927,057	64,029,996	3.0%	-
Funds from securities issued	152,132,556	97,942,610	55.3%	-
Subordinated debt	52,348,349	38,601,843	35.6%	-

Insurance technical provisions and pension plans	-	-	-	198,174,725
<b>Total</b>	<b>729,809,356</b>	<b>636,368,578</b>	<b>14.7%</b>	<b>198,174,725</b>
<b>Average interest rate paid</b>	<b>9.5%</b>	<b>9.4%</b>		<b>10.8%</b>

For further information on average interest rates by type of liability, see "Item 4.B. Business Overview – Selected Statistical Information – Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest and similar expenses was attributable to changes in the average volume of interest-bearing liabilities, how much was attributable to changes in average interest rates and how much was attributable to variation in the effects of the appreciation/(depreciation) of the real in the *real*/U.S. dollar rate, in each case comparing 2016 and 2015:

	R\$ in thousands		
	Consolidated	Banking	Insurance, Pension Plans and Capitalization Bonds
	2016/2015 Increase/(reduction)		
Due to changes in average volume of interest bearing liabilities	17,018,441	9,473,242	4,417,198
Due to changes in average interest rates	3,145,990	622,832	876,005
Due to Brazilian real appreciation/depreciation	(539,255)	(539,255)	-
<b>Net change</b>	<b>19,625,176</b>	<b>9,556,819</b>	<b>5,293,203</b>

### **Banking**

Our interest and similar expenses increased by 16.0% from R\$59,872 million in 2015 to R\$69,429 million in 2016. This increase primarily reflects: (i) an increase of 14.7% in the average volume of interest-bearing liabilities mainly influenced by the consolidation of HSBC Brasil, from R\$636,369 million in 2015 to R\$729,809 million in 2016, impacting our expenses by R\$9,473 million, mainly due to the increase of: (a) 55.3% in the average balance of funds from securities issued, impacting the expenses by R\$6,126 million; (b) 32.8% in the average balance of time deposits, impacting the expenses by R\$2,109 million; and (c) 35.6% in the average balance of subordinated debt, impacting the expenses by R\$1,654 million; and (ii) the change in the average interest rate paid, from 9.4% in 2015 to 9.5% in 2016, impacting our interest and similar expenses by R\$623 million, mainly as a result of higher interest rates for time deposits, from 7.1% in 2015 to 7.8% in 2016, impacting the expenses by R\$699 million. The effect of the appreciation of the *real* impacted our interest and similar expenses by R\$539 million.

### **Insurance, pension plans and capitalization bonds**



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Our interest and similar expenses increased by 32.9%, from R\$16,102 million in 2015 to R\$21,396 million in 2016. This increase primarily reflects the increase: (i) of 26.3% in the average balance of insurance technical provisions, impacting our expenses by R\$4,417 million, influenced by the consolidation of HSBC Brasil; and (ii) in the average interest rate for insurance and pension plan technical provisions, from 10.3% in 2015 to 10.8% in 2016, increasing our expenses by R\$876 million.

***Net impairment losses on loans and advances to customers***

In view of conceptual differences between net impairment losses on loans and advances to customers under BR GAAP and IFRS, and to provide a better understanding of the information presented, we present below a reconciliation of those accounting practice differences, as well as the related analysis of the net impairment losses on loans and advances to customers under IFRS:

	<b>R\$ in thousands, except %</b>		
	<b>2016</b>	<b>2015</b>	<b>% Change</b>
<b>Net Impairment losses on loans and advances</b>			
Banking - BR GAAP	(18,829,460)	(16,479,985)	14.3%
<b>Accounting Practices Differences (IFRS x BR GAAP)</b>	<b>3,479,182</b>	<b>1,758,833</b>	<b>97.8%</b>
Consolidated - IFRS	(15,350,278)	(14,721,152)	4.3%

***Main difference between accounting practices for net impairment losses on loans and advances***

The main difference between the accounting practice between BR GAAP (CMN Resolution No. 2,682/99), and IFRS (IAS 39), is the form of recognition and measurement of impairment losses on loans and advances. While the practice adopted by the Central Bank is provisioning based on a mix of future expected losses and incurred losses, under IFRS the recognition and measurement of impairment losses is based on actual losses incurred. For further information, see "Item 4.B. Business Overview – Regulation and Supervision – Banking Regulations – Treatment of loans and advances" and Note 3.1 to our consolidated financial statements in "Item 18. Financial Statements."

The following table shows changes in our impairment on loans and advances, net impairment losses on loans and advances, loans recovered and loan charge-offs for the years ended 2016 and 2015, as well as our ratio of net impairment losses on loans and advances to loans and advances to customers (shown as a percentage of the average balance of our loans and advances to customers) in all cases based on consolidated financial information prepared in accordance with IFRS:

	<b>R\$ in thousands, except %</b>		
	<b>2016</b>	<b>2015</b>	<b>% Change</b>
<b>Impairment provision of loans and advances at the beginning of the year</b>	<b>25,455,204</b>	<b>21,132,677</b>	<b>20.5%</b>



Net impairment losses on loans and advances	15,350,278	14,721,152	4.3%
Loan recoveries	5,507,507	4,144,879	32.9%
Loan charge offs	(21,532,150)	(14,543,504)	48.1%
<b>Impairment provision of loans and advances at the end of the year</b>	<b>24,780,839</b>	<b>25,455,204</b>	<b>(2.6)%</b>
Ratio of net impairment losses on loans and advances to average loans and advances to customers	3.9%	4.2%	

The balance of our impairment of loans and advances to customers decreased by 2.6%, from R\$25,455 million in 2015 to R\$24,781 million in 2016. This decrease was primarily due to the greater volume of loan charge-offs, from R\$14,544 million in 2015 to R\$21,532 million in 2016, highlighting the greater incidence of charge-offs of the renegotiated transactions. This decrease was partially offset by: (i) the increase of 4.3% in loss impairment of loans and advances, from R\$14,721 million in 2015 to R\$15,350 million in 2016; and (ii) the increase of 32.9% in loan recoveries, from R\$4,145 million in 2015 to R\$5,508 million in 2016.

The balance of loans and advances to customers classified as due without reducing the recoverable amount increased by 3.4%, from R\$326,364 million in 2015 to R\$337,337 million in 2016. From this total, 96.4% of loans were rated "low risk." The impairment of loans and advances as a percentage of total loans and advances to customers changed from 6.9% in 2015 to 6.3% in 2016, highlighting the smaller loss allocated to the transactions of working capital, which decreased by R\$3,094 million, from R\$5,922 million in 2015 to R\$2,828 million in 2016, primarily due to the decrease of 7.8% in this type of loans and advances to customers. We emphasize that the volume of charge-offs in 2016 was 48.1% higher compared to 2015.

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Calculations of impairment of loans and advances include an individual analysis of impaired loans and advances to customers, and an analysis of losses on loans and advances to individually non-significant customers, as follows:

As of December 31,	R\$ in thousands, except %		
	2016	2015	% Change
Impairment provision of loans and advances to customers individually relevant	6,575,000	5,302,200	24.0%
Impairment provision of loans and advances to customers not individually relevant	18,205,839	20,153,004	(9.7)%
<b>Total</b>	<b>24,780,839</b>	<b>25,455,204</b>	<b>(2.6)%</b>

The increase of 4.3% in net impairment losses on loans and advances is related to the effects of the deceleration of economic activity in Brazil during the period. We highlight the increase of R\$9,831 million in the balance of impaired loans and advances to customers, mainly due to the increase of R\$4,395 million in the balance of impaired loans and advances to customers that are overdue for more than 90 days, from R\$14,820 million in 2015 to R\$19,215 million in 2016.

Our level of loan losses, defined as the amount of net charge-offs compared to the average balance of loans and advances to customers, including overdue loans, increased from 3.0% in 2015 to 4.1% in 2016.

Our loans and advances to customers portfolio increased by 5.9% from R\$370,324 million in 2015 to R\$392,084 million in 2016, mainly influenced by the consolidation of HSBC Brasil. We highlight the increase of 15.6% in loans and advances to individuals, from R\$147,860 million in 2015 to R\$170,926 million in 2016, particularly in the following products: housing loans, payroll-deductible loans and credit cards.

We believe that our impairment of loans and advances is sufficient to cover incurred losses associated with our portfolio.

***Non-interest income***

The following tables show, on a consolidated basis and by segment, the principal components of our non-interest income for 2016 and 2015:

Consolidated	R\$ in thousands, except %		
	2016	2015	% Change
Net fee and commission income	20,341,051	17,820,670	14.1%

Net gains/(losses) on financial assets and liabilities held for trading	16,402,770	(8,252,055)	(298.8)%
Net gains/(losses) on financial assets available for sale	(1,341,400)	(671,810)	99.7%
Premiums retained from insurance and pension plans	65,027,122	58,760,780	10.7%
Equity in the earnings of associates and joint ventures	1,699,725	1,528,051	11.2%
Other non-interest income	13,042,223	7,858,213	66.0%
<b>Total</b>	<b>115,171,491</b>	<b>77,043,849</b>	<b>49.5%</b>

Segment	R\$ in thousands, except %			
	Banking		% Change	Insurance, F Capital
	2016	2015		2016
Net fee and commission income	20,696,785	19,195,003	7.8%	651,482
Net gains/(losses) on financial assets and liabilities held for trading	14,918,934	(7,199,397)	(307.2)%	1,250,639
Net gains/(losses) on financial assets available for sale	(1,417,647)	(370,947)	282.2%	805,051
Premiums retained from insurance and pension plans	-	-	-	-65,027,122.5
Equity in the earnings of associates and joint ventures	1,538,058	1,358,047	13.3%	168,691
Other non-interest income	5,678,433	2,656,660	113.7%	7,761,138
<b>Total</b>	<b>41,414,563</b>	<b>15,639,366</b>	<b>164.8%</b>	<b>75,664,123.6</b>

### **Banking**

Our non-interest income increased by 164.8%, from R\$15,639 million in 2015 to R\$41,415 million in 2016. This increase was mainly due to: (i) net gain/losses of financial assets and liabilities classified as held for trading, from a loss of R\$7,199 million in 2015 to a gain of R\$14,919 million in 2016, largely due to income obtained from derivative financial instruments, mainly due to the results deriving from futures contracts (which includes the hedge for investments abroad); (ii) the increase of 7.8% in net fee and commission income, from R\$19,195 million in 2015 to R\$20,697 million in 2016, due to an increase of: (a) 22.0% in revenues related to checking accounts, mainly due to the improvement in the process of segmentation of customers and the increase in the business volume, as well as the effect of the consolidation of HSBC Brasil; (b) 6.4% in revenues from credit cards, due to the increase of 13.6% in the

**5.A. Operating Results**

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traded financial volume, which reached R\$159,172 million in 2016; as well as the 16.6% growth in the amount of transactions, which reached 1.8 billion in 2016, both partially impacted by the consolidation of HSBC Brasil; and (c) 22.9% in revenues from managing consortia, mainly due to the greater volume of bids received; the increase in the average ticket; and the increase in billing on sales, whose active quotas went from 1,194 thousand in December 2015 to 1,334 thousand in December 2016; and (d) 12.9% in the revenues from collections, mainly due to the greater volume of processed documents, as well as the consolidation of HSBC Brasil; (iii) the increase of 13.3% in the result of equity in the earnings of associates and joint ventures, from R\$1,358 million in 2015 to R\$1,538 million in 2016, mainly due to, higher revenues from our associate Cielo S.A. (“Cielo”) and (iv) the increase in other non-financial income, principally as a result of: (a) higher revenues with the reversal of provisions for tax contingencies; and (b) the consolidation of HSBC Brasil. These events were partially offset by the increase in net losses on financial assets, from R\$371 million in 2015 to R\$1,418 million in 2016, primarily impacted by the recognition of impairment on fixed-income securities.

***Insurance, pension plans and capitalization bonds***

Our non-interest income increased by 14.0%, from R\$66,345 million in 2015 to R\$75,664 million in 2016. This performance was due mainly to: (i) an increase of 10.7% in retained insurance premiums and pension plans income, from R\$58,761 million in 2015 to R\$65,027 million in 2016, mainly due to the increase in insurance premiums written, from R\$55,921 million in 2015 to R\$62,471 million in 2016; (ii) the net gains/losses on financial assets and liabilities held for trading, which went from a loss of R\$627 million in 2015 to a gain of R\$1,251 million in 2016, primarily due to the result of the revenue from fixed-rate securities; (iii) the net gains/losses on financial assets available for sale, which went from a loss of R\$354 million in 2015 to a gain of R\$805 million in 2016. In 2015, the recognition of impairment losses on financial assets was R\$289 million compared to R\$28 million in 2016; and (iv) the increase of 12.5% in other non-interest income, largely due to the reversal of provisions for tax contingencies, to the value of R\$1,082 million.

***Main difference between balances by segment and consolidated balances***

In addition to the above explanations, we highlight below the main difference between our non-interest income by segment (according to BR GAAP) and our consolidated non-interest income (according to IFRS) for the year ended December 31, 2016:

- ***Net fee and commission income:*** the difference of R\$1,007 million refers to: (i) the effective interest rate method in the amount of R\$1,236 million; and (ii) the elimination and adjustments for other operations that have reduced the adjustment by R\$229 million.

***Non-interest expense***

The following tables show, on a consolidated basis and by segment, the principal components of our non-interest expense for 2016 and 2015:

<b>Consolidated</b>	<b>R\$ in thousands, except %</b>		
	<b>For the year ended December 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>% Change</b>
Personnel expenses	(17,003,783)	(14,058,047)	21.0%
Administrative expenses	(16,149,563)	(13,721,970)	17.7%
Depreciation and amortization	(3,658,413)	(2,942,003)	24.4%
Changes in the insurance technical provisions and pension plans	(32,781,918)	(28,286,039)	15.9%
Retained claims	(24,542,433)	(21,724,043)	13.0%
Selling expenses for insurance and pension plans	(3,547,008)	(3,253,193)	9.0%
Net gains/(losses) on foreign currency transactions	150,757	(3,523,095)	(104.3)%
Other non-interest expense	(27,046,385)	(20,846,766)	29.7%
<b>Total</b>	<b>(124,578,746)</b>	<b>(108,355,156)</b>	<b>15.0%</b>

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Segment	R\$ in thousands, except %			Insurance, Capital
	Banking			
	2016	2015	% Change	2016
Personnel expenses	(15,733,611)	(13,103,515)	20.1%	(1,387,935)
Administrative expenses	(14,979,689)	(13,076,913)	14.6%	(1,331,349)
Depreciation and amortization	(3,786,599)	(2,752,946)	37.5%	(365,656)
Changes in the insurance technical provisions and pension plans	-	-	-	-(32,781,918)
Retained claims	-	-	-	-(24,542,433)
Selling expenses for insurance and pension plans	-	-	-	-(3,547,008)
Net gains/(losses) on foreign currency transactions	150,757	(3,523,095)	(104.3)%	-
Other non-interest expense	(20,099,585)	(14,383,047)	39.7%	(7,517,507)
<b>Total</b>	<b>(54,448,727)</b>	<b>(46,839,516)</b>	<b>16.2%</b>	<b>(71,473,806)</b>

***Banking***

Our non-interest expenses increased by 16.2%, from R\$46,840 million in 2015 to R\$54,449 million in 2016. This increase was mainly due to the increase of: (i) 20.1% in personnel expenses from R\$13,104 million in 2015 to R\$15,734 million in 2016, due to an increase in expenses from salaries, payroll charges and benefits as a result of: (a) an increase in salaries, in accordance with the respective 2015 and 2016 collective bargaining agreements; and (b) the effect of the consolidation of HSBC Brasil; (ii) 14.6% in administrative expenses, mainly due to: (a) the increased volume of business and services in the period, partially impacted by the effect of the consolidation of HSBC Brasil; (b) contract adjustments; and (c) the effect of the advertising and marketing campaigns, mainly related to the "Rio 2016 Olympic and Paralympic Games," during the third quarter of 2016; (iii) 37.5% in depreciation and amortization expenses, mainly due to the amortization of goodwill related to the acquisition of HSBC Brasil in 2016, in the amount of R\$768 million; and (iv) 39.7% in other non-financial expenses, primarily impacted by: (a) provisions for guarantees provided, comprising sureties, letters of credit and standby letters of credit, in the amount of R\$2,367 million in 2016; (b) greater expenses for legal contingencies, in the amount of R\$1,408 million; and (c) higher tax expenses, in the amount of R\$1,369 million partially offset by net gains/losses in foreign currency operations, primarily as a result of the appreciation of the Brazilian *real* against the U.S. dollar in the period.

***Insurance, pension plans and capitalization bonds***

Our non-interest expenses increased by 12.0%, from R\$63,805 million in 2015 to R\$71,474 million in 2016. This increase was mainly due to the increase of: (i) 15.9% in our expenses from variation of insurance and

pension plan technical provisions from R\$28,286 million in 2015 to R\$32,782 million in 2016, mainly deriving from the increase of R\$32,422 million in the volume of our technical provisions for the VGBL product, influenced by the consolidation of HSBC Brasil; and (ii) 13.0% in retained claims, mainly, in health insurance.

***Income tax and social contribution***

We prepare the information about segments so that management can assess the performance and make decisions regarding the allocation of resources for investments and other purposes. The calculation of the income tax and social contribution, as required by the current Brazilian laws and regulations, is performed for each legal entity and disclosed on a consolidated basis. Consequently, there is no direct relationship with the presentation per segment. Management's decisions for tax purposes are based on analysis by individual legal entities and on a consolidated basis; consequently, Management includes consolidated data, which were discussed and analyzed, as a relevant disclosure in relation to the decision-making process.

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**5.B. Liquidity and Capital Resources**

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The following table shows, on a consolidated basis, the breakdown of our income tax and social contribution charges:

<b>Consolidated</b>	<b>R\$ in thousands, except %</b>	
	<b>2016</b>	<b>2015</b>
<b>Income before income tax and social contribution</b>	<b>31,905,456</b>	<b>9,603,583</b>
<b>Total income tax and social contribution charges at current rates <sup>(1)</sup></b>	<b>(14,357,455)</b>	<b>(4,321,612)</b>
<b>Effect of additions and exclusions in the tax calculation:</b>		
Equity in the earnings of associates and joint ventures	764,876	687,623
Interest on equity (paid and payable)	3,139,102	2,305,695
Net tax credit of deferred liabilities <sup>(2)</sup>	-	2,341,220
Other <sup>(3)</sup>	(3,459,253)	7,621,396
<b>Income tax and social contribution for the period</b>	<b>(13,912,730)</b>	<b>8,634,322</b>
Effective rate	43.6%	(89.9)%

<sup>(1)</sup> Current rates: (i) 25.0% for income tax; (ii) of 15.0% for the social contribution to financial and similar companies, and of the insurance industry, and of 20.0%, from September 2015 to December 2018, in accordance with Law n° 13,169/15; and (iii) of 9.0% for the other companies;

<sup>(2)</sup> In 2015, refers to, constitution of deferred tax assets, net of deferred liabilities, related to the increase in the social contribution tax rate, according to Law n° 13,169/15; and

<sup>(3)</sup> Basically, includes: (i) the exchange rate variation of assets and liabilities, derived from investments abroad; (ii) the equalization of the effective rate of social contribution in relation to the rate (45%) as shown; and (iii) the deduction incentives.

Our income tax and social contribution expenses increased by R\$22,547 million in 2016 as compared to 2015. This increase was primarily due to: (i) an increase of R\$22,302 million in income before income tax and social contribution; and (ii) the effects of additions and deductions on the calculation of taxes, as follows: (a) change in other amounts, which went from an exclusion in the income tax and social contribution of R\$7,621 million in 2015 to an addition of R\$3,459 million in 2016, primarily due to exchange rate variation of assets and liabilities, deriving from investments abroad, which is non-taxable/deductible. This was due, mainly, the 16.5% appreciation of the *real* against the U.S. dollar in 2016, as compared to 2015, there was a 47.0% depreciation of the *real* against the U.S. dollar; (b) constitution of tax credit, in the amount of R\$2,341 million in 2015, deriving from the restatement of deferred tax assets and liabilities, due to the higher percentage for social contribution, according to Law No. 13,169/15, which was 15% until August 2015 and, for the period between September 2015 and December 2018, changed to 20.0%; partially offset by (c) to the increase in the effect of interest on own capital, in the amount of R\$833 million. For more information on income tax and social contribution, see Note 17 to our consolidated financial statements in "Item 18. Financial Statements."

***Net Income***



As a result of the above, our net income attributable to controlling shareholders decreased by 1.3%, from R\$18,133 million in 2015 to R\$17,894 million in 2016. Our net income for the year also decreased by 1.3%, from R\$18,238 million in 2015 to R\$17,993 million in 2016.

## 5.B. Liquidity and Capital Resources

### *Asset and liability management*

Our general policy on asset and liability management is to manage interest rate, liquidity, foreign exchange and maturity risks in order to maximize our net interest income and our return on assets and equity, in light of our internal risk management policies, and maintain adequate levels of liquidity and capital.

As part of our asset and liability management, we seek to avoid material mismatches between assets and liabilities by matching, to the extent possible, the maturity, currency and interest rate structure of loans we make with terms of the transactions under which we fund these loans. Subject to our policy constraints and the limits established by our Board of Directors, we occasionally take mismatched positions in relation to interest rates, maturities and, in more limited circumstances, foreign currencies, when we believe such positions are justified in view of market conditions and prospects.

We monitor our asset and liability positions in accordance with Central Bank requirements and guidelines. Our Treasury Executive Committee for Asset and Liability Management meets on a weekly basis to:

- evaluate action strategies relating to asset and liability management, within the limits established, based on an analysis of the political-economic scenarios, at national and international level;
- monitor and countersign the pricing strategies of asset, liability and derivative operations with our clients;
- define internal prices of transfer of resources (Funds Transfer Price - FTP) of liabilities and assets in local and foreign currency;

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**5.B. Liquidity and Capital Resources**

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- approve the proposal on the limit of tolerance for exposure to risks to be submitted to the approval of the COGIRAC and the Board of Directors; and
- monitor and countersign results, strategies, behaviors and risks of mismatch and indexes maintained by us and managed by our Treasury Department.

In making such decisions, we evaluate not only our exposure limits for each market segment and product, but also market volatility levels and the extent to which we are exposed to market risk through interest, maturity, liquidity and currency mismatches. We also consider other potential risks, as well as market liquidity, our institutional needs and perceived opportunities for gains. Our Treasury Executive Committee for Asset and Liability Management holds extraordinary meetings as required in response to unexpected macroeconomic changes.

In addition, we receive daily reports on our mismatched and open positions, while our Treasury Executive Committee for the Asset and Liability Management assesses our risk position every two weeks.

***Liquidity and funding***

We have policies, procedures, metrics and limits in place aimed at controlling liquidity risks. The components of our Short-Term Liquidity Ratio (“LCR”) are in line with best market practices as well as Basel III requirements.

Our Treasury Department acts as a support center for our different business segments by managing our funding and liquidity positions, and executing our investment objectives in accordance with our asset and liability management policies. We are also responsible for setting rates for our different products, including exchange and interbank transactions. Our Treasury Department covers any funding shortfall by borrowing in the interbank market. It seeks to maximize efficient use of our deposit base by investing any surpluses in liquid instruments in the interbank market.

We have used our excess liquidity to invest in Brazilian government securities and expect to continue doing so, subject to regulatory requirements and investment considerations. Our principal sources of funding are:

- demand, savings, and time deposits, as well as interbank deposits; and
- obligations for repurchase agreements, borrowings and onlendings, funds from securities issued and subordinated debt, part of which is denominated in foreign currencies.

The following table shows the average balance and average real interest rates of our sources of funding (interest-bearing, as well as non-interest-bearing) for the periods indicated measured using month-end balances:

R\$ in thousands, except % Average balance	2017			2016			2015		
	% of total	Average rate	Average balance	% of total	Average rate	Average balance	% of total	Average rate	Average balance
<b>Interest-bearing liabilities</b>									
Interbank deposits	1,397,862	0.1%	10.9%	1,205,451	0.1%	10.6%	621,904		
Savings deposits	96,511,751	8.7%	5.9%	93,598,769	8.6%	7.2%	91,075,494		
Time deposits	122,959,605	11.1%	6.1%	111,471,035	10.3%	7.8%	83,978,162		
Obligations for repurchase agreements	238,407,697	21.6%	9.5%	232,718,923	21.5%	11.5%	211,686,661		
Borrowings and onlendings	58,617,611	5.3%	5.2%	65,927,057	6.1%	5.9%	64,029,996		
Funds from securities issued	138,281,213	12.5%	9.6%	151,629,726	14.0%	11.3%	97,739,942		
Subordinated debt	52,065,114	4.7%	9.8%	52,348,349	4.8%	12.0%	38,601,843		
Insurance technical provisions and pension plans	226,765,103	20.5%	8.0%	198,174,725	18.3%	10.8%	156,922,463		
<b>Total interest-bearing liabilities</b>	<b>935,005,956</b>	<b>84.6%</b>	<b>8.1%</b>	<b>907,074,035</b>	<b>83.7%</b>	<b>10.0%</b>	<b>744,656,465</b>		
<b>Non-interest-bearing liabilities</b>									
Demand deposits	31,014,556	2.8%	-	32,645,961	3.0%	-	26,969,963		
Other non-interest-bearing liabilities	138,586,108	12.5%	-	143,993,002	13.3%	-	99,995,194		
<b>Total non-interest-bearing liabilities</b>	<b>169,600,664</b>	<b>15.4%</b>	<b>-</b>	<b>176,638,963</b>	<b>16.3%</b>	<b>-</b>	<b>126,965,157</b>		
<b>Total liabilities</b>	<b>1,104,606,620</b>	<b>100.0%</b>	<b>6.8%</b>	<b>1,083,712,998</b>	<b>100.0%</b>	<b>8.4%</b>	<b>871,621,622</b>		

Deposits are our most important source of funding, accounting for 22.8% of average total liabilities in 2017, compared to 22.0% in 2016 and 23.2% in 2015. Our deposits balance over these years progressed in the following manner:

- in 2016, the average balance of our deposits increased by 17.9% in comparison to 2015, mainly due to the increase of 32.7% in the average balance of our time deposits and 21.0% in our demand deposits; and
- in 2017, the average balance of our deposits increased by 5.4% in comparison to 2016, mainly due to the increase of 10.3% in the average balance of our time deposits.

**5.B. Liquidity and Capital Resources**

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Obligations for repurchase agreements, borrowings and onlendings and funds from securities issued represent our main sources of funding, accounting for 39.4% of total average liabilities in 2017, compared to 41.5% in 2016 and 42.8% in 2015.

The following table shows, as of the dates indicated, our sources of funding and liquidity, as well as other non-interest-bearing liabilities:

As of December 31,	R\$ in thousands		
	2017	2016	2015
Interbank deposits	2,168,625	588,872	466,448
Savings deposits	103,332,697	97,088,828	91,878,765
Time deposits	125,617,424	103,137,867	79,619,267
Obligations for repurchase agreements	233,467,544	241,978,931	222,291,364
Borrowings and onlendings	49,291,007	58,196,002	70,337,884
Funds from securities issued	135,174,090	151,101,938	109,850,047
Subordinated debt	50,179,401	52,611,064	50,282,936
Insurance technical provisions and pension plans	239,089,590	215,840,000	170,940,940
<b>Total interest-bearing liabilities</b>	<b>938,320,378</b>	<b>920,543,502</b>	<b>795,667,651</b>
Demand deposits	34,088,616	33,420,111	23,819,783
Other non-interest-bearing liabilities	134,250,742	132,586,836	116,301,326
<b>Total non-interest-bearing liabilities</b>	<b>168,339,358</b>	<b>166,006,947</b>	<b>140,121,109</b>
<b>Total liabilities</b>	<b>1,106,659,736</b>	<b>1,086,550,449</b>	<b>935,788,760</b>

***Deposits***

Deposits accounted for 24.0% of total liabilities as of December 31, 2017. Our deposits consist primarily of *real*-denominated, interest-bearing time and savings deposits and *real*-denominated, non-interest-bearing demand deposits. For additional information regarding our deposits, see "Item 4.B. Business Overview – Selected Statistical Information – Average deposit balances and interest rates."

***Obligations for repurchase agreements***

Obligations for repurchase agreements consist mainly of funds we obtained from banks in the market by selling securities with agreements to repurchase. As of December 31, 2017, we had obligations for repurchase agreements in the amount of R\$233,468 million, a decrease of R\$8,511 million compared to the balance in December 31, 2016, which was R\$241,979 million.

***Borrowings and onlendings***

Borrowings consist primarily of funding from lines obtained from banking correspondents for import and export financings, as well as issuances of short-term debt securities. Our access to this source of resources

has been continuous, and funding occurs with rates and terms according to market conditions.

Onlendings consist primarily of funds borrowed for local onlending, in which we borrow from Brazilian governmental agencies and entities to make loans to Brazilian entities for investments in facilities, equipment and farming, among others.

As of December 31, 2016, the balance of our borrowings and onlendings totaled R\$58,196 million, a decrease of R\$12,142 million compared to December 31, 2015. The decrease was mainly due to: (i) a decrease of R\$9,961 million in borrowings and onlendings denominated in, or indexed to, foreign currencies, which balance was from R\$32,119 million in 2015 to R\$22,158 million in 2016, partially as a result of the 16.5% appreciation of the *real* against the U.S. dollar in the period; (ii) the decrease in the funds raised via borrowings and onlendings in the country, mainly through FINAME operations; and offset by: (iii) the increase in the volume of funds raised through BNDES operations.

As of December 31, 2017, the balance of our borrowings and onlendings totaled R\$49,291 million, a decrease of R\$8,905 million compared to December 31, 2016. The decrease was mainly due to: (i) a decrease of R\$3,639 million in borrowings and onlendings denominated in, or indexed to, foreign currencies, which balance was from R\$22,158 million in 2016 to R\$18,519 million in 2017; (ii) the decrease in the funds raised via borrowings and onlendings in the country, mainly through FINAME and BNDES operations.

#### ***Funds from securities issued***

Funds from securities issued mainly consist of: (i) financial notes (*letras financeiras*); (ii) real estate credit notes; (iii) agribusiness notes (*letras de agronegócio*); (iv) euronotes; and (v) securities issued through securitization.

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As of December 31, 2016, our funds from securities issued totaled R\$151,102 million reflecting an increase of R\$41,252 million from December 31, 2015. The increase in our funds from securities issued was mainly influenced by: (i) the increase of R\$36,821 million in funds from the issuance of financial notes; (ii) the increase of R\$6,732 million in real estate credit notes; and (iii) the consolidation of HSBC Brasil; and partially offset by: (iv) a lower volume of operations abroad, in the amount of R\$3,709 million.

As of December 31, 2017, our funds from securities issued totaled R\$135,174 million reflecting a decrease of R\$15,928 million from December 31, 2016. The decrease in our funds from securities issued was mainly influenced by: (i) the decrease of R\$14,943 million in funds from the issuance of financial notes; (ii) the decrease of R\$2,831 million of operations abroad; and partially offset by: (iii) the increase of R\$1,857 million in agribusiness notes.

***Subordinated debt***

The subordinated debts totaled R\$52,611 million in December 2016, a 4.6% increase, or R\$2,328 million compared to 2015, primarily due to the issuance of new subordinated debts in the period.

The subordinated debts totaled R\$50,179 million in December 2017, a 4.6% decrease, or R\$2,432 million compared to 2016, primarily due to the maturity of subordinated debts in the period.

***Sources of additional liquidity***

From the implementation of the New Brazilian Payment System in April 2002, the Central Bank has offered a credit line from the portfolio of government securities issued by the National Treasury to provide liquidity to financial institutions, which is defined as re-discount (or "*Redesconto*"). This line can be used in the "intra-day" condition, or for a longer term negotiated with the Central Bank, which discloses the differentiated prices for the acceptance of these securities as collateral.

There is also a traditional re-discount line, where financial institutions offer assets represented by credit transactions or illiquid securities. In this case, the institution will open formal proceedings with the Central Bank, presenting the reasons for the request, projected cash flow, liquidity recovery plan, as well as detailing the assets to be re-discounted and the proposed payment flow to the Central Bank.

The Central Bank, upon analysis, will decide whether or not to release the liquidity line, costs, and other measures deemed necessary.

Bradesco has never used these liquidity resources.

**Cash flow**

In 2017, 2016 and 2015, our cash flow was primarily affected by our business strategy and alterations in the Brazilian economic environment. The following table shows the principal variations in cash flows during the periods indicated:

<b>For the year ended December 31,</b>	<b>R\$ in thousands</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Net cash provided by (used in) operating activities	35,551,788	53,959,218	(61,354,165)
Net cash provided by (used in) investing activities	(18,229,963)	9,152,341	(11,961,302)
Net cash provided by (used in) financing activities	(43,304,122)	(23,524,819)	12,994,265
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(25,982,297)</b>	<b>39,586,740</b>	<b>(60,321,202)</b>

**2017**

In 2017, we had a net decrease of R\$25,982 million in cash and cash equivalents due to net cash used in financing activities, in the amount of R\$43,304 million; and investing activities, in the amount of R\$18,230 million. These decreases were partially offset by the net increase in cash provided by our operating activities, in the amount of R\$35,552 million.

In 2017, cash provided by our operating activities, in the amount of R\$35,552 million, is related to: (i) our income before tax, in the amount of R\$23,744 million and adjustments of reconciliation, in the amount of R\$56,901 million, totaling R\$80,645 million, partially offset; and (ii) variations in asset and liability, in the amount of R\$45,093 million, highlighting: (a) the increase, in the amount of R\$59,579 million, of loans and advances to clients; (b) growth of financial assets for trading, in the amount of R\$23,089; (c) the decrease, in the amount of R\$11,556 million, in technical reserves from insurance and pension plans; (d) an increase in Central Bank compulsory deposits, in the amount of R\$8,678 million; and (e) income tax and social contribution paid, in the amount of R\$8,575 million; partially offset by interest received/paid, in the amount of

**5.B. Liquidity and Capital Resources**

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R\$34,489 million and increase of deposits from clients, in the amount of R\$36,854 million.

In 2017, cash provided by our investing activities, resulted primarily from (i) the net acquisition/disposal of financial assets available for sale, in the amount of R\$31,427 million; (ii) acquisition/disposal of property, equipment and intangible assets, in the amount of R\$5,197 million, partially offset by: (iii) cash resulting from the maturity, and investments held to maturity, in the amount of R\$4,219 million; and (vi) the receipt of interest and dividends, in the amount of R\$12,819 million.

In 2017, cash used in our financing activities is principally a result of: (i) interest paid and interest on capital and dividends payment, in the amount of R\$30,978 million; (ii) costs associated with the issuance of securities, net of payment, in the amount of R\$10,257 million; and (iii) the payment of subordinated debt, in the amount of R\$8,666 million, partially offset by the issuance of subordinated debt, in the amount of R\$6,595 million.

**2016**

In 2016, we had a net increase of R\$39,587 million in cash and cash equivalents due to net cash provided by operating activities, in the amount of R\$53,959 million; and investing activities, in the amount of R\$9,152 million. These increases were partially offset by the net decrease in cash used in our financing activities, in the amount of R\$23,525 million.

In 2016, cash provided by our operating activities, including adjustments to income, resulted primarily from (i) interest paid/received, in the amount of R\$25,777 million; (ii) lower compulsory deposits with the Central Bank in the amount of R\$11,651 million; (iii) a reduction in loans and advances to financial institutions, in the amount of R\$10,368 million; (iv) a decrease in financial assets held for trading, in the amount of R\$9,700 million; and (v) variation in insurance technical provisions and pension plans, in the amount of R\$32,782 million. These events were partially offset by an increase: (i) in loans and advances to customers, in the amount of R\$49,649 million; and (ii) in financial assets held for trading, in the amount of R\$40,428 million.

Cash provided by our investing activities, resulted primarily from (i) interest received in the amount of R\$12,668 million; and (ii) the net acquisition/disposal of financial assets available for sale, in the amount of R\$7,428 million. These events were partially offset by: (i) the acquisition of subsidiaries, net of cash and cash equivalents paid/received, in the amount of R\$7,189 million; and (ii) the acquisition of fixed assets used, equipment and intangible assets in the amount of R\$5,123 million.

Cash used in our financing activities is principally a result of interest paid and interest on capital and dividends payment, in the amount of R\$26,116 million; partially offset by the issuance of subordinated debt, in the amount of R\$3,787 million.

**2015**



In 2015, we had a net decrease of R\$60,321 million in cash and cash equivalents due to net cash from operating activities, in the amount of R\$61,354 million; and investing activities, in the amount of R\$11,961 million. These decreases were partially offset by net cash provided by our financing activities, in the amount of R\$12,994 million.

In 2015, cash used in our operating activities resulted primarily from an increase in: (i) financial assets held for trading in the amount of R\$80,159 million; and (ii) loans and advances to customers in the amount of R\$95,026 million. These events were partially offset by: (i) a net decrease in funds from financial institutions in the amount of R\$40,729 million; (ii) the receipt/payment of interest, in the net amount of R\$23,901 million; (iii) a decrease in financial liabilities held for trading, in the amount of R\$16,030 million; and (iv) the variation of technical provisions for insurance and pension plans, in the amount of R\$28,286 million.

The cash used in our investing activities resulted principally from: (i) the net acquisition/disposal of financial assets available for sale, in the amount of R\$22,007 million; and (ii) the acquisition of property, equipment and intangible assets in the amount of R\$4,154 million. These events were partially offset by interest received in the amount of R\$13,033 million.

The cash generated by our financing activities principally resulted from: (i) funds from securities issued in the amount of R\$68,385 million; and (ii) issuance of subordinated debt, in the amount of R\$11,304 million. These events were partially offset by the: (i) payment of funds from securities issued in the amount of R\$49,218 million; (ii) payments of interest on equity and dividends in the amount of R\$5,008 million; (iii) interest paid, in the amount of R\$11,094 million; and (iv) payment of subordinated debt, in the amount of R\$1,271 million.

**5.B. Liquidity and Capital Resources**

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***Capital compliance - Basel III***

The G20's December 2010 conference voted to institute a package of measures (known as "Basel III") that had been proposed by the Basel Committee on Banking Supervision to remedy deficiencies revealed by the recent economic crisis. The purpose of this reform is to enhance capital and liquidity management rules for financial institutions, thus strengthening the banking sector and dampening the impact of financial crises and their consequences for the real economy.

The first measure requires financial institutions to strengthen their capital levels. Common equity primarily comprises share capital (non-redeemable non-cumulative common and preferred shares), plus retained earnings, less amounts related to regulatory adjustments (tax credits, goodwill paid on acquisition of investments and deferred fixed assets, among others). After allowing for all deductions, Basel III will require banks to hold: (i) a common equity ratio of at least 4.5%; (ii) a Tier I capital ratio of at least 6.0%; and (iii) a minimum total capital ratio of 8.0%.

In January 2011, the Basel Committee on Banking Supervision ("BCBS") published a document known as the "January 13 Annex" in which it extended Basel III rules with additional requirements applicable to Tier 1 and 2 Capital. Under the January 13 Annex rules, a capital instrument issued by a bank must include a provision enabling the competent regulatory body to either cancel this instrument, or convert it to common shares on the occurrence of a "trigger event." A "trigger event" is whichever of the following occurs first: (i) a decision that a cancellation is necessary, without which the bank would become insolvent; and (ii) the decision to make a public capital injection, or equivalent subsidy, without which the bank would become insolvent. These additional requirements will apply to all instruments issued after January 1, 2013; otherwise, any qualified instruments issued before that date and which do not meet the additional requirements (although meeting other requirements as of the date of the issuance) will be gradually deducted from capital measurement for a period of ten years as of 2013.

In June 2011, the BCBS released the report "Basel III: A global regulatory framework for more resilient banks and banking systems – revised," as an international regulatory response to the 2008 financial and banking crisis. The revised version of Basel III regulations aims at improving the quality and quantity of financial institutions capital, with the purpose of making the financial system more resilient and reducing risks and costs. This Accord reflects a continuing change towards the improvement of the prudential structure applicable to financial institutions, with the main elements being the regulatory capital and the amount of allocated capital.

Basel III recommendations stipulate altered capital requirements for counterparty credit risk, both for the standard approach and for internal risk rating based approaches ("IRBs"), in order to ensure inclusion of material risks in capital structure.

The Basel III Accord recommends implementation of a leverage ratio as a supplementary capital measure. This ratio, together with the Basel Ratio, aims to limit a financial institutions' risk exposure. It also assesses

leverage through the ratio between Tier I capital and book value assets plus off-balance exposure (overdraft facilities, sureties, guarantees and derivatives).

Furthermore, in order to determine minimum requirements for quantitative liquidity of financial institutions, Basel III proposes two liquidity ratios: a short-term and a long-term one.

The purpose of the short-term liquidity ratio (Liquidity Coverage Ratio, or “LCR”) is to show that institutions maintain sufficient high-liquidity funds to withstand a one-month financial stress scenario. The purpose of the long-term liquidity ratio (Net Stable Funding Ratio, or “NSFR”) is to encourage institutions to finance their activities from more stable sources of funding. Basel III has set forth the requirement of a ratio of more than 100% for the LCR, with a minimum value of 60% in 2015 and an increase of 10 percentage points *per annum* until it reaches the minimum of 100% from January 2019 and the NSFR from January 2018.

In December 2017, the BCBS approved the final reforms of Basel III: Finalizing post – crisis reforms – BIS. The reforms had two stages, the first one contemplated: (i) improving the quality of the regulatory capital; (ii) raise levels of capital; (iii) improvement of the measurement and weight of risks, including global standards of market risk, counterparty credit risk and securitization; (iv) aggregation of macro-prudential elements, such as capital buffers in the regulatory framework; (v) restriction for the excessive leverage of banks and (vi) introduction of the indicators of control of liquidity risk. The second step complemented the overall regulatory improvements, aiming to restore credibility in the calculation of risk-weighted assets (RWA) and allow greater comparability between financial institutions by means of: (i) increase of the sensitivity to the risk of standardized approaches for credit risk, credit valuation adjustment (CVA) and operational risk; (ii) restriction for the use of the internal model, with limits on certain parameters used to calculate the capital

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requirements for credit risk and removal of the use of approaches of the internal model for the risk of CVA and operational risk; (iii) introduction of a leverage ratio buffer for important global banks (G-SIBs); and (iv) replacement of the existing standard in Basel II with standard more sensitive to risk.

Brazil has been a member of the BCBS since late 2009 and has adopted Basel III proposals. The Central Bank issued Notice No. 20,615/11 on preliminary guidelines and schedules for implementing recommendations on capital structure and liquidity requirements. According to this communication, the regulator intended to bring forward the implementation of several measures.

In June 2011, CMN published Resolution No. 3,988/11, which states that the Brazilian financial institutions should implement a capital management structure compatible with the nature of their operations, the complexity of the products and services offered and their risk exposure. This Resolution was revoked by CMN Resolution No. 4,557/17, which established a series of rules on the subject and that details the operation of the structure of continuous and integrated management of risks and structure for the ongoing management of capital. According to the rule, the management structures must be: (i) compatible with the business model, with the nature of the operations and with the complexity of the products, services, processes and activities of the institution; (ii) proportional to the size and relevance of exposure to risks, according to the criteria defined by the institution; (iii) appropriate to the risk profile and systemic importance of the institution; and (iv) capable of assessing the risks arising from macroeconomic conditions and markets in which the institution operates. Capital management is defined as a continuous process of (i) monitoring and controlling the financial institution's capital; (ii) calculating the capital need in view of the risks to which the financial institution is exposed to; and (iii) planning goals and capital requirements considering the strategic objectives of the institution. Financial institutions shall disclose to the general public a report describing its capital management structure at least on an annual basis.

Under the Central Bank's preliminary rules, Brazil would follow the international schedule for gradually adopting capital requirements and definitions over the coming years. The original schedule proposed by the Central Bank was planned to begin on January 2013. However, it was postponed to March 2013 and the final term for the implementation of the referred rules is January 2019.

Provisional Measure No. 608/13, enacted in February 2013, sets forth the regulatory measures that Brazil has been adopting to adhere to the recommendations of Basel III, which was converted into Law No. 12,838/13. This rule changes the provision for capital to be recognized by financial institutions, addressing presumed credit and credit securities and instruments issued by financial institutions to comprise their Capital. It also states that the distribution of dividends to shareholders of financial institutions is subject to compliance with the prudential rules established by CMN.

In March 2013, the Central Bank published four Resolutions and 15 Circulars, by way of which it implemented the recommendations from the BCBS. In line with international recommendations and current practice, the minimum capital level was determined as a percentage of risk-weighted assets.

In accordance with the rules set forth by the CMN Resolution No. 4,192/13, the Capital of a financial institution consists of Tier I Capital plus Tier II Capital and is used when setting its operating limits.

Tier I Capital is aimed at helping the bank remain solvent, that is, remain a going concern. Tier II Capital is contingent capital, subject to conversion into equity in case of insolvency. When Basel III rules came into effect, Tier I Capital was broken down into two categories: Common equity, comprising mainly by shares and reserves; and Additional Capital, comprising mainly instruments that are analogous to hybrid capital and debt instruments.

CMN Regulations that introduced Basel III rules in Brazil are stricter and more comprehensive when defining instruments eligible for inclusion in each capital category and set forth the deductions of some items, from Common equity, Additional Capital and Tier II Capital.

Following the recommendations of Basel III, the CMN Resolution No. 4,193/13 introduced the Additional Common Equity, comprised by the: Common Equity Conservation Buffer, Common Equity Countercyclical Buffer ("ACCPBrasil"), and Common Equity Systemically Importance Buffer. Under this Resolution, the value of the Common Equity Conservation Buffer and the ACCPBrasil will gradually increase, starting from 0.625% as from January 2016 and reaching up to 2.5% as from January 2019. The Common Equity Systemically Importance Buffer will gradually increase from 0.5% as from January 2017 to up to 2.0% as from January 2019. Moreover, the Central Bank is to determine the calculation methodology for the ACCPBrasil and the Common Equity Systemically Importance Buffer. The Central Bank Circular No. 3,768/15 established the methodology for calculating the Additional Portion of Systemic Importance of the Principal Capital, which corresponds to the multiplication between the assets weighted by risk and the annual factor of systemic importance ("FIS"). The value of the FIS, in turn, is defined based on the ratio between the value of the total exposure and the value of the GDP, considering the following gradation: (i) if

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the reason for total exposure/GDP is less than 10.0%, the value of the FIS is zero; (ii) if the reason for total exposure/GDP is equal to or greater than 10.0% and less than 50.0%, the FIS will vary from 0.25% from January to December 2017, and 1.0% from January 2019; and (iii) if the reason for total exposure/GDP is greater than 50.0%, the FIS will vary from 0.5% from January to December 2017, and 2.0% from January 2019. Now according to the Central Bank Circular No. 3,769/15, the amount of the ACCPBrasil must not exceed 1.25% of risk-weighted assets, in the period between January and December 2017. In addition, Article 3 of this same circular, established that the value of ACCPBrasil is equal to 0%, thus remaining subject to subsequent revaluations of the regulator.

Under normal market conditions, financial institutions must hold excess capital in relation to the minimum requirements in an amount greater than additional Common Equity, as defined. Failure to comply with additional Common Equity rules will lead to restrictions affecting distribution of dividends, bonuses, earnings, profit sharing and incentive compensation geared to the performance of institutions' managements.

In October 2015 the CMN Resolution No. 4,401/15 came into effect. It defines the Leverage Ratio ("LCR") as the ratio between the high liquidity assets and the total cash outflows foreseen for a 30-day period under stress conditions. The main purpose of the LCR is to ensure the existence of a minimum number of net assets in normal market conditions to be used in periods of higher shortage or necessary liquidity in order to maintain the business ongoing and insure the stability of the financial system.

The LCR applies to financial institutions with total assets over R\$100.0 billion or which are part of a prudential conglomerate with a higher number of total assets. The minimum limit needs to be supervised on a daily basis by the financial institutions in periods of lack of financial stress.

In relation to liquidity risk, the CMN and the Central Bank published the Resolution No. 4,616/17 and the Circular No. 3,869/17 about the index of Long-Term Liquidity Risk (NSFR) which establish, respectively, the minimum limit/compliance conditions and the methodology for calculation and disclosure of information to the market. Both rules will be in effect from on October 10, 2018.

Under the rule currently in effect, CMN Resolution No. 4,193/13, Brazilian financial institutions must hold a capital base (Regulatory Capital - "RC") of 8.625% or more of total RWA (Basel ratio) from January 2018 to December 2018 and calculated using specific criteria determined by the Central Bank. The calculation of the RC is subject to various deductions, including weighting factors that vary according to the nature of the asset. As of December 31, 2017, our Basel ratio was 17.1% of total RWA, which is higher than the 10.75% level required by the Central Bank until December 2017.

The following table shows our capital positions as a percentage of total risk-weighted assets.

**As of December 31,****In %**

	<b>Basel III</b>		
	<b>Prudential Consolidated</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Tier I Capital</b>	13.1%	12.0%	12.7%
Common Equity	12.3%	11.2%	12.7%
Additional Capital	0.8%	0.8%	-
<b>Total Ratio</b>	<b>17.1%</b>	<b>15.4%</b>	<b>16.8%</b>

### ***Capital Management***

The Capital Management structure aims to provide conditions to the follow-up and control of our capital, thus contributing to the achievement of the strategic goals established, through the accurate planning of the capital sufficiency. In addition to the Executive Committees and a Non-Statutory Committee, which support our Board of Directors and our *Diretoria Executiva* in the decision-making process, we have an area responsible for Capital Management reporting to the Planning, Budget and Control Department, and which operates together with the Integrated Risk Control Department, affiliated companies, business areas and our various support areas.

The capital plan, which comprehends a prospective vision of at least three years, is prepared on an annual basis, and is approved by our *Diretoria Executiva* and our Board of Directors, continually monitored and controlled by the capital management area. Any threats and opportunities, growth and market share targets, as well as projected capital needs, are included in the preparation of the plan to cover risks, as well as the capital held by us. In addition, the internal capital adequacy assessment process (ICAAP) provides conditions for the assessment of sufficiency of capital, taking into account different scenarios (baseline and stress) and allows for the anticipation of capital and contingency activities to be adopted for the respective

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scenarios.

***Interest rate sensitivity***

Management of interest rate sensitivity is a key component of our asset and liability policy. Interest rate sensitivity is the relationship between market interest rates and net interest income due to the maturity or re-pricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is considered balanced when an equal amount of these assets or liabilities matures or re-prices in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A negative gap denotes loss sensitivity and normally means that a decline in interest rates would have a negative effect on net interest income. Conversely, a positive gap denotes gain sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income. These relationships can change significantly from day to day as a result of both market forces and Management decisions.

Our interest rate sensitivity strategy takes into account:

- rates of return;
- the underlying degree of risk; and
- liquidity requirements, including minimum regulatory banking reserves, mandatory liquidity ratios, withdrawal and maturity of deposits, capital costs and additional demand for funds.

We monitor our maturity mismatches and positions and manage them within established limits. The positions are analyzed and reconsidered every second and fourth Friday of each month in our Treasury Executive Committee for Asset and Liability Management.

The following table shows the maturities of our interest-earning assets and interest-bearing liabilities as of December 31, 2017 and may not reflect interest rate gap positions at other times. In addition, variations in interest rate sensitivity may exist within the re-pricing periods presented due to differing re-pricing dates. Variations may also arise among the different currencies in which interest rate positions are held.

<b>December 31, 2017</b>	<b>R\$ in tho</b>		
	<b>Up to 30 days</b>	<b>31 – 180 days</b>	<b>181 – 360 days</b>
<b>Interest earning assets</b>			
Financial assets held for trading	2,136,310	10,805,889	5,115,370
Financial assets available for sale	2,422,266	9,392,915	19,351,886
Investments held to maturity	7,753	2,454	19,205
Interest rate sensitivity			280



Financial assets pledged as collateral	25,977,537	111,922,357	2,543,922
Loans and advances to banks	23,136,673	3,544,426	3,387,187
Loans and advances to customers <sup>(1)</sup>	32,750,584	35,836,525	36,815,000
Compulsory deposits with the Central Bank	62,280,223	-	-
Other assets	-	-	-
<b>Total interest earning assets</b>	<b>148,711,346</b>	<b>171,504,566</b>	<b>67,232,570</b>
<b>Interest bearing liabilities</b>			
Deposits from banks <sup>(2)</sup>	196,146,769	29,640,587	31,589,994
Savings deposits <sup>(3)</sup>	103,332,697	-	-
Time deposits	6,134,701	11,400,607	10,531,633
Funds from securities issued	3,422,727	31,299,770	48,540,240
Subordinated debt	738,929	9,428,997	640,536
Insurance technical provisions and pension plans <sup>(3)</sup>	207,499,559	2,411,996	939,034
<b>Total interest bearing liabilities</b>	<b>517,275,382</b>	<b>84,181,957</b>	<b>92,241,437</b>
Asset/liability gap	(368,564,036)	87,322,609	(25,008,867)
Cumulative gap	(368,564,036)	(281,241,427)	(306,250,294)
Ratio of cumulative gap to total interest earning assets	(35.3)%	(26.9)%	(29.3)%

<sup>(1)</sup> For indefinite operations, it refers to credit card operations;

<sup>(2)</sup> including: obligations for repurchase agreements, borrowings, onlendings and interbank deposits; and

<sup>(3)</sup> Savings deposits and insurance technical provisions and pension plans are classified as up to 30 days, without

#### **Exchange rate sensitivity**

Most of our operations are denominated in *reais*. Our policy is to avoid material exchange rate mismatches. However, at any given time, we generally have outstanding long-term debt denominated in and indexed to foreign currencies, principally the U.S. dollar. As of December 31, 2017 our net foreign currency liability exposure, considering off-balance-sheet derivative financial instruments, was R\$54,232 million, or 46.2% of shareholders' equity. Consolidated net foreign currency exposure is the difference between total foreign currency-indexed or -denominated assets and total foreign currency-indexed or -denominated liabilities, including off-balance-sheet derivative financial instruments.

Our foreign currency position arises mainly through our purchases and sales of foreign currencies (primarily U.S. dollars) from Brazilian exporters and importers, from other financial institutions on the interbank market, and on the spot and forward currency markets. The Central Bank regulates our maximum outstanding long and short foreign currency positions.

**5.B. Liquidity and Capital Resources**

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As of December 31, 2017, the composition of our assets, liabilities and equity by currency and term was as set out in the table below. Our foreign currency assets are largely denominated in *reais* but are indexed to foreign currencies, principally the U.S. dollar. Most of our foreign currency liabilities are denominated in foreign currencies, principally the U.S. dollar.

December 31, 2017	R\$ in thousands, except %			Foreign currency as % of total
	R\$	Foreign currency	Total	
<b>Assets</b>				
Cash and balances with banks	79,490,208	2,252,743	81,742,951	2.8%
<b>Financial assets held for trading</b>				
Less than one year	31,205,016	382,172	31,587,188	1.2%
From one to five years	145,888,178	639,188	146,527,366	0.4%
More than five years	56,172,357	927	56,173,284	0.0%
Indefinite	7,176,506	245,697	7,422,203	3.3%
<b>Financial assets available for sale</b>				
Less than one year	31,156,662	10,405	31,167,067	0.0%
From one to five years	80,299,138	3,516,948	83,816,086	4.2%
More than five years	31,886,240	1,505,522	33,391,762	4.5%
Indefinite	11,037,807	-	11,037,807	-
<b>Investments held to maturity</b>				
Less than one year	21,798	7,614	29,412	25.9%
From one to five years	10,284,940	-	10,284,940	-
More than five years	28,691,766	-	28,691,766	-
<b>Financial assets pledged as collateral</b>	<b>177,532,261</b>	<b>6,442,912</b>	<b>183,975,173</b>	<b>3.5%</b>
<b>Loans and advances to banks</b>	<b>29,929,809</b>	<b>2,317,915</b>	<b>32,247,724</b>	<b>7.2%</b>
<b>Loans and advances to customers</b>				
Less than one year	172,520,716	14,749,448	187,270,164	7.9%
From one to five years	102,109,388	12,874,271	114,983,659	11.2%
More than five years	41,921,656	2,582,620	44,504,276	5.8%
<b>Non-current assets available for sale</b>	<b>1,520,968</b>	<b>5</b>	<b>1,520,973</b>	<b>0.0%</b>
<b>Investments in associates and joint ventures</b>	<b>8,257,384</b>	<b>-</b>	<b>8,257,384</b>	<b>-</b>
<b>Property and equipment, net of accumulated depreciation</b>	<b>8,410,174</b>	<b>22,301</b>	<b>8,432,475</b>	<b>0.3%</b>
<b>Intangible assets and goodwill, net of accumulated amortization</b>	<b>16,164,952</b>	<b>14,355</b>	<b>16,179,307</b>	<b>0.1%</b>
<b>Taxes to be offset</b>	<b>10,483,831</b>	<b>40,744</b>	<b>10,524,575</b>	<b>0.4%</b>
<b>Deferred income tax assets</b>	<b>43,730,672</b>	<b>1,239</b>	<b>43,731,911</b>	<b>0.0%</b>
<b>Other assets</b>				

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Less than one year	20,988,342	14,138,571	35,126,913	40.2%
From one to five years	12,401,862	64,100	12,465,962	0.5%
More than five years	3,064,865	196,247	3,261,112	6.0%
<b>Total</b>	<b>1,162,347,496</b>	<b>62,005,944</b>	<b>1,224,353,440</b>	<b>5.1%</b>
Percentage of total assets	94.9%	5.1%	100.0%	

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Table of Contents**5.B. Liquidity and Capital Resources**

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December 31, 2017	R\$ in thousands, except %		
	R\$	Foreign currency	Total
<b>Liabilities and Shareholders' Equity</b>			
<b>Deposits from banks <sup>(1)</sup></b>			
Less than one year	233,081,673	25,325,969	258,407,642
From one to five years	19,951,501	2,269,574	22,221,075
More than five years	5,207,220	121,531	5,328,751
<b>Deposits from customers</b>			
Less than one year	152,173,833	12,284,129	164,457,962
From one to five years	97,289,482	233,630	97,523,112
More than five years	27,371	-	27,371
<b>Financial liabilities held for trading</b>			
Less than one year	13,678,222	156,881	13,835,103
From one to five years	74,575	60,073	134,648
More than five years	2,048	303,200	305,248
<b>Funds from securities issued</b>			
Less than one year	82,299,120	970,705	83,269,825
From one to five years	49,054,770	2,081,959	51,136,729
More than five years	742,111	25,425	767,536
<b>Subordinated debt</b>			
Less than one year	10,566,748	241,715	10,808,463
From one to five years	9,371,234	11,396,007	20,767,241
More than five years	18,603,697	-	18,603,697
<b>Insurance technical provisions and pension plans</b>			
	<b>239,084,588</b>	<b>5,002</b>	<b>239,089,590</b>
<b>Other provisions</b>			
	<b>18,488,773</b>	<b>1,954</b>	<b>18,490,727</b>
<b>Current income tax liabilities</b>			
	<b>2,409,551</b>	<b>6,794</b>	<b>2,416,345</b>
<b>Deferred income tax liabilities</b>			
	<b>1,251,847</b>	<b>-</b>	<b>1,251,847</b>
<b>Other liabilities <sup>(2)</sup></b>			
Less than one year	80,885,480	7,549,634	88,435,114
From one to five years	5,049,611	52,907	5,102,518
More than five years	4,123,959	155,233	4,279,192
<b>Shareholders' Equity</b>			
	<b>117,693,704</b>	<b>-</b>	<b>117,693,704</b>
<b>Total</b>	<b>1,161,111,118</b>	<b>63,242,322</b>	<b>1,224,353,440</b>
<b>Percentage of total liabilities and shareholder's equity</b>	<b>94.8%</b>	<b>5.2%</b>	

(1) including: obligations for repurchase agreements, borrowings, onlendings and interbank deposits; and

(2) Other liabilities, whose primary components provision for contingent liabilities, are not a source of funding.

Derivative financial instruments are presented in the table below on the same basis as presented in the consolidated financial statements in "Item 18. Financial Statements."

Our cash and cash equivalents in foreign currency are represented principally by U.S. dollars. Amounts denominated in other currencies, which include Euros and Yen, are indexed to the U.S. dollar through currency swaps, effectively limiting our foreign currency exposure to U.S. dollars only.

We enter into short-term derivative contracts with selected counterparties to manage our overall exposure, as well as to assist customers in managing their exposures. These transactions involve a variety of derivatives, including interest rate swaps, currency swaps, futures and options. For more information regarding these derivative contracts, see Note 20(c) to our consolidated financial statements in "Item 18. Financial Statements." As of December 31, 2017, the composition of notional reference and/or contracted values and fair values of trading derivatives held by us is presented below:

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**5.B. Liquidity and Capital Resources**

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December 31, 2017	R\$ in thousands		
	R\$	Reference amounts Foreign currency	Total
<b>Derivatives</b>			
<b>Interest rate futures contracts</b>			
Purchases	96,081,180	-	96,081,180
Sales	132,837,699	-	132,837,699
<b>Foreign currency futures contracts</b>			
Purchases	-	48,376,597	48,376,597
Sales	-	67,238,635	67,238,635
<b>Futures contracts - other</b>			
Purchases	163,224	-	163,224
Sales	113,772	-	113,772
<b>Interest rate option contracts</b>			
Purchases	10,663,668	-	10,663,668
Sales	9,616,129	-	9,616,129
<b>Foreign currency option contracts</b>			
Purchases	-	7,335,027	7,335,027
Sales	-	10,274,094	10,274,094
<b>Option contracts - other</b>			
Purchases	443,443	-	443,443
Sales	228,141	-	228,141
<b>Foreign currency forward contracts</b>			
Purchases	-	10,372,477	10,372,477
Sales	-	14,947,271	14,947,271
<b>Forward contracts - other</b>			
Purchases	114,020	-	114,020
Sales	635,522	-	635,522
<b>Swap contracts</b>			
<b>Asset position</b>			
Interest rate swaps	56,636,856	-	56,636,856
Currency swaps	-	6,161,641	6,161,641
<b>Liability position</b>			
Interest rate swaps	31,454,647	-	31,454,647
Currency swaps	-	14,288,568	14,288,568

***Capital expenditures***

In the past three years, we have made, and expect to continue to make moving forward, significant capital expenditures related to improvements and innovations in technology and the Internet designed to maintain

and expand our technology infrastructure in order to increase our productivity, accessibility, cost efficiency and our reputation as a leader in technological innovation in the financial services sector. We have made significant capital expenditures for systems development, data processing equipment and other technology designed to further these goals. These expenditures are for systems and technology for use both in our own operations and by customers.

The following table shows our capital expenditures accounted for as fixed assets in the periods shown:

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**5.C. Research and Development, Patents and Licenses**

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	R\$ in thousands		
	2017	2016	2015
<b>Infrastructure</b>			
Land and buildings	140,356	95,401	55,115
Installations, properties and equipment for use	680,829	1,086,811	1,171,147
Security and communications systems	31,874	27,100	24,958
Transportation systems	4,228	3,473	41,982
<b>SubTotal</b>	<b>857,287</b>	<b>1,212,785</b>	<b>1,293,202</b>
<b>Information Technology</b>			
Data processing systems	1,936,656	2,405,093	1,810,294
Financial leasing of data processing systems	655,407	633,680	587,792
<b>SubTotal</b>	<b>2,592,063</b>	<b>3,038,773</b>	<b>2,398,086</b>
<b>Total</b>	<b>3,449,350</b>	<b>4,251,558</b>	<b>3,691,288</b>

During 2017, we made investments in the amount of R\$3,449 million, R\$857 million of which were related to infrastructure and R\$2,592 million related to information technology.

We believe that capital expenditures in 2018 and 2019 will not be substantially greater than historical expenditure levels and anticipate that in accordance with our practice during recent years, our capital expenditures in 2018 and 2019 will be funded from our own resources. No assurance can be given, however, that the capital expenditures will be made and, if made, that such expenditures will be made in the amounts currently expected.

**5.C. Research and Development, Patents and Licenses**

Not applicable.

**5.D. Trend Information**

For more information, see "Forward-looking Statements" and "Item 3.D. Risk Factors," where we present the risks we face in our business that may affect our commercial activities, operating results or liquidity.

**5.E. Off-balance sheet arrangements**

See "Item 5.A. Operating Results – Critical accounting policies – off-balance sheet financial guarantees."



## 5.F. Tabular Disclosure of Contractual Obligations

See "Item 5.A. Operating Results – Critical accounting policies – Commitments and contingencies."

## 5.G. Safe Harbor

Not applicable.

# ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

## 6.A. Board of Directors and Board of Executive Officers

We are managed by our Board of Directors and our Board of Executive Officers. The Board of Directors establishes our corporate strategy and policies and supervises and monitors the Board of Executive Officers. In turn, the Board of Executive Officers implements the strategy and policies set by the Board of Directors and is responsible for our day-to-day management.

Our Board of Executive Officers currently comprises (i) the *Diretoria Executiva* and (ii) our Officers, Department Officers and Regional Officers. The *Diretoria Executiva* consists of one Chief Executive Officer, six Vice-Presidents, four Managing Officers and eight Deputy Officers.

Our eight-member Board of Directors meets six times during the year and on an extraordinary

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basis whenever necessary. It is responsible for:

- establishing our corporate strategy;
- reviewing our business plans and policies; and
- supervising and monitoring the activities of our Board of Executive Officers.

Our Audit Committee, among other designations, is in charge of approving the engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

The *Diretoria Executiva* meets weekly and is responsible for:

- implementing the strategy and policies established by our Board of Directors; and
- managing our day-to-day business.

Several members of our Board of Directors and the *Diretoria Executiva* also perform senior management functions at our subsidiaries, including BRAM, Bradesco Financiamentos, Bradesco Consórcios, Bradesco BBI, Bradesco Leasing, BEM DTVM, Bradesco Cartões, Bradesco Seguros and subsidiaries. Each of these subsidiaries has an independent management structure.

Pursuant to Brazilian law, the election of all members of our Board of Directors and Board of Executive Officers are subject to approval by the Central Bank.

We present below biographies of the current members of our Board of Directors and *Diretoria Executiva*:

***Members of the Board of Directors:***

**Luiz Carlos Trabuco Cappi, Chairman:**

**Birth date:** October 6, 1951.

**Summary of Professional Experience:** He began his career 48 years ago, devoting his entire professional life to the Bradesco Group. He was the Investor Relations Officer and the Executive Vice-President of Banco Bradesco from 1999 to 2009 accumulating such position with, the Presidency of Grupo Bradesco Seguros during six years. He was the Chairman of Banco Bradesco's Board of Executive Officers from March 2009 to March 2018, accumulating with the position of Vice-Chairman of the Board of Directors until October 2017, when he was promoted to Chairman of the Board of Directors.

**Current positions:** Chairman of Banco Bradesco S.A.

**Previous positions:** Chairman of the Board of Directors of Odontoprev S.A., Member of the Board of Directors of ArcelorMittal Brasil, Member of the Strategic Committee of Vale S.A., Chief Executive Officer of the Marketing and Funding Committee of the *Associação Brasileira das Entidades de Crédito Imobiliário e Poupança* - ABECIP; of *Associação Nacional da Previdência Privada* - ANAPP; of the *Federação Nacional de Saúde Suplementar* - FENASAÚDE; Chairman of the Board of Representatives of *Diretoria Executiva da Confederação Nacional das Instituições Financeiras* – CNF, Member of the Superior Board and Vice-President of the *Confederação Nacional das Empresas de Seguros Gerais, Previdência Privada e Vida, Saúde Suplementar e Capitalização* – CNSeg, Member of the Board of Director and of the Advisory Board of FEBRABAN – *Federação Brasileira de Bancos* (Brazilian Federation of Banks) and Full Member of the *Association Internationale pour l'Etude de l'Economie de l'Assurance - Association de Genève*, Geneva, Switzerland.

**Graduation:** Degree in Philosophy from *Faculdade de Filosofia, Ciências e Letras de São Paulo*.

**Other Qualifications:** Graduate degree in Social Psychology at *Fundação Escola de Sociologia e Política de São Paulo*.

**Carlos Alberto Rodrigues Guilherme, Vice-Chairman of the Board of Directors:**

**Birth date:** December 21, 1943.

**Summary of Professional Experience:** He began his career in December 1957. He was elected Department Officer in March 1986, Deputy Officer in March 1998, Managing Officer in March 1999, Member

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of the Board of Directors in March 2009 and Vice-Chairman of the Board of Directors in October 2017, the position he currently holds.

**Graduation:** Law degree from Pinhalense Education Foundation.

**Current positions:** Vice-Chairman of the Board of Directors of Bradesco Leasing S.A. - Arrendamento Mercantil; Member of the Managing Board and Managing Officer of Fundação Bradesco. Member of the Board of Directors and Officer of Cidade de Deus - Companhia Comercial de Participações; Member of the Board of Director of NCF Participações S.A.; Officer of Nova Cidade de Deus Participações S.A.; Vice-Chairman of the Board of Directors and Member of the Strategic Committee of BSP Empreendimentos Imobiliários S.A.; Vice-Chairman of the Board of Directors of *BSP Park Estacionamento e Participações S.A.*; Officer of Top *Clube Bradesco, Segurança, Educação e Assistência Social*; Member of the Board of Directors of Bradespar S.A.; CEO of Banco Bradesco BERJ S.A.; and Vice-Chairman of the Board of Directors of Bradesco Saúde S.A..

**Previous positions:** Officer of Banco de Crédito Real de Minas Gerais S.A. and of Credireal Leasing S.A. - Arrendamento Mercantil.

**Denise Aguiar Alvarez, Director:**

**Birth date:** January 24, 1958.

**Summary of Professional Experience:** In April 1986, she was appointed to the Board of Directors of *Cidade de Deus - Companhia Comercial de Participações*, one of the holding companies of Banco Bradesco S.A., and since July 1988, she has also served as an Officer. In February 1990, she was also elected as Member of the Board of Directors, the position she currently holds.

**Graduation:** Degree in Education from PUC- SP - Pontifícia Universidade Católica de São Paulo.

**Other Qualifications:** Masters in Education from New York University, USA

**Current positions:** Member of the Board of Directors of Bradespar S.A.; Member of the Board of Trustees and Deputy Officer of *Fundação Bradesco*; CEO of ADC Bradesco – Sports Association; Member of the Consulting Board of the *Associação Pinacoteca Arte e Cultura - APAC*; She is also a Member of the Deliberative Board of *Museu de Arte Moderna de São Paulo (MAM)*; Member of the Board of Trustees of *Fundação Roberto Marinho*; Member of the Consulting Board of Canal Futura; Member of the Consulting Committee of *Fundação Dorina Nowill para Cegos*; Member of the General Board of *Comunitas: Parcerias para o Desenvolvimento Solidário*; and Effective Member of *Associação de Apoio ao Programa Alfabetização Solidária - AAPAS*; and Chairman of the Board of Governance of *Todos pela Educação (All*

for Education).

**Previous positions:** She was Member of the Deliberative Board of *Fundo Social de Solidariedade do Estado de São Paulo* - FUSSESP; and Chairman of the Board of Governance of GIFE - the Group of Institutes, Foundations and Enterprises.

She is João Aguiar Alvarez's sister, who is also a Director.

**João Aguiar Alvarez, Director:**

**Birth date:** August 11, 1960.

**Summary of Professional Experience:** In April 1986, he was elected to the Board of Directors of *Cidade de Deus - Companhia Comercial de Participações*, one of the holding companies of Banco Bradesco S.A., and since April 1988, he has served as an Officer and, in February 1990, Member of the Board of Directors, the position he currently holds.

**Graduation:** Degree in Agronomy from the Pinhalense Education Foundation – Manuel Carlos Gonçalves College of Agronomy and Animal Husbandry.

**Current positions:** Member of the Board of Directors of Bradespar S.A.; and Member of the Board of Trustees and Deputy Officer of *Fundação Bradesco*.

He is Denise Aguiar Alvarez's brother, who is also a Director.

**Milton Matsumoto, Director:**

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**Birth date:** April 24, 1945.

**Summary of Professional Experience:** He has been with Bradesco since September 1957. He was elected Department Officer in March 1985, Deputy Officer in March 1998, a Managing Officer in March 1999 and Member of the Board of Directors in March 2011, the position he currently holds.

**Graduation:** Degree in Business Administration from UNIFIEO - University Center FIEO.

**Current positions:** Member of the Board of Directors of Bradesco Leasing S.A. - *Arrendamento Mercantil*; Member of the Board of Directors of Bradespar S.A.; Member of the Board of Directors and Strategy Committee of BSP Empreendimentos Imobiliários S.A.; Member of the Board of Directors of *Cidade de Deus - Companhia Comercial de Participações*; Member of the Board of Directors of NCF Participações S.A.; Officer of Nova Cidade de Deus Participações S.A.; Member of the Board of Trustees and Managing Officer of *Fundação Bradesco*.

**Previous positions:** Vice-Chairman of the Board of Directors of Fidelity Processadora e Serviços S.A.; Member of the Board of Directors of Banco Bradesco BERJ S.A. and an Officer of Bradesco S.A. Corretora de Títulos e Valores Mobiliários; the first Secretary Officer of the Bank Union in the States of São Paulo, Paraná, Mato Grosso, Mato Grosso do Sul, Acre, Amazonas, Pará, Amapá, Rondônia and Roraima; Alternate Member of the Board of Directors of CPM Holdings Ltd.; Alternate Member of the Board of Directors of CPM Holdings Ltd.; Secretary Officer of the Union of the Credit, Financing and Investing Companies of the State of São Paulo; and Secretary Officer of the Interstate Federation of FENACREFI Loan, Financing and Investment Institutions.

**Alexandre da Silva Glüher – Director:**

**Birth date:** August 14, 1960.

**Summary of Professional Experience:** He joined Banco Bradesco S.A. in March 1976. He was elected Regional Officer in August 2001, Department Officer in March 2005, Deputy Officer in December 2010, Managing Officer in January 2012, and Executive Vice-President in January 2014. In March 2018, he was elected Member of the Board of Directors, the position he currently holds.

**Graduation:** Accounting from Universidade Federal do Rio Grande do Sul, and in Business Administration from ULBRA - Universidade Luterana do Brasil.

**Other Qualifications:** International Executive Program at the Wharton School - Advanced Management Program - University of Pennsylvania, USA; Administration of Financial Institutions (Banking), Retail for Low-income Segments, and Credit Risk Management - Vision of Portfolio by the Fundação Getúlio Vargas

- School of Business Administration of São Paulo

**Current positions:** Member of the Board of Trustees and Managing Officer of *Fundação Bradesco*; Vice-President of IBCB - *Instituto Brasileiro de Ciência Bancária*; Effective Member of the Board of Directors of *Aquarius Participações S.A.*, *Fidelity Processadora S.A.*, and also of Fidelity Serviços e Contact Center S.A; Chairman and Effective Member of the Consulting Board of Credit Guarantee Fund – FGC; and Full Member of the Board of Directors of *Câmara Interbancária de Pagamentos – CIP*.

**Previous positions:** Investor Relations Officer of Bradesco; Alternate Member of the Deliberative Council of Brazilian Association of Real Estate Credit and Savings Entities - ABECIP; Member of the Board of Directors of Instituto BRAiN - Brasil Investimentos & Negócios; Member of the Banking Self-Regulatory Council of FEBRABAN - *Federação Brasileira de Bancos*; Vice-President of FEBRABAN - *Federação Brasileira de Bancos*; Vice-President and Alternate Delegate at CONSIF at FENABAN - *Federação Nacional dos Bancos*; Treasury Officer of the Association of Banks of the States of São Paulo, Paraná, Mato Grosso, Mato Grosso do Sul, Acre, Amazonas, Pará, Amapá, Rondônia and Roraima; Vice-Chairman of the Board of Directors of *Central de Exposição a Derivativos – CED*; and Representative of Bradesco Group at ANBIMA - Brazilian Association of Financial and Capital Markets Entities.

**Josué Augusto Pancini – Director:**

**Birth date:** April 14, 1960.

**Summary of Professional Experience:** He joined *Banco Bradesco S.A.* in July 1976. He was elected Regional Officer in July 1997, Department Officer in July 2003, Deputy Officer in December 2010, and Managing Officer in January 2012. He was elected Executive Vice-President in January 2014, and since March 2018, has been accumulating the position of Member of the Board of Directors.

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**6.A. Board of Directors and Board of Executive Officers**

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**Graduation:** Degree in Mathematics from *Centro Universitário da Fundação de Ensino Octávio Bastos – Feob* (UNIFEOB).

**Other Qualifications:** “Lato Sensu” postgraduate degree in Business Economics - Finance from Pontifícia Universidade Católica de Campinas - PUC - Campinas; and AMP - Advanced Management Program, taught at the IESE Business School - University of Navarra, São Paulo.

**Current positions:** Member of the Board of Trustees and Managing Officer of *Fundação Bradesco*; and Managing Officer of Kirton Bank S.A. – Banco Múltiplo.

**Previous positions:** Alternate Member of the Deliberative Board of ABECIP - Brazilian Association of Real Estate Credit and Savings Entities.

**Maurício Machado de Minas – Director:**

**Birth date:** July 1, 1959.

**Summary of Professional Experience:** He joined Banco Bradesco S.A. in July 2009 as Managing Officer. In January 2014 he was elected Executive Vice-President and since March 2018, has accumulated the position of Member of the Board of Directors.

**Graduation:** Degree in Electrical Engineering from *Escola Politécnica da Universidade de São Paulo* (Poli/USP).

**Other Qualifications:** Specialization in Data Communications and Software Development at Wharton Business School, in the United States; university extension course in Finance at Wharton Business School, in the United States; and Executive Development Program at Columbia University in New York, United States.

**Current positions:** Member of the Board of Trustees and Managing Officer of *Fundação Bradesco*; Effective Member of the Board of Directors of *Aquarius Participações S.A.*, *Fidelity Processadora S.A.* and *Fidelity Serviços e Contact Center S.A.*; Member of the Consulting Committee of IBM Corporation; and Member of the Board of Directors of *NCR Brasil - Indústria de Equipamentos para Automação S.A.*

**Previous positions:** Executive Vice-President, COO (Chief Operations Officer) and an Alternate Member of the Board of Directors of CPM Braxis S.A.; Senior Analyst with Banco Itaú S.A.; Officer of Support Services of a group of Brazilian IT companies (Eletrodigi, Flexidisk and Polymax) and President of Scopus; and Member of the Board of Directors of MPO - *Processadora de Pagamentos Móveis S.A.*



**Members of the Board of Diretoria Executiva:**

**Octavio de Lazari Junior, CEO:**

**Birth date:** July 18, 1963.

**Summary of Professional Experience:** He joined Banco Bradesco S.A. in September 1978. He was promoted to the position of Executive Deputy Officer, in January 2012 and Managing Officer in February 2015 and Executive Vice-President in May 2017. In March 2018, he was promoted to CEO, the position he currently holds.

**Graduation:** Degree in Economics from *Faculdade de Ciências Econômicas e Administrativas de Osasco*.

**Other Qualifications:** Specialization courses in: Financial and Marketing Strategies at *Fundação Instituto de Administração (FEA/USP)*, Financial Management from FGV and Strategies in Finance from *Fundação Dom Cabral*; and the Advanced Management Program (AMP) taught at the IESE Business School - University of Navarra, São Paulo.

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; Managing Officer of Kirton Bank S.A. – Banco Múltiplo and Member of *Núcleo de Altos Temas (NAT)*; and Member of Managing Board and Consulting Committee of FEBRABAN - *Federação Brasileira de Bancos*.

**Previous positions:** Chairman of the Managing Board of ABECIP - *Associação Brasileira das Entidades de Crédito Imobiliário e Poupança*; Alternate Member of Board of Directors of CIP - *Câmara Interbancária de Pagamentos*; Full Member of the Board of Directors of CIBRASEC - *Companhia Brasileira de Securitização*; Member of the Council of Representatives of the CNF - *Confederação Nacional das Instituições Financeiras*; Officer of Real Estate Credit and Savings and Vice-Chairman of the Committee on Governance of Portability

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of Credit Operations of FEBRABAN - *Federação Brasileira de Bancos*; Member of Consulting Committee of FIABCI/BRASIL - Capítulo Nacional Brasileiro da Federação Internacional das Profissões Imobiliárias; and Alternate Officer of *Uniapravi - Unión Interamericana para la Vivienda*.

**Josué Augusto Pancini, Vice-President:**

Mr. Pancini also holds the position of Member of the Board of Directors. His experience is described in “– Members of Board of Directors.”

**Maurício Machado de Minas, Vice-President:**

Mr. Minas also holds the position of Member of the Board of Directors. His experience is described in “– Members of Board of Directors.”

**Marcelo de Araújo Noronha, Vice-President:**

**Birth date:** August 10, 1965.

**Summary of Professional Experience:** Mr. Noronha started his career in 1985 at Banco Banorte, where he worked until 1996 when he started to work as Commercial Officer with Banco Bilbao Vizcaya Argentaria Brasil S.A, currently Banco Alvorada S.A. and was promoted to Vice-President for products, trade finance, middle market and retail. In February 2004, he was elected Department Officer of Banco Bradesco S.A. He was elected Deputy Officer in December 2010 and Managing Officer in January 2012. In February 2015, he was elected Executive Vice-President, the position he currently holds, where he is responsible for credit and debit cards payments, marketing and CRM.

**Graduation:** Business Administration from *Universidade Federal de Pernambuco (UFPE)*.

**Other Qualifications:** Specialization in Finance from IBMEC - *Instituto Brasileiro de Mercado de Capitais*; AMP - Advanced Management Program at IESE - Instituto de Estudios Empresariales, Universidad de Navarra in Barcelona and Certified Member of the Board of Directors of the Brazilian Institute of Corporate Governance - IBGC.

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; Chairman of the Board of Directors of Alelo - *Companhia Brasileira de Soluções e Serviços*; Vice-Chairman of the Board of Directors

of Cielo S.A. (leader accreditation entity in Brazil); Member of the Board of Directors of Elo Participações S.A.

**Previous positions:** CEO of ABECS - *Associação Brasileira das Empresas de Cartões de Crédito e Serviços*; and Member of the Council of Representatives (representing ABECS) of CNF - *Confederação Nacional das Instituições Financeiras*.

**André Rodrigues Cano, Vice-President:**

**Birth date:** July 22, 1958.

**Summary of Professional Experience:** Mr. Cano joined Bradesco in April 1977 and was elected Department Officer in December 2001. He was elected Officer of Banco Bradesco Financiamentos S.A. in September 2008, remaining in this position until his return to Bradesco as Department Officer in December 2009. He was elected Deputy Officer in December 2010, Managing Officer in January 2012 and Executive Vice-President in January 2017, the position he currently holds.

**Graduation:** Business Administration from FMU - *Faculdades Metropolitanas Unidas*.

**Other Qualifications:** MBA - Controller from FIPECAFI - Institute of Accounting, Finance and Actuarial Research - FEA-USP; and the Advanced Management Program (AMP) - Harvard Business School in Boston, USA.

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; Managing Director of Kirton Bank S.A.; – Banco Múltiplo; Effective Officer of the National Confederation of the Financial System – CONSIF; Vice-President of FEBRABAN - *Federação Brasileira de Bancos*; Vice-President and Alternate Delegate at CONSIF at FENABAN - *Federação Nacional dos Bancos*; Treasury Officer of the Association of Banks of the States of São Paulo, Paraná, Mato Grosso, Mato Grosso do Sul, Acre, Amazonas, Pará,

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Amapá, Rondônia and Roraima; and Representative of Bradesco Group at ANBIMA - Brazilian Association of Financial and Capital Markets Entities.

**Previous positions:** Alternate Vice-Chairman of the Board of Directors of *Fidelity Processadora e Serviços S.A.*; Effective Member and Officer of the Board of Directors of *TECBAN - Tecnologia Bancária S.A.*; Effective Member of the Fiscal Council of *Tele Celular Sul Participações S.A.*; Alternate Member of the Fiscal Council of *Tele Nordeste Celular Participações S.A.*; Officer of *ACREFI - Associação Nacional das Instituições de Crédito, Financiamento e Investimento*; and Vice-Chairman of the Curator Council of the National Quality Foundation – FNQ.

**Cassiano Ricardo Scarpelli - Vice-President:**

**Birth date:** July 28, 1968.

**Summary of Professional Experience:** He joined Bradesco Organization in June 1984. In February 2001 he was promoted to Executive Superintendent. In March 2007, he was elected Department Officer, in February 2015, Deputy Officer, and in January 2017, Managing Officer. In March 2018, he was elected Executive Officer, the position he currently holds.

**Graduation:** Economics from *Faculdade de Ciências Econômicas e Administrativas de Osasco*.

**Other Qualifications:** International Executive Program at *Queen's School of Business - Queen's Executive Program*, in Ontario, Canada.

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; Chairman of the Board of Regulation and Best Practices for the Capital Market of ANBIMA - Brazilian Association of Financial and Capital Markets Entities, having previously held the following positions: Vice-President of the Regulation and Best Practices Board for Qualified Services to the Capital Market, and Alternate Member of the Qualified Services to the Capital Market Commission; Member of the Committee of Products and Pricing of B3 S.A. - Brasil, Bolsa, Balcão; and Deputy Officer of Kirton Bank S.A. - Banco Múltiplo.

**Previous positions:** Member of the *Câmara Consultiva de Renda Fixa, Câmbio e Derivativos* of B3 S.A. - Brasil, Bolsa, Balcão; Member of the Board of Directors of *Bica de Pedra Industrial S.A.*; *CP Cimento e Participações S.A.* and *Latasa S.A.*, Effective Member of the Board of Directors of *lochpe-Maxion S.A.* and *Tecnologia Bancária S.A.*; Full Member of the Board of Directors of *Tigre S.A. - Tubos e Conexões*; Effective Member of the Fiscal Council of *Bradespar S.A.*, First Alternate Member of the Fiscal Council of *Boavista Prev - Fundo de Pensão Multipatrocinado*, Alternate Member of the Board of Directors of *São Paulo Alpargas S.A.*, Officer of *BEM - Distribuidora de Títulos e Valores Mobiliários Ltda.*, *BMC Asset Management - Distribuidora de Títulos e Valores Mobiliários Ltda.* and of *UGB Participações S.A.*

**Eurico Ramos Fabri – Vice-President:**

**Birth date:** September 29, 1972.

**Summary of Professional Experience:** In February 2008, he joined as Officer in Banco Finasa S.A., a financial institution acquired by Banco Finasa BMC S.A. (currently Banco Bradesco Financiamentos S.A.), as an Officer, remaining until December 2009. From July 2008 to April 2011, he held the position of Officer of Finasa Promotora de Vendas Ltda. In December 2010, he was elected Officer of Banco Bradesco S.A., in January 2012, Department Officer, in February 2015, Deputy Officer and, in January 2017, Managing Officer. In March 2018, he was elected Executive Vice-President, the position he currently holds.

**Graduation:** Economic Sciences from UNICAMP - *Universidade Estadual de Campinas*.

**Other Qualifications:** Executive MBA in Finance from Insper - *Instituto de Ensino e Pesquisa*; STC Executive from *Fundação Dom Cabral* in partnership with Kellogg Graduate School of Management; and *Advanced Management Program* from Harvard Business School, Boston, EUA.

**Current positions:** He is a Member of the Board of Trustees of *Fundação Bradesco*; Member of the Board of Directors of *Fundação Instituto de Moléstias do Aparelho Digestivo e da Nutrição*; and Chairman of the Board of Credit Intelligence Manager.

**Previous positions:** Member of the Board of Directors of Cielo S.A., *Companhia Brasileira de Soluções e Serviços* and *Elo Participações S.A.*; Alternate Member of Board of Directors of *Aquarius Participações S.A.*, *Fidelity Processadora S.A.* and *Fidelity Serviços e Contact Center S.A.*; Deputy Officer of Kirton Bank S.A. - *Banco Múltiplo*.

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**Denise Pauli Pavarina, Managing Officer:****Birth date:** April 14, 1963.

**Summary of Professional Experience:** She started her career in March 1985, with Banco Bradesco de Investimento S.A., a financial institution that was absorbed by Banco Bradesco S.A. in November 1992. At Bradesco, she held the positions of Underwriting Manager and Department Manager of Portfolio Management. She was promoted to the position of Executive Superintendent in September 1996, and elected Department Officer in January 2001. She was elected Officer of Banco Bradesco BBI S.A. in June 2006, and Managing Officer in January 2007, remaining until December 2009, when she returned to Bradesco, and was elected Department Officer. She was elected Deputy Officer in January 2012 and Managing Officer in February 2015, the position she currently holds. In March 2018, she began to exercise, cumulatively, the role of Director of Investor Relations.

**Graduation:** Degree in Economics from *Faculdade Armando Alvares Penteado (FAAP)*; and Law from *Universidade Paulista (UNIP)*.

**Other Qualifications:** Executive MBA in Finance from *Instituto de Ensino e Pesquisa (Insper)* and AMP - Advanced Management Program by IESE Business School.

**Current positions:** Managing Officer of BRAM - *Bradesco Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários*; Member of the Board of Trustees of *Fundação Bradesco*; Vice-Chairman of the Board of Directors of 2bCapital S.A.; Member of the Board of Directors, Member of the Advisory Committee for the Intermediation Sector and Member of Committee to Monitor the Integration of B3 S.A. - Brasil, Bolsa, Balcão; Member of the Market Advisory Board of BSM - BM&FBOVESPA SUPERVISÃO DE MERCADOS, as a representative of the Board of Directors of B3 S.A. - Brasil, Bolsa, Balcão; Member of Board of Directors and of the Sustainability Committee of Vale S.A.; and Vice-President of Task Force on Climate-related Financial Disclosures (TCFD).

**Previous positions:** President of ANBIMA - Brazilian Association of Financial and Capital Markets Entities; Member of the Board of Representatives of the CNF (*Confederação Nacional das Instituições Financeiras*); Member of the Board of Directors of *Cielo S.A.*; Member of National Committee for Financial Education (representing ANBIMA) - CONEF; Member of Board of Directors of *Bica de Pedra Industrial S.A.*; Member of Board of Directors of *Companhia Siderúrgica Belgo-Mineira*; Deputy Member of the Board of Directors of CPM Braxis S.A.; Member of the Board of Directors of Latasa S.A.; Effective Member of the Board of Directors of São Paulo Alpargatas S.A.; Alternate Member of the Managing Board of ABRASCA - Associação Brasileira das Companhias Abertas; Member of the Consulting Board of the Brazilian Association of Brokers and Dealers in Securities, Foreign Exchange and Commodities - ANCORD; Officer of *UGB Participações S.A.*; and Officer for Institutional Relations and Director of the Association of Capital Market Investment Analysts - APIMEC São Paulo; Member of IT Committee of B3 S.A. - Brasil, Bolsa, Balcão; Member of Investment Committee of NEO Capital Mezanino Fundo de Investimento em

Participações; Member of Board of Directors of Instituto BRAiN - Brasil Investimentos & Negócios; Effective Member of the Board of Directors of Valepar S.A.

**Moacir Nachbar Junior, Managing Officer:**

**Birth date:** April 5, 1965.

**Summary of Professional Experience:** He began his career with Banco Bradesco S.A. in June 1979. In March 2005, he was elected Department Officer. He was elected Deputy Officer in January 2012 and Managing Officer in February 2015, the position he currently holds. In March 2018, he became responsible for risk management - Chief Risk Officer (CRO).

**Graduation:** Degree in Accounting from *Faculdade Campos Salles*.

**Other Qualifications:** “Latu Sensu” postgraduate degree in Financial Management from *Faculdade Campos Salles*; MBA-Controller from FIPECAFI - Institute of Accounting, Finance and Actuarial Research (FEA-USP); and Tuck Executive Program from Tuck School of Business at Dartmouth, in Hanover, New Hampshire – USA;

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; Alternate Member of Advisory Board of the Fundo Garantidor de Créditos (Credit Guarantor Fund) – FGC; Member of Self-regulation Council of the Brazilian Federation of Banks – FEBRABAN; Managing Director of Kirton Bank S.A. - Banco Múltiplo; Alternate Member of the Board of Directors and Member of the Controlling and of Compliance and

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**6.A. Board of Directors and Board of Executive Officers**

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Risk Committees of Vale S.A.; and Member of the Managing Board and Member of the Audit and Accounting Standards Committee of ABRASCA - *Associação Brasileira das Companhias Abertas*.

**Previous positions:** He was an Officer and Effective Member of the Fiscal Council of Boavista Prev - *Fundo de Pensão Multipatrocinado*, a multi-sponsor pension fund, an Alternate Member of the Board of Directors of *Fidelity Processadora S.A.*, and Alternate Member of the Fiscal Council of *Top Clube Bradesco, Segurança, Educação e Assistência Social*; and Full Member of the Board of Directors of Valepar S.A.

**Renato Ejnisman, Managing Officer:**

**Birth date:** February 12, 1970.

**Summary of Professional Experience:** In April 1999, he began his career in the financial market at Bank of America, where he worked until February 2007, with a short spell at Bank Boston during this period. In February 2007, he joined Banco Bradesco BBI S.A., as an Executive Superintendent. In April 2008, he was elected Officer and, in February 2011, Managing Officer and General Officer in February 2015. At Banco Bradesco S.A., was elected Deputy Officer in February 2015 and, in January 2017, Managing Officer, a position he holds simultaneously with the position of General Director of Banco Bradesco BBI S.A.

**Graduation:** Physics from USP - *Universidade São Paulo*.

**Other Qualifications:** Master's degree in Nuclear Physics from *Universidade São Paulo (USP)* and a Doctoral degree in Physics from the University of Rochester, New York, USA.

**Current positions:** Chairman of the Board of Regulation and Best Practices for the Capital Market of ANBIMA - Brazilian Association of Financial and Capital Markets Entities; and Vice-Chairman of the Board of Directors of Bradesco Securities Hong Kong Limited, Bradesco Securities, Inc. and Bradesco Securities UK Limited.; and Member of the Board of Trustees of *Fundação Bradesco*.

**Previous positions:** Chief Executive Officer of *Bradesco S.A. Corretora de Títulos e Valores Mobiliários, Ágora Corretora de Títulos e Valores Mobiliários S.A.* and *Ágora Educacional Ltda.*; Effective Member of *Câmara Consultiva de Listagem* of BM&FBovespa S.A. – Bolsa de Valores, Mercadorias e Futuros; and Alternate Member of the Managing Board of ABRASCA - *Associação Brasileira das Companhias Abertas*.

**Walkiria Schirrmeister Marchetti, Managing Officer:**



**Birth date:** November 1, 1960.

**Summary of Professional Experience:** She joined Banco Bradesco S.A. in May 1981. In September 1998, she was promoted to the position of Executive Superintendent. In March 2007, she was elected Department Officer, in February 2015, Deputy Officer, and in January 2017, Managing Officer, the position she currently holds.

**Graduation:** Mathematics from *Faculdade de Ciências e Letras Teresa Martin*.

**Other Qualifications:** Specialization in System Analysis from *Instituto Presbiteriano Mackenzie*; "Latu Sensu" postgraduate degree - MBA Banking from *Fundação Instituto de Administração - FIA*; and International Executive Programs at the Wharton School - Strategic Thinking and Management for Competitive Advantage Program - Pennsylvania - USA; Columbia Business School - Columbia Senior Executive Program - New York - USA; and Harvard Business School - Negotiation and Competitive Decision Making - Boston - USA.

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; and Alternate Member of the Board of Directors of *Aquarius Participações S.A.*, of *Fidelity Processadora S.A.* and of *Fidelity Serviços e Contact Center S.A.*

**Aurélio Guido Pagani, Deputy Officer:**

**Birth date:** March 7, 1960.

**Summary of Professional Experience:** He joined Banco Bradesco S.A. in February 1979. In November 1991, he was promoted to the position of Branch Manager. In August 2001, he was elected Officer, in August 2010, Department Officer and, in January 2017, Deputy Officer, position he currently holds.

**Graduation:** Business Administration from *Universidade São Francisco*.

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**6.A. Board of Directors and Board of Executive Officers**

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**Other Qualifications:** “Lato Sensu” Postgraduate degree (MBA) in Financial Management and Corporate Strategies from *Fundação Getulio Vargas*; and *AMP - Advanced Management Program* from IESE Business School - University of Navarra, São Paulo, SP.

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; Full Representative of Permanent Forum of Micro and Small Enterprises; Sitting Vice-President of the Managing Board and Effective Member of the Deliberative Board of the Brazilian Association of Real Estate Credit and Savings Entities - ABECIP; Full Member of the Regional Board in Osasco at the Board of the São Paulo Industrial Employers Association – CIESP (CIESP Castelo); and Member of Consulting Board of the Brazilian National Chapter of the International Real Estate Federation - FIABCI/BRASIL.

**Previous positions:** Vice-Chairman of Union of Banks in the State of Rio Grande do Sul and Santa Catarina and Alternate Delegate of the Board of Brazilian Federation of Banks (FENABAN); Second Vice-President of Association of Banks in the State of Rio Grande do Sul; and Effective Director of Association of Banks in the States of Pará, Amapá, Amazonas and Acre.

**Guilherme Muller Leal, Deputy Officer:**

**Birth date:** November 12, 1967.

**Summary of Professional Experience:** He joined, in August 1999, Banco Bilbao Vizcaya Argentaria Brasil S.A., currently denominated Banco Alvorada S.A., reaching the position of Corporate Deputy Officer. In September 2003, was transferred to Banco Bradesco S.A., and in June 2007, he was promoted to the position of Executive Superintendent, in February 2011, he was elected Officer, in January 2012, Department Officer, and in January 2017, Deputy Officer, the position he currently holds.

**Graduation:** Economics from *Universidade Santa Úrsula* - USU.

**Other Qualifications:** “Lato Sensu” Postgraduate degree with specialization in Corporate Finance from *Pontifícia Universidade Católica do Rio de Janeiro* - PUC-Rio; and Executive Development Program (*Programa de Desenvolvimento de Executivos – PDE*) from *Fundação Dom Cabral*, and the following international executive programs: Authentic Leadership Development and Behavioral Economics: Designing Strategic Solutions For Your Customer and Your Organization from Harvard Business School - Boston, Massachusetts - EUA, Executive Education Program from New York Trend Consulting - NYTC - New York - USA, Wharton Advanced Management Program and Executive Negotiation Workshop: Bargaining for Advantage by University of Pennsylvania - The Wharton School - Philadelphia - Pennsylvania - USA, and Leadership at the Peak Program from Center for Creative Leadership Staff and

Leadership at the Peak Participants - Colorado Springs - USA.

**Current position:** Member of the Board of Trustees of *Fundação Bradesco*.

**Luiz Carlos Brandão Cavalcanti Junior, Deputy Officer:**

**Birth date:** March 2, 1962.

**Summary of Professional Experience:** He joined Banco Econômico S.A. in September 1983, an entity initially acquired by Banco Excel Econômico and later on by BBVA (Banco Bilbao Vizcaya Argentaria Brasil S.A.). In September 2003, he was transferred to Banco Bradesco S.A. in the position of Executive Superintendent, in March 2005, he was elected Department Officer of the Department of Marketing and Digital Channels and, in January 2017, Deputy Officer responsible for the area of research, innovation, Digital Channels and Next, position he currently holds.

**Graduation:** Economics from *Faculdade Católica de Ciências Econômicas da Bahia*.

**Other Qualifications:** MBA in Advanced Management Program from Amana-Key; Strategic Planning and Implementation from Universidade of Michigan Business-SP; Business negotiation Course from FGV; Management Model Course, Culture and Values from University of NAVARRA - IESE - Spain and from FGV; Making Strategy Work: Leading Effective Execution - Wharton Executive Education from University of Pennsylvania - Philadelphia, USA; Advanced Executive Program - Kellogg School of Management from Northwestern University - Chicago, USA; Program Executive Education Communication - New York Trend Consulting - NYTC- New York, USA; Strategic Cost Analysis For Managers - Massachusetts Institute of Technology - MIT - Boston, USA; Implementing Improvement Strategies: Practical Tools and Methods -

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**6.A. Board of Directors and Board of Executive Officers**

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Massachusetts Institute of Technology - MIT - Boston, USA; Authentic Leadership Program - Harvard Business School - Boston, Massachusetts, USA; and The Leadership at the Peak Program - Center for Creative Leadership Staff and Leadership at the Peak Participants, USA.

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; and Effective Member of the Board of Directors of TecBan - Tecnologia Bancária S.A.

**Previous positions:** Chairman of the Fiscal Council of Associação Escola Superior de Propaganda e Marketing.

**Rogério Pedro Câmara, Deputy Officer:**

**Birth date:** October 5, 1963.

**Summary of Professional Experience:** He joined Banco Bradesco S.A. in June 1983. In December 2008, he was promoted to the position of Executive Superintendent, in June 2011, he was elected Officer in January 2012, Department Officer and in January 2017, Deputy Officer, the position he currently holds.

**Graduation:** Business Administration from *Universidade Paulista* - UNIP.

**Other Qualifications:** MBA in Controller from *Fundação Instituto de Pesquisas Contábeis, Atuariais e Financeiras da Universidade de São Paulo* - FIPECAFI/USP; “Latu Sensu” postgraduate degree and MBA with specialization in Knowledge, Innovation and Technology from *Fundação Instituto de Administração – FIA (FEA/USP)*; International Module - MBA in Knowledge, Innovation and Technology from Bentley College - Waltham Massachusetts – USA; Advanced Management Program from *Fundação Dom Cabral*; Advanced Management Program - IESE Business School from University of Navarra, São Paulo, SP; International Executive Programs: Changing the Game: Negotiation and Competitive Decision Making from Harvard Business School - Boston, USA; Customer - Focused Innovation Program and Leading Change and Organizational Renewal Program from Stanford University Graduate School of Business - California, USA; Making Strategy Work: Leading Effective Execution and Strategic Thinking and Management for Competitive Advantage Program from The Wharton School - Philadelphia, USA; The Leadership at the Peak program from Center for Creative Leadership - Colorado Springs, USA; and The Advanced Strategy Program: Building and Implementing Growth Strategies, High Performance Leadership and in The Executive Development Program from The University of Chicago Booth School of Business - Chicago, USA.

**Current positions:** Member of the Board of Trustees of *Fundação Bradesco*; and Officer of Kirton Bank S.A. – Banco Múltiplo; and Alternative Member of the Board of Directors of *Câmara Interbancária de Pagamentos* – CIP.

**Previous positions:** Alternate Member of the Fiscal Council of *Top Clube Bradesco, Segurança, Educação e Assistência Social*.

**João Carlos Gomes da Silva, Deputy Officer:**

**Birth date:** January 20, 1961.

**Summary of Professional Experience:** He joined Banco Bradesco S.A. in June 1981, and was promoted to the position of Branch Manager in May 1992, and Regional Manager in April 2004. In December 2009, he was elected Regional Officer, in January 2012, Departmental Officer and in February 2017, Deputy Officer, the position he currently holds.

**Graduation:** Degree in Accounting Sciences from *Faculdade de Administração e Economia (FAE)*.

**Other Qualifications:** Postgraduate MBA in Business Management and Executive MBA in Distance-learning Business Administration - Emphasis on Banking by FGV; and AMP - Advanced Management Program from IESE Business School - University of Navarra, São Paulo.

**Current Positions:** Member of the Board of Trustees of *Fundação Bradesco*; and Member of the Management Committee for the Portability of Credit Operations of FEBRABAN – Brazilian Federation of Banks.

**Previous Positions:** Member of the Consulting Committee of the Commerce Association of São Paulo; Sitting Vice-President of the Managing Board and Effective Member of the Deliberative Board of ABECIP - Brazilian Association of Real Estate Credit and Savings Entities; Alternate Member of the Board of Directors of CIP - Câmara Interbancária de Pagamentos; Vice-President and Sitting Member of Board of Directors CIBRASEC - Companhia Brasileira de Securitização; Full Member of the Board of the São Paulo Industrial Employers Association (*Centro das Indústrias do Estado de São Paulo, CIESP Castelo*); Alternate Member

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**6.A. Board of Directors and Board of Executive Officers**

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of Managerial Council of Housing Guarantee Fund – CGFGH; Member of Consulting Board of FIABCI/BRASIL - Brazilian National Chapter of the International Real Estate Federation; Secretary Officer of ABEL - Brazilian Leasing Companies Association; Vice-Chairman of the Managing Board of ACREFI; *Associação Nacional das Instituições de Créditos, Financiamentos e Investimento*; Officer of Credit Products PJ (for Legal Entities); Associate Officer of the Executive Committee of Banking Products PF (for Individuals) of FEBRABAN – Brazilian Federation of Banks; and Chief Secretary of the *Sindicato Nacional das Empresas de Arrendamento Mercantil* (Leasing).

**Bruno D’Avila Melo Boetger, Diretor Adjunto:**

**Birth date:** June 17, 1967.

**Summary of Professional Experience:** He began his career in 1994 at Citicorp Securities Inc., in New York (USA), where he worked until 1996. From 1997 to March 2007 he worked at the Salomon Brothers Inc. companies and Citigroup Global Markets Inc. (USA), and Salomon Smith Barney Representações Ltda. In April 2007, he joined Banco Bradesco BBI S.A. as Executive Superintendent and, in April 2008, he was elected Officer, and remained in the position until March 2012. In August, 2011, he also began to work in Banco Bradesco S.A. as General Manager in the branch of New York (USA), remaining in the position until January 2014, so than was elected Department Officer. In December 2017 he was elected Deputy Officer, position he currently holds.

**Graduation:** Business Administration by *Escola de Administração de Empresas de São Paulo da Fundação Getulio Vargas* - FGV/EAESP.

**Other Qualifications:** Master’s degree in Business Administration - Concentration in Finance from Cornell University - Johnson Graduate School of Management - Ithaca, New York; and Senior Executive Program - Strategy, Leadership and Transformation by London Business School - Education of Executives – - London, England.

**Current Positions:** Member of the Managing Board of *Fundação Bradesco*; Member of the Board of Directors of Banco Bradesco Europa S.A.; and Officer of Banco Bradesco Argentina S.A.

**Previous Positions:** CEO of Bradesco North America LLC and of Bram US LLC (USA); and Manager of Bradesco Overseas Funchal - Consulting Services, Sociedade Unipessoal Lda.

**Glaucimar Peticov – Deputy Officer:**

**Birth Date:** March 18, 1963.

**Summary of Professional Experience:** She began his career in August 1984, with Banco Econômico S.A., then with Banco Excel Econômico S.A., and then with Banco Bilbao Vizcaya Argentaria Brasil S.A., currently named Banco Alvorada S.A. In September 2003, was transferred to Banco Bradesco S.A., and in December 2009, promoted to the position of Executive Superintendent and, in June 2011, she was elected Department Officer, reporting to the Human Resource Department and to UNIBRAD - *Universidade Corporativa Bradesco* and, in March 2018 she was elected Deputy Officer, position she currently holds.

**Graduation:** Psychology by Universidade São Marcos.

**Other Qualifications:** “Lato Sensu” Postgraduate degree in Human Resource Management by *Fundação Armando Alvares Penteado* – CENAP; Specialization in Marketing - FGV (2006); Advanced Management, administered by *Fundação Dom Cabral*; International Executive Programs: Strategic Human Resource Planning, by University of Michigan Business School - Ann Arbor, Michigan, EUA; Senior Executive Program, by Columbia Business School – New York, EUA; Negotiation and Competitive Decision-Making, by Harvard Business School - Boston, EUA; and Leadership at the Peak Program, by the Center for Creative Leadership - Colorado, EUA.

**Current Positions:** Member of Managing Board of *Fundação Bradesco*; Officer of ADC Bradesco - Sports Association; Chief Executive Officer of ARFAB - *Associação Recreativa dos Funcionários da Atlântica-Bradesco* and of *Clube Bradesco de Seguros*; Member of Consulting Board of Global Council of Corporate Universities (GlobalCCU); Secretary Officer of SINDICREFI - Union of the Credit, Financing and Investing Companies of the State of São Paulo; and Alternate Member of Fiscal Council of *Top Clube Bradesco, Segurança, Educação e Assistência Social*.

**Previous Positions:** Generation and Management of Knowledge and Content Officer of ABRH - Brazil -

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**6.B. Compensation**

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*Associação Brasileira de Recursos Humanos*; Secretary Officer of FENACREFI - Federação Interestadual das Instituições de Crédito, Financiamento e Investimento; and Member of the Deliberative Council of FEBRACORP Live University.

**José Ramos Rocha Neto – Deputy Officer:**

**Birth date:** December 8, 1968.

**Summary of Professional Experience:** He joined Banco Bilbao Vizcaya Argentaria Brasil S.A. in May 2000 as Corporate Branch Officer, currently named Banco Alvorada S.A., where he also held the position of Executive Superintendent responsible for Trade Finance and Business Development. In September 2003, he was transferred to Banco Bradesco S.A., and in December 2009, he was elected Officer and in June 2011, Department Officer. In March 2018, he was elected Deputy Officer, position he currently holds.

**Graduation:** Accounting Sciences by UFPE - *Universidade Federal de Pernambuco*.

**Other Qualifications:** “Lato Sensu” postgraduate degree in Business Administration by CEAG *Fundação Getúlio Vargas* - FGV – EAESP; and International Executive Programs at Wharton Business School, Harvard Business School, IESE Business School and Center for Creative Leadership and Executive Development Program at *Fundação Dom Cabral*, Stanford University School of Business and at Amana Key.

**Current Positions:** Officer of BRAM - Bradesco Asset Management S.A. *Distribuidora de Títulos e Valores Mobiliários*; Member of the Managing Board of *Fundação Bradesco*; and President and Sitting Member of Comitê de Distribuição de Produtos no Varejo (Committee of Distribution of Products in Retail) of ANBIMA - Brazilian Association of Financial and Capital Markets Entities.

**Previous Positions:** Member of the Plenary Board and Member of the Consulting Committee of the Commerce Association of São Paulo – ACSP; Alternate Member of the Board of Directors of CIBRASEC - *Companhia Brasileira de Securitização*; and Member of the Management Committee for the Portability of Credit Operations of FEBRABAN - Brazilian Federation of Banks.

**6.B. Compensation**

The maximum global compensation of our members of the Board of Directors and Board of Executive Officers are established at the Annual Shareholders' Meetings, These bodies comprise our Executive



Officers, Department Officers, Regional Officers and Officers of our subsidiaries. In 2017, our shareholders set the global compensation for our Board of Directors and our Board of Executive Officers and our subsidiaries at R\$468.7 million.

In 2017, our Directors, our Board of Executive Officers and Officers of our subsidiaries received aggregate compensation of R\$456.3 million for their services. Part of the Management's compensation is variable. The current compensation policy mandates that 50.0% of the net variable compensation amount is meant for the acquisition of BBD Participações S.A. preferred shares (PNB shares) and/or of our preferred shares to be paid in three annual sequential installments. The first installment is due a year after the payment date. This policy complies with CMN Resolution No. 3,921/10, which regulates compensation policies for senior management of financial institutions.

Our Directors, our Board of Executive Officers and Officers of our subsidiaries have the right to participate in the same pension plans available to all our employees. In 2017, we contributed R\$473.7 million to pension plans on behalf of our Directors, members of our Board of Executive Officers and officers of our subsidiaries.

## 6.C. Board Practices

Our shareholders elect the members of our Board of Directors at the annual shareholders' meeting for one-year terms and members may be re-elected for consecutive terms. The Board of Directors appoints the members of our Board of Executive Officers for one-year terms, which can also be extended for consecutive terms.

In addition to this requirement, another condition, included in our Bylaws, remains in force to become a member of our *Diretoria Executiva*, a person must have worked for us or our affiliates for a minimum of 10 consecutive years. The Board of Executive Officers, besides the Executive Officers, consists of 28 Department Officers, 21 Officers and 21 Regional Officers. Department Officers, Officers and Regional Officers direct the business of each of our various divisions and branches and report to the *Diretoria*

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**6.C. Board Practices**

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*Executiva*. To become a Department Officer, Officer or Regional Officer, a person must be an employee or manager at our staff or one of the affiliates. Our Board of Directors may, for up to 25.0% of the members of our Board of Executive Officers, waive the fulfillment of certain requirements for their appointment, as follows:

- Executive Officers – the Board of Directors can waive the requirement pursuant to which the person should be an employee of our staff or any of the affiliates for at least 10 years. Notwithstanding the above, such requirement cannot be waived for persons to be appointed as Chief Executive Officers or Vice-Presidents; and
- Department Officers, Officers and Regional Officers – the Board of Directors can waive the requirement pursuant to which the person should be an employee or member of the management of our staff or any of the affiliates.

The members of our Board of Directors are required to work exclusively for us, unless an exception is granted by the Board of Directors. Notwithstanding the above, the members of our Board of Directors are not required to be or to have been our employees, and service as a member of our Board of Directors does not constitute employment with us.

***Fiscal Council***

Under Brazilian law, corporations may have a "*Conselho Fiscal*," or Fiscal Council, an independent corporate body with general monitoring and supervision powers and shall have from three to five effective members and the same number for alternates. As from the Special Shareholders' Meeting held in March 2015, our Bylaws require our Fiscal Council to be a permanent corporate body.

Our Fiscal Council has five full members (Domingos Aparecido Maia, José Maria Soares Nunes, Ariovaldo Pereira, João Carlos de Oliveira and Walter Luis Bernardes Albertoni) and five alternates (Nilson Pinhal, Renaud Roberto Teixeira, Jorge Tadeu Pinto de Figueiredo, José Luiz Rodrigues Bueno and Reginaldo Ferreira Alexandre) all of whom were elected in March 12, 2018, for a one-year term that will expire in March 2019. In accordance with Brazilian Corporate Law, our Fiscal Council has the right and obligation to, among other things:

- supervise, through any of its members, the actions of our managers and to verify their fulfillment of their duties;
- review and issue opinions regarding our financial statements prior to their disclosure, including the Notes to the financial statements, the independent auditor's report and any Management reports;
- opine on any management proposals to be submitted to the shareholders' meeting related to:

- changes in our social capital;
- issuance of subscription warrants;
- investment plans and capital expenditure budgets;
- distributions of dividends; and
- transformation of our corporate form and corporate restructuring, such as takeovers, mergers and spin-offs.
- inform our Management of any error, fraud, or misdemeanor detected and suggest measures management should take in order to protect our main interests. If our Management fails to take the measures required to protect the company's interests, they are required to inform the shareholders' meeting of these facts; and
- call general shareholders' meetings if Management delays the general shareholders' meeting for more than one month and call special shareholders' meetings in case of material or important matters.

***Board Advisory Committees***

***Board Committees***

Our shareholders approved, at the Special Shareholders' Meeting held in December 2003, the creation of the Audit Committee, the Compliance and Internal Control Committee and the Compensation

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**6.C. Board Practices**

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Committee. At the special shareholders' meeting held in March 2006, our shareholders approved the transformation of the Ethical Conduct Committee into a statutory committee. At the special shareholders' meeting held in March 2008, our shareholders approved the creation of the COGIRAC. At the Special Shareholders' Meeting held in March 2013, the shareholders resolved to exclude from the Bylaws Articles 22, 24 and 25, which dealt, respectively, with organizational components of the Internal Controls and Compliance Committee, the Ethical Conduct Committee and COGIRAC, reflecting the proposal presented by the Executive Committee of Corporate Governance, assessed by the Board of Directors, to maintain in the Bylaws only those committees whose characterization as statutory is required by legal norms, giving greater speed to the process of managing the committees subordinated to the Board of Directors. Thus, only the Audit Committee and the Compensation Committee remain as statutory roles, which should not be construed as a weakening of the corporate governance structure, as the Board of Directors will maintain these committees under its structure, which removal from the Bylaws was approved.

**Audit Committee** – Pursuant to our Bylaws and to Central Bank regulations since April 2004, we established the Audit Committee, comprised of three to five members, one of which is appointed coordinator, all of them appointed and subject to replacement by the Board of Directors. Appointments to our Audit Committee are for a term of five years. The former members of the Audit Committee may only rejoin the body, after at least three years have passed since the last permitted reappointment. Up to one third of the Audit Committee's members may be re-elected for a single consecutive term, waiving this period.

The current members of the committee are Milton Matsumoto, the committee's coordinator, Wilson Antonio Salmeron Gutierrez, a member with no specific designation, and Paulo Roberto Simões da Cunha, the Audit Committee financial expert. Milton Matsumoto is also a member of the Board of Directors.

In addition, under Brazilian law, the function of hiring independent auditors is reserved for the Board of Directors of a company following recommendation by its Audit Committee. As a result, as specified in Section 3(a)(58) of the Exchange Act, our Board of Directors functions as our Audit Committee for purposes of approving the engagement of our independent auditors for audit services. Except in these respects, our Audit Committee is comparable to and performs the functions of audit committees of U.S. companies. Since our Audit Committee cannot be compared to the audit committees of American companies in terms of engagement of our independent auditors in audit and non-audit services, we have relied on the exemption set forth in Exchange Act Rule 10A - 3(c)(3) in this regard. For more information see "Item 16.D. Exemptions from the listing standards for Audit Committees."

The responsibilities of the Audit Committee include:

- establishing its own rules of operation;
- recommending to the Board of Directors the outside firm which should be hired to provide independent audit services, the amount of compensation such firm should receive and providing recommendations as to

substitute auditors;

- previously analyzing and authorize hiring our independent auditor for services other than auditing financial statements, from the point of view of compliance with rules on independent status;
- reviewing financial statements prior to their disclosure, including the notes to the financial statements, the independent auditor's report and Management reports;
- establishing and disclosing procedures for responding to any reports or allegations of a failure to comply with applicable legal requirements or internal codes and regulations, including procedures to ensure the confidentiality and protection of any persons providing information regarding such failures;
- evaluating the effectiveness of the work of both the internal and the independent auditors, including their compliance with applicable legal obligations and internal regulations and codes;
- meeting with our Senior Management and both the independent and the internal auditors at least quarterly;
- assessing the Senior Management's responsiveness to any recommendations made by both the independent and internal auditors;
- advising our Board of Directors regarding any conflicts between the independent auditors and the Board of Executive Officers;
- recommending to our Senior Management, the correction or improvement of policies, practices and procedures identified when performing their activities; and

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**6.C. Board Practices**

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- following up by occasion of its meetings, on its recommendations and requests for information, including the planning of the respective auditing works in order to turn into minutes the content of such meetings.

**Compensation Committee** – The Compensation Committee has three to seven members, all of whom are members of our Board of Directors with terms of office of one year, and according to the provisions set forth in CMN Resolution No. 3,921/10, should have at least one non-management member. Members are appointed by and may be replaced by the Board of Directors. The committee's primary responsibility is to advise the Board of Directors in the coordination of the Management compensation policy.

***Other Board Advisory Committees***

**Compliance and Internal Control Committee** – the Compliance and Internal Control Committee is comprised of at least five members. All members are formally appointed and may be replaced by the Board of Directors, including its Coordinator. The committee's primary responsibility is to assist the Board of Directors with the performance of its duties related to the adoption of strategies, policies and measures governing internal controls, mitigation of risks, and compliance with the rules applicable to us.

**Ethical Conduct Committee** – the Ethical Conduct Committee is composed of at least five members. All members are formally appointed and may be replaced by the Board of Directors, including its Coordinator. The committee's primary responsibility is to propose actions to ensure the enforcement of our Corporate and Sector Codes of Ethics, and of the rules of conduct related to issues of anticorruption and competition, so that they remain effective.

**Integrated Risk Management and Capital Allocation Committee - COGIRAC** – The Integrated Risk Management and Capital Allocation Committee is composed of at least five members, all formally nominated and may be replaced by the Board of Directors, including its Coordinator. This committee's primary responsibility is to advise the Board of Directors in the performance of its duties in the management and control of risks and capital in the sense of the consolidated economic financial entity.

**Sustainability Committee** – the Sustainability Committee is composed of at least five members, all formally nominated and may be replaced by the Board of Directors, including its Coordinator. The committee's purpose is to advise the Board of Directors in the performance its tasks related to fostering sustainability strategies, including the establishment of corporate guidelines and actions and reconciling economic development issues with those of socioenvironmental responsibility.

**Succession Planning and Nomination Committee** – made up of at least five members, all formally appointed and dismissible by the Board of Directors, including its coordinator. The purpose of the Committee is to advise the Board of Directors on its policy for the succession and nomination of managers, as well as on matters related to the processes of succession.

**Risks Committee** – composed by at least three and at most five members, all formally appointed and dismissed by the Board of Directors, including its coordinator. The purpose of the Committee is to advise the Board of Directors in the performance of its duties related to risk and capital management.

***Ombudsman***

At the Special Shareholders' Meeting held in August 2007, our shareholders formalized the creation of the Ombudsman. Previously we had an informal Ombudsman. The Ombudsman works on behalf of all our institutions, authorized to operate by the Central Bank. There is one Ombudsman, with a two-year term. The Ombudsman is appointed and may be dismissed by the Board of Directors.

The Ombudsman is responsible for:

- checking strict compliance with legal and regulatory rules related to consumer's rights and acting as a communication channel among us and our institutions authorized to operate by the Central Bank, and our customers and users of its products and services, including mediating conflicts;
- receiving, registering, instructing, analyzing and formally and properly dealing with complaints from customers and users of products and services of the abovementioned institutions, not resolved by the usual services offered by the branches or by any other service station;
- giving necessary clarifications and replying to claimants regarding the status of complaints and the solutions offered;

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## **6.D. Employees**

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- informing claimants of the waiting time for a final answer, which should not exceed ten business days, and may be extended, exceptionally and in a justified manner, only once, for an equal period limiting the number of extensions to 10.0% of total claims in the month, and the claimant must be informed of the reasons for the extension;
- sending a conclusive answer to the claimant's demand until expiration of the above waiting time;
- proposing to the Board of Directors corrective or improvement measures to procedures and routines based on the analysis of the complaints received; and
- preparing and sending to the Board of Directors, the Audit Committee and the Internal Audit, at the end of each semester, a qualitative report regarding the Ombudsman's performance, comprising the proposals addressed in the prior item, if any.

According to our Bylaws and in order to comply with the rules of the Central Bank, in March 2018, Nairo José Martinelli Vidal Júnior was appointed by the Board of Directors as an Ombudsman, until the first Extraordinary Meeting of the Board of Directors to be held after the Annual Shareholders' Meeting of 2020.

The Ombudsman may be dismissed by our Board of Directors at any time, during the term of his mandate, in cases of noncompliance with the obligations inherent to his position or if his performance is below expectation.

### ***Legal Advice***

In March 2018, envisaging the best practices of corporate governance, the Board of Directors established a supporting body called Legal Advice.

This body is formed by lawyers who have played important roles in the legal department of the Organization. The Legal Advice provides legal advice to the Board of Directors of the Bank and its affiliates, analysing documents and relevant contracts, participating in ordinary, extraordinary and corporate meetings, suggesting administrative and preventive measures related to legal activities, following the course of special proceedings in courts, as well as the evolution and effects of its respective judgements in the interest of the Organization.

### ***Internal Audit***



Our internal audit area is directly subordinated to the Board of Directors and independently assesses business and information technology processes, contributing to the mitigation of risks, the sufficiency and effectiveness of internal controls, and compliance with internal and external policies, rules, standards, procedures, and regulations. The methodology and execution of the work are certified by the Brazilian Institute of Independent Auditors, which takes into account the technical recommendations of the Institute of Internal Auditors ("IIA") in its assumptions.

## 6.D. Employees

As of December 31, 2017, we had 98,808 employees, of which 86,101 were employed by us and 12,707 were employed by our subsidiaries, compared to 108,793 employees as of December 31, 2016 and 92,861 employees as of December 31, 2015.

The following table sets forth the number of our employees and a breakdown of employees by main category of activity and geographic location as of the dates indicated:

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**6.E. Share Ownership**

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<b>December 31,</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Total number of employees</b>	<b>98,808</b>	<b>108,793</b>	<b>92,861</b>
<b>Number by category of activity</b>			
Bradesco	86,101	94,941	80,726
Insurance activities	6,367	6,700	6,556
Pension plan activity	529	461	475
Other categories	5,811	6,691	5,104
<b>Number by geographic location</b>			
Cidade de Deus, Osasco	10,238	11,568	11,603
Alphaville, Barueri	3,711	2,348	1,593
São Paulo	15,956	17,958	16,296
Other locations in Brazil	68,610	76,651	63,127
International	293	268	242

Our part-time employees work six hours a day, while our full-time employees work eight hours a day, both in a five-day workweek. We had 24,982 part-time employees and 73,826 full-time employees as of December 31, 2017 compared to 28,505 part-time employees and 80,288 full-time employees as of December 31, 2016 compared to 26,159 part-time employees and 66,702 full-time employees as of December 31, 2015.

We generally hire our employees at the entry level, and encourage them to remain with us throughout their careers. All employees are entitled, through internal hiring process, to fill new positions, including those in Middle Management, senior and managerial positions.

As of December 31, 2017, approximately 60.3% of our employees were associated with one of the labor unions that represent bank or insurance employees in Brazil. We maintain good relations with our employees as well as with their respective labor unions, which we believe is owing mostly to our policy of appreciating staff and having transparent relationships. We are party to two collective bargaining agreements: (i) one relating to our banking employees; and (ii) the other to our insurance sector employees.

We offer our employees benefits which include our health and dental plans enabling beneficiaries to choose their doctors, hospitals and dentists anywhere in Brazil, retirement and pension plans, and life and accident insurance with varying coverages. We also have an employee support program – called “Lig Viva Bem,” offering 24-hour support and making available 100% confidential free-of-charge telephone calls. The team is composed of psychologists, social workers and other specialized professionals guiding and supporting employees and their dependents in relation to personal, professional, familiar, legal, nutritional and affective issues. These benefits are available regardless of an employee's position. Currently, 47.2% of our employees participate in our pension plan Bradesco Vida e Previdência. In accordance with our collective bargaining agreement, we also offer our employees profit-sharing compensation plans.

Through *Universidade Corporativa Bradesco - UniBrad* (Bradesco Corporate University), whose mission is to provide professional education and social mobility, we offer development solutions and training to our employees. In 2017, we invested R\$163.9 million in professional training with a total of more than 954.8 thousand participations.

On July 13, 2017, we launched our Special Voluntary Severance Program Scheme (PDVE), pursuant to which we offered voluntary severance to certain of our employees. On September 11, 2017 we announced that approximately 7,400 employees had agreed to participate in this scheme.

## **6.E. Share Ownership**

As of December 31, 2017, the members of our Board of Directors and Board of Executive Officers indirectly held 3.1% of our voting capital and 1.6% of our total capital stock, in aggregate, through a company called BBD Participações S.A., or "BBD." In addition, some of our directors and executive officers directly hold shares of our capital stock. However, as of December 31, 2017, none of our directors and executive officers individually owned, directly or indirectly, more than 1.0% of any class of our shares.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

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## **ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**

### **7.A. Major Shareholders**

As of December 31, 2017, our capital stock was composed of 3,054,481,112 common shares (5,032,549 treasury shares) and 3,054,480,793 preferred shares (18,855,746 treasury shares), with no par value.

For information on shareholders' rights and our dividend distributions, see "Item 8.A. Consolidated Statements and Other Financial Information – Policy on dividend distributions" and "Item 10.B. Memorandum and Articles of Association – Organization – Allocation of net income and distribution of dividends."

The following chart illustrates our capital ownership structure as of December 31, 2017:

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Table of Contents**7.A. Major Shareholders**

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The following table shows the direct ownership of our outstanding common and preferred shares as at March 12, 2018, Cidade de Deus, Fundação Bradesco and NCF directly hold 5.0% or more of our securities with voting rights:

Shareholder	Number of shares, except %				
	Number of common shares	Common shares as a percentage of outstanding shares	Number of preferred shares	Preferred shares as a percentage of outstanding shares	Total Number of shares
Cidade de Deus Participações	1,474,977,056	48.4%	735,456	0.0%	1,475,712,512
Fundação Bradesco <sup>(1)</sup>	520,497,027	17.1%	-	-	520,497,027
NCF Participações	257,206,261	8.4%	68,173,264	2.2%	325,379,525
<b>Subtotal</b>	<b>2,252,680,344</b>	<b>73.9%</b>	<b>68,908,720</b>	<b>2.2%</b>	<b>2,321,589,064</b>
<b>Members of the Board of Directors</b>					
Luiz Carlos Trabuco Cappi	(*)	(*)	(*)	(*)	(*)
Carlos Alberto Rodrigues Guilherme	(*)	(*)	(*)	(*)	(*)
João Aguiar Alvarez	(*)	(*)	(*)	(*)	(*)
Denise Aguiar Alvarez	(*)	(*)	(*)	(*)	(*)
Milton Matsumoto	(*)	(*)	(*)	(*)	(*)
Alexandre da Silva Glüher	(*)	(*)	(*)	(*)	(*)
Josué Augusto Pancini	(*)	(*)	(*)	(*)	(*)
Maurício Machado de Minas	(*)	(*)	(*)	(*)	(*)
<b>Total Board of Directors</b>	<b>13,665,554</b>	<b>0.4%</b>	<b>28,639,093</b>	<b>0.9%</b>	<b>42,304,647</b>
<b>Members of the Diretoria Executiva</b>					
Octavio de Lazari Junior	(*)	(*)	(*)	(*)	(*)
Marcelo de Araújo Noronha	(*)	(*)	(*)	(*)	(*)
André Rodrigues Cano	(*)	(*)	(*)	(*)	(*)
Cassiano Ricardo Scarpelli	(*)	(*)	(*)	(*)	(*)
Eurico Ramos Fabri	(*)	(*)	(*)	(*)	(*)
Denise Pauli Pavarina	(*)	(*)	(*)	(*)	(*)
Moacir Nachbar Junior	(*)	(*)	(*)	(*)	(*)
Renato Ejnisman	(*)	(*)	(*)	(*)	(*)
Walkiria Schirrmeister Marchetti	(*)	(*)	(*)	(*)	(*)
Aurélio Guido Pagani	(*)	(*)	(*)	(*)	(*)
Guilherme Muller Leal	(*)	(*)	(*)	(*)	(*)
Luiz Carlos Brandão Cavalcanti Junior	(*)	(*)	(*)	(*)	(*)
Rogério Pedro Câmara	(*)	(*)	(*)	(*)	(*)
João Carlos Gomes da Silva	(*)	(*)	(*)	(*)	(*)
Bruno D'Avila Melo Boetger	(*)	(*)	(*)	(*)	(*)

Glaucimar Peticov	(*)	(*)	(*)	(*)	(*)
José Ramos Rocha Neto	(*)	(*)	(*)	(*)	(*)
<b>Total Members of the Diretoria Executiva</b>	<b>43,108</b>	<b>0.0%</b>	<b>1,143,768</b>	<b>0.0%</b>	<b>1,186,87</b>
<b>Subtotal</b>	<b>2,266,389,006</b>	<b>74.4%</b>	<b>98,691,581</b>	<b>3.3%</b>	<b>2,365,080,58</b>
Other	783,059,557	25.7%	2,936,933,466	96.7%	3,719,993,02
<b>Outstanding Shares</b>	<b>3,049,448,563</b>	<b>100.0%</b>	<b>3,035,625,047</b>	<b>100.0%</b>	<b>6,085,073,61</b>
Treasury shares	5,032,549	-	18,855,746	-	23,888,29
<b>Total</b>	<b>3,054,481,112</b>	<b>100.0%</b>	<b>3,054,480,793</b>	<b>100.0%</b>	<b>6,108,961,90</b>

(1) Also indirectly owns, through its interest in Cidade de Deus Participações and Nova Cidade de Deus, and NCF F 39.9% of our common shares and 21.0% of our total shares.

(\*) None of the members of our Board of Directors, Board of Executive Officers or other administrative, supervisory management bodies directly or beneficially holds 1.0% or more of any of our classes of shares, and their individual ownership has not been previously disclosed to our shareholders or otherwise made public. For more information, see "Share Ownership".

The following is a description of our principal beneficial shareholders. None of the principal beneficial shareholders have voting rights that differ from those of the other holders of our common shares.

#### ***Cidade de Deus Companhia Comercial de Participações***

Cidade de Deus Companhia Comercial de Participações is a holding company, which we refer to as "Cidade de Deus Participações." It directly holds 48.4% of our voting capital and 24.3% of our total capital. Its shareholders are: (i) Nova Cidade de Deus, with 45.5% of its common and total shares; (ii) Fundação Bradesco, with 33.6% of its common and total shares; and (iii) the Aguiar Family, with 20.9% of its common and total shares as of December 31, 2017. The company's capital stock is made up of common, nominative book-entry shares, with no par value.

#### ***Nova Cidade de Deus Participações***

Nova Cidade de Deus Participações is a holding company which we refer to as "Nova Cidade de Deus." It holds investments in other companies, mainly those that, directly or indirectly, own our voting capital. As of December 31, 2017, the company owned, through its participation in Cidade de Deus Participações, 23.5% of our common shares and 12.0% of our total shares.

The capital stock of Nova Cidade de Deus is divided in class A and class B common shares and one class of preferred shares. Ownership of the class B common shares is limited to:

- members of our *Diretoria Executiva*;

## **7.A. Major Shareholders**

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- members of our Board of Directors who have been officers of Banco Bradesco or its controlled entities; and
- commercial or civil associations in which the majority of the voting interest is owned by the individuals above.

Ownership of *Nova Cidade de Deus*' class A common shares is limited to the persons entitled to own class B common shares and any civil associations and private foundations managed by them or their appointed representatives. Only the class A and class B common shareholders in Nova Cidade de Deus have voting rights.

### ***The Aguiar Family***

As of December 31, 2017, the members of the Aguiar Family and the estate of Mr. Amador Aguiar indirectly owned, by way of their participation in Cidade de Deus Participações, 10.8% of our common shares and 5.5% of our total shares. In addition, the same parties directly held a total of 1.3% of our common shares, 2.4% of our preferred shares, which correspond to 1.8% of our total shares. None of the members of the Aguiar Family individually or directly holds more than 1.0% of our voting shares.

### ***Fundação Bradesco***

As of December 31, 2017, Fundação Bradesco owned 57.0% of our common shares, 2.0% of our preferred shares and 29.5% of our total shares, directly and indirectly, through its participation in Cidade de Deus Participações, Nova Cidade de Deus and NCF.

Under the terms of Fundação Bradesco's bylaws, all of our directors, members of the *Diretoria Executiva* and department officers, as well as directors and officers of Cidade de Deus Participações, serve as members of the board of trustees of Fundação Bradesco, known as the "Board of Trustees." They receive no compensation for their service on the Board of Trustees.

Fundação Bradesco is one of the largest private socio-educational programs in Brazil, it is an innovative social investment initiative which reaches every state in Brazil and the Federal District, and its 40 schools are primarily located in regions of accentuated educational deprivation.

In 2017, a total of 96,754 students attended Fundação Bradesco schools from early childhood through to secondary school, and secondary-level vocational or technical education, as well as courses for young people and adults and initial and continuing education for employment and income. In addition to quality formal education free of charge, more than 42,000 elementary school students are also provided with school uniforms, classroom stationery, meals, and medical and dental care.



Our "Virtual School" e-learning portal's distance learning programs ("EaD"), benefited more than 608,000 students who completed at least one of more than 90 courses offered, and another 15,101 students were involved in projects and partnership initiatives such as our "Educate - Act" (*Educa+Ação*) program, and technology courses.

The IT for the Visually Handicapped Program has benefited and trained 12,663 students and fostered social inclusion for thousands of people.

Fundação Bradesco's 2017 budget totaled R\$624.4 million. Over the last 10 years, Fundação Bradesco has invested a total of R\$6.5 billion (at current values) in the foundation.

**BBD**

BBD indirectly owned 6.1% of our common shares and 3.1% of our total shares as of December 31, 2017, through its participation in Nova Cidade de Deus. BBD is a holding company that was organized to hold interests in our capital and in the capital of our indirect and direct shareholders. In 1999, BBD acquired from several shareholders an indirect interest of 5.5% of our voting capital. Only members of the Board of Directors and of the Board of Executive Officers, as well as our skilled employees, of Bradespar, or of our subsidiaries and national not-for-profit legal entities or national companies controlled by them that have as managers only our employees and/or managers, may hold BBD shares. However, only the members of the Board of Directors and Executive Officers may own voting shares. Most of our Board members and Executive Officers own shares in BBD.

**NCF**

NCF is a holding company controlled by Cidade de Deus Participações and by Fundação Bradesco. As of December 31, 2017, NCF held 8.4% of our common shares and 5.3% of our total shares.

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**7.B. Related Party Transactions**

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**Market**

Direct market holdings represented 26.1% of our voting capital as of December 31, 2017 and 97.7% of our preferred shares. Common and preferred shares held by the market accounted for 61.9% of our share capital.

As of December 31, 2017, 1,284 foreign investors with a stake in our share capital in the amount of: (i) 57.4% of preferred shares; and (ii) 10.8% of common shares. Of the reported percentages, the GDRs (Global Depositary Receipts) accounted for 0.01% of preferred shares and the ADRs (American Depositary Receipts) accounted for 26.7% of preferred shares and 0.03% of common shares.

**7.B. Related Party Transactions**

Transactions with controllers, joint control and related parties, and key management personnel are conducted on arms' length terms as demonstrated below:

	R\$ in thousands		
	December 31, 2017	2016	2015
<b>ASSETS</b>			
Loans and advances to banks	724,369	1,033,479	223,874
Other assets	3,572	6,128	11,277
<b>LIABILITIES</b>			
Deposits from customers	(1,122,088)	(1,524,462)	(231,110)
Funds from securities issued	(8,282,217)	(6,977,691)	(2,509,577)
Corporate and statutory obligations	(2,275,419)	(1,770,149)	(1,279,382)
Other liabilities	(8,827,877)	(13,704)	(24,811)
<b>INCOME AND EXPENSES</b>			
Net interest income	(931,206)	(1,280,078)	(167,583)
Other income/expense	149,629	133,451	88,406

Under the Laws No. 4,595/64 and No. 7,492/86 and CMN Resolution No. 4,596/17, financial institutions cannot perform operations that figure as the granting of loans or advances to:

- its controllers (individuals or legal entities), pursuant to Article 116 of Law No. 6,404/76, as well as their spouses, partners and their direct relatives, in the collateral line or affinity, up to the second degree;
- officers, managers, members of the fiscal council, of the audit committee and members of statutory or contractual bodies, as well as their spouses, partners and their direct relatives, in the collateral line or by affinity, up to the second degree;

- individuals and their spouses or partners, as well as legal entities with a direct or indirect equity interest with percentage equal to or greater than 10%; and
- legal entities: (i) with qualified equity interest; (ii) in which capital, directly or indirectly, there is qualified equity interest; (iii) in which there is effective operational control or relevance in the deliberations, regardless of equity interest; and (iv) that have an officer or member of the board of directors in common.

CMN Resolution No. 4,596/17 also established the definition of qualified or relevant equity interest for purposes of the grant of loans or advances by financial institutions:

- the entity that holds, directly or indirectly, 10% or more of the capital of the legal entity;
- managers or officers and their respective spouses or partners and their direct relatives, in the collateral line or by affinity, up to the second degree, of the entity who hold, together or separately, directly or indirectly 10% or more of the capital of the legal entity;

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### **7.C. Interests of Experts and Counsel**

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- partners or shareholders who hold 10% or more of the financial institution's capital with, directly or indirectly, 10% or more of the capital of the legal entity; and
- the financial institution and the legal entity that have a manager or officer in common.

Financial institutions must keep specific and updated records of the names of legal entities, natural persons and their direct relatives, in the collateral line or by affinity, up to the second degree, which fall in the rules above. For further details on restrictions on the operations of financial institutions, see "Item 4.B. Business Overview – Regulation and Supervision – Bank regulations – Principal limitations and restrictions on activities of financial institutions."

For further information on related party transactions, see Note 40 to our consolidated financial statements in "Item 18. Financial Statements."

## **7.C. Interests of Experts and Counsel**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **8.A. Consolidated Statements and other Financial Information**

See "Item 18. Financial Statements," which contains our audited consolidated financial statements prepared in accordance with IFRS.

#### ***Legal proceedings***

We are a party to civil, tax and labor administrative proceedings and lawsuits that have arisen during the normal course of our business. We do not have any litigation matters that are significant on an individual basis. We believe that there are no suits pending or threatened, individually or in the aggregate, that if decided against us would have a material adverse effect on our business, financial condition, properties, prospects or results of operations.

As of December 31, 2017, we had provisions of R\$18,491 million, 30.0% related to labor matters, 28.9% related to civil liability cases and 41.1% related to tax issues. For additional information, see Note 37 to our

consolidated financial statements in "Item 18. Financial Statements."

Probable losses recognized in our consolidated financial statements refer to tax and social security matters related to inflation adjustments and legality of certain taxes and contributions. The remaining litigation, where the probability of loss is considered as possible based on our judgment using available information, are related to tax assessments, in the amount of R\$18,853 million as of December 31, 2017 (R\$16,483 million in 2016). We believe these tax assessment notices are inconsistent with current law and are therefore not recognized in our consolidated financial statements.

We believe that as of December 31, 2017, we have set aside sufficient funds as provisions to cover our probable losses from litigation, subject to the inflation-indexation requirement for provisions relating to certain tax matters.

**Labor matters** – The labor matters in which we were involved during the year ended December 31, 2017 are mainly claims brought by former employees and outsourced employees seeking indemnifications, especially for unpaid overtime, according to Article 224 of the Consolidation of Labor Laws (CLT). In proceedings in which a judicial deposit is used to guarantee the execution of the judgment, the labor provision is made considering the estimated loss of these deposits. For proceedings with similar characteristics, the provision is recorded based on the average calculated value of payments made for labor complaints settled in the past 12 months; and proceedings originating from acquired banks, with unique characteristics, the calculation and assessment of the required balance is conducted periodically, based on the updated recent loss history. Overtime is monitored by using electronic time cards and paid regularly during the employment contract and, accordingly, the claims filed by our former employees do not represent significant amounts.

**Tax-related matters** – We are also a party to a number of judicial lawsuits and administrative proceedings, mainly involving issues related to constitutionality and fair interpretation of some tax requirements. Some claims relate to the non-payment of taxes which we are contesting; others stem from collections (notifications) of supervisory agencies of the Ministry of Finance and others aim at recovering taxes we understand have already been paid or unduly paid. The amounts we have not paid in view of these

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**8.A. Consolidated Statements and other Financial Information**

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claims have in general been provisioned in conformity with applicable accounting rules and are restated based on criteria established by tax legislation. On the other hand, those taxes to be refunded are only recorded when the prospect of realizing these assets is practically certain. See Note 17 to our consolidated financial statements for a description of our most relevant tax claims.

**Civil matters** – We are a party to various civil lawsuits, although none of them are material. Lawsuits consist mainly of claims for indemnification for presumed damages caused during the ordinary course of business activities and cases where inflation indices were not applied to the adjustment of saving accounts as a result of economic plans, although we complied with the law in force at the time. For more information on lawsuits in relation to economic plans, see “Item 3.D. Risk Factors – Risks relating to us and the Brazilian banking industry – The Brazilian Supreme Court is currently deciding cases relating to the application of inflation adjustments which may increase our costs and cause losses.”

Probable risk cases are all provisioned, and do not incur in a material adverse effect on our results of operations or financial position.

**Other matters** – We are currently not subject to any significant disputed processes with the Central Bank, CVM, ANS or SUSEP. We comply with all regulations applicable to the business, issued by the aforementioned regulatory bodies.

***Policy on dividend distributions***

Our Bylaws require our Board of Directors to recommend, at each annual shareholders' meeting, that our net income for the fiscal year (in accordance with BR GAAP) be allocated as follows:

- 5.0% for the legal reserve, not exceeding 20.0% of the paid-up capital in each fiscal year. This requirement shall not be applicable in fiscal years when the legal reserve, added to our other capital reserves, exceeds 30.0% of our paid-up capital;
- an amount (to be determined by our shareholders based on probable potential losses) to a contingency reserve against future losses;
- at least 30.0% (after the deductions for the legal reserves and contingencies) for mandatory distribution to our shareholders; and
- any outstanding balance to a statutory profit reserve for the maintenance of an operating margin that is compatible with our credit businesses, up to a limit of 95.0% of our paid-up capital.

Our Bylaws also authorize our shareholders to allocate an amount to a reserve for realizable revenue. Our shareholders have never allocated amounts to such reserve.

A minimum of 30.0% of our net income must be distributed as annual dividends and must be paid out within 60 days following the annual shareholders' meeting. However, Brazilian Corporate Law permits us to suspend payment of the mandatory dividends if our Board of Directors reports, at the shareholders' meeting, that the distribution would be incompatible with our financial condition, and our shareholders approve the suspension by a simple majority vote. Under the Brazilian Corporate Law, the Board of Directors shall file a report with the CVM, justifying the suspension, within five days after the Annual Shareholders' Meeting. The income not distributed as dividends due to suspension must be allocated to a special reserve. If it is not absorbed by subsequent losses, the amount in the reserve shall be paid as dividends as soon as our financial situation allows us to.

Preferred shareholders are entitled to receive dividends per share in an amount 10.0% greater than the dividends per share paid to common shareholders.

Our *Diretoria Executiva*, subject to approval by the Board of Directors, may distribute dividends based on the profits reported in interim financial statements. The amount of distributed interim dividends shall not exceed the amount of the additional paid-in capital. Our *Diretoria Executiva* bases the amount of the interim dividends to be distributed on previously accumulated profits or retained earnings.

Since 1970, we have been distributing interim dividends on a monthly basis. Today we maintain an automatic system for the monthly payment of interest on equity.

Consistent with Brazilian law, our Bylaws allow our *Diretoria Executiva*, upon approval by the Board of Directors, to make distributions in the form of interest on equity instead of dividends. Payments of interest on equity may be included as part of any mandatory dividends. Since July 1997, we have made monthly payments of interest on equity at an amount approved by our Board of Directors before the statement of dividends at the end of each fiscal year. The amounts paid as interest on equity, net of income tax, are

**8.B. Significant Changes**

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discounted from the amount of dividends declared.

Pursuant to Brazilian law, a shareholder who does not receive a dividend payment may start a proceeding for the collection of these payments within three years following the dividends statement date. After this period, unclaimed dividends return to the company.

Our policy relating to dividend distributions and/or interest on equity is to maximize the amount of distributions, in accordance with our tax management strategy. For additional information, see "Item 5.A. Operating Results – Overview – Taxes."

**8.B. Significant Changes**

See "Item 4.A. History and Development of the Company – Recent Acquisitions."

**ITEM 9. THE OFFER AND LISTING****9.A. Offer and Listing Details**

Our ADSs are traded on the New York Stock Exchange ("NYSE"), under the symbols "BBD" (preferred share ADSs) and "BBDO" (common share ADSs).

Our preferred share ADSs were first listed on the NYSE in 2001. Each preferred share ADS corresponds to one preferred share.

An increase to our capital stock by R\$8,000,000 thousand was approved at the special shareholders' meeting of March 12, 2018 and by the Central Bank on March 16, 2018, increasing the capital stock from R\$59,100,000 thousand to R\$67,100,000 thousand, with a bonus in shares, through the capitalization of part of the balance of the account "Profit Reserves - Statutory Reserve", in compliance with the provisions in Article 169 of Brazilian Corporate Law, issuing 610,896,190 new nominative-book entry shares, with no nominal value, whereby 305,448,111 are common and 305,448,079 are preferred shares, which will be attributed free-of-charge to the shareholders as bonus, to the ratio of 1 new share for every 10 shares of the same type, the shareholders registered with us on March 29, 2018.

Our shares are listed in Brazil's main stock indexes, including the indexes that measure the total return of a theoretical portfolio composed of 50 and 100 shares, IBrX-50 and IBrX-100, respectively, selected from among the most traded shares on B3; the IBrA (Broad Brazil Index); the IFNC (Financial Index, composed



of banks, insurance companies and financial institutions); the ISE (Corporate Sustainability Index); the IGCX (Special Corporate Governance Stock Index); the IGCT (Corporate Governance Trade Index); the ITAG (Special Tag-Along Stock Index), the index composed of shares of companies listed in the IBrX-50 index and that accepted taking part in this initiative by adopting transparent greenhouse gas emission practices (ICO2); and the Mid-Large Cap Index – MLCX (which measures the return of a portfolio composed of the highest capitalization companies listed). Abroad, our shares are listed on the Dow Jones Sustainability World Index, in the Dow Jones Sustainability Emerging Markets portfolio of the NYSE, and on the FTSE Latibex Brazil Index of the Madrid Stock Exchange.

In January 2012, the Central Bank authorized our creation of an ADR program for our common shares in the USA market. As part of this authorization, and after government had affirmed it as being in its interest, the Central Bank increased the limit of foreign interest in our capital stock from 14.0% to 30.0%. The increase in the limit of foreign interest in our common shares did not alter our ownership or control structure. In March 2012, our common share ADSs became listed on the NYSE under the symbol "BBDO." Each common share ADS corresponds to one common share.

The following tables show, for the indicated period, the reported high and low sale prices in nominal *reais* for the preferred and common shares on B3:

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	in R\$		Average monthly trading volume <sup>(1)</sup> Shares (in units)
	Price per Preferred share <sup>(1)</sup> High	Low	
<b>2011</b>	14.51	10.83	208,359,043
<b>2012</b>	16.64	11.77	227,405,608
<b>2013</b>	17.78	12.93	254,625,230
<b>2014</b>	22.07	12.89	279,435,051
<b>2015</b>	21.25	13.08	294,060,547
<b>2016</b>			
1st Quarter	19.85	11.64	435,512,473
2nd Quarter	21.10	16.87	289,987,503
3rd Quarter	23.37	19.10	253,436,194
4th Quarter	26.35	20.96	267,865,242
<b>2017</b>			
1st Quarter	27.43	22.61	223,553,106
2nd Quarter	28.17	22.36	257,930,607
3rd Quarter	32.31	24.21	220,202,803
4th Quarter	33.04	28.32	203,905,607
<b>2018</b>			
January	38.10	30.86	238,201,370
February	37.03	33.26	269,691,950
March	36.39	34.11	220,851,400

<sup>(1)</sup> Prices and amounts adjusted by income and other corporate events.

Source: Economatica.

	in R\$		Average monthly trading volume <sup>(1)</sup> Shares (in units)
	Price per Common share <sup>(1)</sup> High	Low	
<b>2011</b>	12.42	9.29	30,679,937
<b>2012</b>	16.57	10.22	40,130,117
<b>2013</b>	19.39	14.63	53,300,356
<b>2014</b>	22.06	14.25	40,327,037
<b>2015</b>	21.29	14.17	43,654,116
<b>2016</b>			
1st Quarter	22.22	12.38	51,922,266
2nd Quarter	22.99	18.28	36,178,141
3rd Quarter	23.48	20.33	34,544,935
4th Quarter	25.08	20.80	36,702,164
<b>2017</b>			
1st Quarter	27.18	22.76	38,640,463

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2nd Quarter	27.29	21.99	33,471,258
3rd Quarter	31.18	23.75	25,669,563
4th Quarter	31.70	26.14	36,581,930
<b>2018</b>			
January	36.75	29.07	29,663,370
February	35.69	31.16	33,912,560
March	35.28	32.73	28,085,200

(1) Prices and amounts adjusted by income and other corporate events.

Source: Economatica.

The following table shows, for the indicated periods, the reported high and low closing sale prices in U.S. dollars for the preferred share ADSs on the NYSE:

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**9.A. Offer and Listing Details**

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	in U\$\$		Average monthly trading volume <sup>(1)</sup> Preferred share ADS (in units)
	Price per preferred share ADS <sup>(1)</sup> High	Low	
<b>2011</b>	9.15	6.05	378,172,962
<b>2012</b>	8.46	5.86	320,952,035
<b>2013</b>	8.98	5.75	259,120,694
<b>2014</b>	9.86	5.30	295,743,325
<b>2015</b>	7.65	3.23	358,734,340
<b>2016</b>			
1st Quarter	5.47	2.76	442,633,975
2nd Quarter	6.11	4.63	355,308,023
3rd Quarter	7.26	5.72	281,390,978
4th Quarter	8.24	6.17	337,774,646
<b>2017</b>			
1st Quarter	8.94	7.12	252,139,902
2nd Quarter	9.08	6.86	321,186,846
3rd Quarter	10.30	7.36	222,528,635
4th Quarter	10.49	8.49	192,766,957
<b>2018</b>			
January	11.97	9.51	210,989,579
February	11.39	10.00	202,147,418
March	11.28	10.24	188,519,575

(1) Prices and amounts adjusted by income and other corporate events.

Source: Economatica.

Our common share ADSs have been traded on the NYSE since March 2012. The following table shows, for the indicated periods, the reported high and low closing sale prices in U.S. dollars for the common share ADSs on the NYSE:

	in U\$\$		Average monthly trading volume <sup>(1)</sup> Common share ADS (in units)
	Price per common share ADS <sup>(1)</sup> High	Low	
<b>2012</b>	8.03	5.20	73,994
<b>2013</b>	9.77	5.88	95,004
<b>2014</b>	9.78	6.07	65,720
<b>2015</b>	7.72	3.32	99,222
<b>2016</b>			
1st Quarter	6.20	2.87	127,246

2nd Quarter	6.63	4.94	83,004
3rd Quarter	7.35	5.62	105,519
4th Quarter	7.98	5.98	68,633
<b>2017</b>			
1st Quarter	8.75	7.19	124,126
2nd Quarter	8.67	6.55	238,418
3rd Quarter	10.42	6.80	221,124
4th Quarter	10.27	7.75	141,537
<b>2018</b>			
January	11.89	8.48	192,194
February	11.22	9.39	184,665
March	10.92	9.63	67,089

(1) Prices and amounts adjusted by income and other corporate events.

Source: Economatica.

Our shares are registered in book-entry form and we perform all the services of safe-keeping and transfer of shares. Our shareholders may choose to hold their shares registered at the Stock Exchange of B3 (former Brazilian Clearing and Depository Corporation - *Companhia Brasileira de Liquidação e Custódia* – CBLC). Under Brazilian law, non-Brazilian holders of our shares may be subject to certain adverse tax consequences due to their ownership and any transfer of our shares. For further discussion of the restrictions on the transfer of preferred shares, see "Item 10.B. Memorandum and Articles of Association – Organization – Form and transfer" and "Item 10.D. Exchange Controls."

Our preferred share ADSs and common share ADSs are represented by preferred share ADRs and common share ADRs. Our preferred share ADSs and common share ADSs may be held in registered form

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**9.B. Plan of Distribution**

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with the depository – The Bank of New York Mellon – or in book entry form through financial institutions that are members of the "Depository Trust Company" or DTC. The depository bank, as registrar, performs the services of transfer of the preferred share ADRs and common share ADRs. Title to an preferred share ADR or common share ADR (and to each preferred share ADS or common share ADS evidenced thereby), when properly endorsed or accompanied by proper instruments of transfer, is transferable by delivery with the same effect as in the case of a certificated security under the laws of the State of New York. Holders of the preferred share ADRs and common share ADRs who transfer their preferred share ADRs and common share ADRs may be required to:

- reimburse the depository bank for any taxes, governmental charges or fees the depository bank has paid;
- pay any transfer fees as required by the deposit agreements;
- produce satisfactory proof of identity and genuineness of their signatures or any other documents required by the deposit agreements;
- comply with any United States, Brazilian or other applicable laws or governmental regulations; and
- comply with such reasonable regulations, if any, as we and the depository bank may establish consistent with the deposit agreements.

All of our outstanding shares are fully paid and non-assessable.

The rights of holders of our preferred shares are limited in comparison with those of the holders of common shares in several material ways:

- each common share entitles the holder to one vote at shareholders' meetings, while holders of preferred shares are only entitled to a vote in the limited circumstances described in "Item 10.B. Memorandum and Articles of Association – Organization – Voting rights;" and
- the nature of preferred shareholders' preemptive rights to subscribe for shares or convertible securities depends on the proportion of capital that would be represented by preferred shares after the capital increase, as described under "Item 10.B. Memorandum and Articles of Association – Organization – Preemptive rights."

The holders of the preferred share ADSs and common share ADSs have the rights corresponding to the underlying shares, subject to the Deposit Agreements. Owners of the preferred share ADSs and common share ADSs are parties to the Deposit Agreements and therefore are bound to its terms and to the terms of the preferred share ADRs and common share ADRs that represent the preferred share ADSs and common share ADSs.

## 9.B. Plan of Distribution

Not applicable.

## 9.C. Markets

### *Trading on the B3*

B3 is a publicly traded corporation. Beginning in April 2000, the Brazilian stock exchanges were reorganized through the execution of protocols of intention by the Brazilian stock exchanges. Until April 2004, all shares underlying securities were traded only on the B3, with the exception of privatization auctions, which occurred on the Rio de Janeiro Stock Exchange. In May 2004, the Rio de Janeiro Stock Exchange reopened for the trading of certain Brazilian government securities.

If you were to trade in our shares on the B3, your trade would settle in three business days after the trade date. The seller is ordinarily required to deliver the shares to the exchange on the third business day following the trade date. Delivery of and payment for shares are made through the facilities of the Central Depository of B3.

The B3 is less liquid than the NYSE or other major exchanges in the world. As of December 31, 2017, the aggregate market capitalization of the 371 companies listed on the B3, was equivalent to US\$954.8 billion and the 10 largest companies listed on the B3 represented 52.2% of the total market capitalization. Although any of the outstanding shares of a listed company may trade on a Brazilian stock exchange, in most cases fewer than half of the listed shares are actually available for trading by the public,

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**9.C. Markets**

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the remainder being held by a small group of controlling persons, by governmental entities or by one principal shareholder. As of December 31, 2017, we accounted for 6.3% of the market capitalization of all listed companies on the B3.

Trading on Brazilian stock exchanges by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes (a "non-Brazilian holder") is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on Brazilian stock exchanges in accordance with the CMN requirements. Investments made by foreigners on stock exchanges were traditionally regulated by Resolution No. 2,689/00, which required that securities held by non-Brazilian holders were maintained in the custody of or in deposit accounts with financial institutions duly authorized by the Central Bank and the CVM. In addition, Resolution No. 2,689/00 required non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock exchanges or qualified over-the-counter markets. With limited exceptions, according to Resolution No. 2,689/00, non-Brazilian holders should not transfer to other non-Brazilian holders the ownership of investments.

In September 2014, the CMN issued Resolution No. 4,373/14, amending and improving the provisions for (i) foreign investments through a depositary receipt mechanism; and (ii) investments made by non-resident investors in the financial and capital markets in Brazil. The main changes were: (a) increasing the number of instruments that may be issued through depositary receipts; (b) making it possible for non-resident investors to invest in financial and capital markets without having previously entered into foreign exchange operations; (c) clarifying the criteria for simultaneous foreign exchange operations; and (d) increasing the responsibility of the non-resident investor's representative. CMN Resolution No. 4,373/14 became effective in March 2015.

See "Item 10.D. Exchange Controls" for further information about CMN Resolution No. 4,373/14, and "Item 10.E. Taxation – Brazilian tax considerations – Taxation of gains" for a description of certain tax benefits extended to non-Brazilian holders who qualify under CMN Resolution No. 4,373/14.

***Corporate governance practices of B3***

In 2000, B3 introduced three special listing segments known as "Levels 1 and 2 of Differentiated Corporate Governance Practices and *Novo Mercado*" with the purpose of stimulating the secondary market of securities issued by Brazilian companies listed on B3, encouraging these companies to follow good corporate governance practices. B3 subsequently introduced two new segments called "*Bovespa Mais*" and "*Bovespa Mais Nível 2*," specifically for small- and medium-scale companies. The listing segments were designed for the trading of shares issued by companies that voluntarily commit themselves to follow corporate governance practices and disclosure requirements beyond those required by Brazilian legislation. These rules generally increase shareholders' rights and increase the quality of the information made available to shareholders. Newly amended rules for Levels 1 and 2 of Differentiated Corporate Governance Practices came into effect in May 2011.



To become a "Level 1" company, the issuer must agree to the following requirements, in addition to those imposed by applicable law: (i) ensure that the shares that represent at least 25.0% of its total capital are actually available for trading; (ii) adopt offering procedures that favor the widespread ownership of the shares whenever a public offer is made; (iii) comply with minimum standards for quarterly disclosure; (iv) follow stricter disclosure policies for transactions done by its controlling shareholders, members of its Board of Directors and executives that involve securities issued by the issuer; (v) submit any existing shareholders' agreement and stock option plans to B3; and (vi) prepare a schedule of corporate events and make it available to the shareholders.

To become a "Level 2" company, the issuer must agree to the following requirements, in addition to those imposed by applicable law: (i) comply with all Level 1 listing requirements; (ii) grant tag-along rights to all shareholders in case the company's control is transferred, offering to common shareholders the same price paid per share for the controlling block of common and preferred shares; (iii) give holders of preferred shares voting rights for decisions on certain corporate restructurings and related-party transactions, such as: (a) conversions, acquisitions, mergers or splits; (b) approval of any transactions between the company and its controlling shareholder, if such decisions are within the competence of the general meeting; (c) valuation of assets to be used for payment of a share capital increase; (d) selecting an institution or specialized company to determine the economic value of the company; and (e) any alterations to these voting rights that will prevail as long as the agreement to adhere to the B3's "Level 2" segment is in force; (iv) the Board of Directors made up of at least five members of which at least a minimum of 20.0% shall be independent members with a term of office limited to two years, and re-election is permitted; (v) prepare financial statements in English, including the statement of cash flows, according to international accounting standards such as U.S. GAAP or IFRS; (vi) effect a tender offer by the company's controlling shareholder (the minimum price of the shares to be offered shall be determined by an assessment process), if the controlling

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**9.D. Selling Shareholders**

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shareholder decides on the delisting from the "Level 2" segment; and (vii) exclusively adopt the B3 "Arbitration Board" rules for resolving any conflicts between the company and its investors.

To join B3's "*Novo Mercado*" segment, an issuer must meet all requirements described in "Levels 1 and 2," including the issuance of common shares only (with voting rights) and granting tag-along rights to all shareholders in case the company's control is transferred, offering the same price paid per share for the controlling block of shares.

In June 2001, we executed an agreement with B3 to list our shares in the "Level 1" segment, effective immediately after the disclosure of the offer's opening date in Brazil. We agreed to comply with and continue to comply with all of the "Level 1" listing requirements.

## **9.D. Selling Shareholders**

Not applicable.

## **9.E. Dilution**

Not applicable.

## **9.F. Expenses of the Issue**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **10.A. Share Capital**

For more information on our capital stock, see Note 39 to our consolidated financial statements in "Item 18. Financial Statements."

### **10.B. Memorandum and Articles of Association**

We are a publicly traded company duly registered with the CVM under No. 00090-6. Article 5 of our Bylaws establishes our purpose as carrying out banking transactions in general, including foreign exchange activities.

***Organization***

***Qualification of directors***

Since the promulgation of Law No. 12,431/11, which amended Law No. 6,404/76, members of the Board of Directors are no longer required to be shareholders of the companies in which they occupy these positions. Neither do they have to meet residency requirements to be eligible for Board member positions.

***Allocation of net income and distribution of dividends***

Our Bylaws, in conformity with the Brazilian Corporate Law, require the Board of Directors to recommend, at each Annual Shareholders' Meeting, the allocation of net income for the fiscal year as follows:

- 5.0% of net income determined in accordance with BR GAAP to a legal reserve, during each fiscal year, not to exceed 20.0% in the aggregate of our paid-in capital. This requirement shall not be applicable in fiscal years when the legal reserve, added to our other additional paid-in capital, exceeds 30.0% of our paid-in capital;
- upon proposal by our Management, an amount to a contingency reserve against future losses, which amount is determined by our shareholders on the basis of what potential losses they consider probable. Historically, our shareholders never allocated profits to this reserve;
- at least 30.0% of net income according to BR GAAP (adjusted by the deductions under the preceding items) for mandatory distribution to our shareholders; and
- any balance to revenue reserves for the maintenance of an operational margin that is compatible with the conduct of our lending business, up to a limit of 95.0% of our paid-in capital.

Our Bylaws also authorize our shareholders to allocate an amount to a reserve for realizable

**10.B. Memorandum and Articles of Association**

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revenue. Historically, our shareholders have not allocated amounts to such reserve.

The minimum of 30.0% of our adjusted net income according to BR GAAP must be distributed as annual dividends and paid out within 60 days of the general shareholders' meeting in which the distribution is approved. However, Brazilian Corporate Law permits us to suspend payment of the mandatory distribution if our Board of Directors reports to the shareholders' meeting that the distribution would be incompatible with our financial condition, in which case the suspension is subject to approval by the shareholders' meeting. Under Brazilian Corporate Law, the Fiscal Council shall prepare a report on this matter and the Board of Directors is obligated to present a justification for the suspension with the CVM within five days of the shareholders' meeting. The income not distributed due to the suspension must be allocated to a special reserve. If not absorbed by subsequent losses, the amounts in the reserve shall be paid as dividends as soon as our financial situation permits.

Preferred shareholders are entitled to receive dividends per share in an amount 10.0% greater than the dividends per share paid to the common shareholders.

Under Brazilian law, we must prepare financial statements according to BR GAAP on a quarterly and annual basis and according to IFRS on an annual basis. Our *Diretoria Executiva*, with approval of the Board of Directors, may distribute dividends based on the profits reported in interim financial statements. Our Bylaws provide for the payment of interim dividends, which cannot exceed the amount of our retained earnings or our profit reserves contained in our last, annual or bi-annual financial statements. Our *Diretoria Executiva* bases the amount of the interim dividends on previously accrued or retained earnings.

Between March and October 2013, the Central Bank issued several rules related to the implementation of the Basel III Accord requirements in Brazilian banks. Pursuant to Article 9 of Resolution No. 4,193/13, a financial institution in breach of the additional capital requirements will be subject to restrictions by the Central Bank, including the distribution of dividends and payment of extraordinary amounts to the institution's officers and executives. Such restriction can be applied proportionally to the difference between the required additional capital and the actual additional capital, as follows: (i) if the actual capital is less than 25.0% of the required capital, restriction of up to 100% on distributions; (ii) if the actual capital is 25.0% or higher and below 50.0% of the required capital, restriction of up to 80.0% on distributions; (iii) if the actual capital is 50.0% or higher and below 75.0% of the required capital, restriction of up to 60.0% on distributions; and (iv) if the actual capital is 75.0% or higher and below 100% of the required capital, restriction of up to 40.0% on distributions. We are currently in compliance with all capital requirements.

***Shareholders' meetings***

Our shareholders have the power to decide any matters related to our corporate purpose and to approve any resolutions they deem necessary for our protection and development, through voting at a general shareholders' meeting.

As from the Annual Shareholders' Meeting of 2013, shareholders resolved that our meetings shall be convened by the publication of call notices in the *Diário Oficial do Estado de São Paulo* (Official Gazette of the State of São Paulo) and the *Valor Econômico* newspaper, all in the State of São Paulo. The notice must be published three times, beginning at least 30 calendar days prior to the scheduled meeting date. The notice must contain the meeting's agenda and, in the case of a proposed amendment to our Bylaws, an indication of the subject matter.

The Board of Directors, or, in some specific situations set forth in the Brazilian Corporate Law, the shareholders, may call our general shareholders' meetings. A shareholder may be represented at a general meeting by an attorney-in-fact so long as the attorney-in-fact was appointed within less than a year of the meeting. The attorney-in-fact must be a shareholder, a member of our Management, a lawyer or a financial institution and for investment funds, the fund manager is responsible for representing quota holders. Shareholders that are legal entities may also be represented by their own legal representatives. The power of attorney given to the attorney-in-fact must comply with certain formalities set forth by Brazilian law.

In order for a shareholders' meeting to validly take any action, shareholders representing at least one quarter of our issued and outstanding common shares must be present at the meeting. However, in the case of a shareholders' meeting to amend our Bylaws, shareholders representing at least two-thirds of our issued and outstanding common shares must be present. If no such quorum is verified, the Board of Directors may call a second meeting by notice given at least eight calendar days prior to the scheduled meeting and otherwise in accordance with the rules of publication described above. The quorum requirements will not apply to a second general meeting, subject to the quorum requirements applicable to the first one.

In March 2017, we adopted a remote voting system at our Shareholder's Meetings, in accordance with Article 21-A of CVM Instruction No. 481/09, as amended.

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**10.B. Memorandum and Articles of Association**

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***Voting rights***

Each common share entitles its holder to the right of one vote at our shareholders' meetings. Except as otherwise provided by law, the decisions of a shareholders' meeting are passed by a vote by holders of a simple majority of our common shares, while abstentions are not taken into account.

In March 2002, the Brazilian Corporate Law was amended to, among other issues, grant more protection to minority shareholders and ensure them the right to appoint one member and an alternate to our Board of Directors. To qualify for the exercise of such right, the minority shareholder must have held, for at least the prior three months either: (i) preferred shares representing the minimum of 10.0% of our capital stock; or (ii) common shares representing at least 15.0% of our voting shares. If no shareholders meet the thresholds, shareholders representing at least 10.0% of our capital stock may be able to combine their holdings to appoint one member and an alternate to our Board of Directors.

The Brazilian Corporate Law provides that non-voting preferred shares acquire voting rights when a company has failed for the term provided for in its bylaws (for more than three fiscal years) to pay any fixed or minimum dividend to which such shares are entitled. Such voting rights remain effective until payment of the cumulative dividends is made.

***Shareholders***

Pursuant to Brazilian law, the approval of the holders of a majority of the outstanding adversely affected preferred shares as well as shareholders representing at least one-half of the issued and outstanding common shares is required for the following actions:

- creating or increasing an existing class of preferred shares without preserving the proportions of any other class of the existing shares;
- changing a preference, privilege or condition of redemption or amortization of any class of preferred shares; and
- creating a new class of preferred shares that has preference, privilege or condition of redemption or amortization superior to the existing classes of preferred shares.

These actions are put to the vote of the holders of the adversely affected preferred shares at a special meeting, where each preferred share entitles the shareholder to one vote. Preferred shareholders have the right to vote on any change to our legal form and obtain the right to vote if we enter into a liquidation process.

The approval of holders of at least one-half of the issued common shares is required for the following actions:

- reducing the mandatory distribution of dividends;
- approving a takeover, merger or spin-off;
- approving our participation in a "*grupo de sociedades*" (a group of companies whose management is coordinated through contractual relationships and equity ownerships), as defined under the Brazilian Corporate Law;
- changing our corporate purpose;
- ceasing our state of liquidation; and
- approving our dissolution.

Pursuant to Brazilian Corporate Law, holders of common shares, voting at a Shareholders' Meeting, have the exclusive power to:

- amend our Bylaws, including changes to the rights of the holders of the common shares;
- elect or dismiss members of our Board of Directors;
- receive the yearly accounts prepared by our Management and accept or reject management's financial statements, including the allocation of net profits for payment of the mandatory dividend and allocation to the various reserve accounts;
- suspend the rights of a shareholder who has not fulfilled the obligations imposed by law or by our Bylaws;

**10.B. Memorandum and Articles of Association**

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- accept or reject the valuation of assets contributed by a shareholder in consideration for issuance of capital stock; and
- approve corporate restructurings, such as takeovers, mergers and spin-offs; dissolve or liquidate, elect or dismiss our liquidators or examine their accounts.

***Preemptive rights***

Each of our shareholders has a general preemptive right to subscribe for shares or convertible securities in any capital increase in proportion to its holding. Shareholders must be granted at least a 30 day period following the publication of notice of the issuance of shares or convertible securities to exercise their preemptive rights.

As described under "Regulations of and Restrictions on Foreign Investors," under the Brazilian Constitution the increase of foreign investors' participation in the voting capital (common shares) of financial institutions is subject to prior authorization by the government. However, foreign investors without specific authorization may acquire publicly traded non-voting shares of Brazilian financial institutions or depositary receipts representing non-voting shares offered abroad. In January 2012, the Central Bank authorized us to create an ADR program for our common shares in the U.S. market. As part of this authorization, and after the government had affirmed it as being in its own interest, the Central Bank increased the limit of foreign interest in our capital stock from 14.0% to 30.0%.

In the event of a capital increase maintaining the existing proportion between common and preferred shares, each shareholder shall have the right to subscribe to newly issued shares of the same class it currently holds. If the capital increase changes the proportion between common and preferred shares, shareholders shall have the right to subscribe newly issued shares of the same class they currently hold, only extending to shares of a different class so as to maintain the same proportion in the capital stock as held prior to such increase. In any case, all new increases are subject to the foreign interest limit set forth by the Central Bank, which means that holders of common shares could be prevented from exercising their preemptive rights in relation to newly issued common shares if the 30.0% limit is reached. Under Brazilian Corporate Law, shareholders are permitted to transfer or sell their preemptive rights.

You may not be able to exercise the preemptive rights relating to the shares underlying your ADSs unless a registration statement under the Securities Act of 1933 is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. The contractual arrangements governing the ADSs provide that the custodian of the shares underlying the ADSs may, if possible, transfer or dispose of the preemptive rights. Such contractual arrangements related to the ADSs, provide for the custodian to remit the consideration received to the depositary bank that holds the ADSs. Its distribution by the depositary bank to holders of preferred or common share ADSs is net of any fees due to the custodian and the depositary bank. For more details see "Item 3.D. Risk Factors – Risks relating to our shares, preferred share ADSs and common share ADSs."



***Right of withdrawal***

Brazilian Law provides that under certain circumstances a shareholder has the right to withdraw his or her equity interest from a company and to receive a payment for the portion of equity attributable to his or her equity interest.

This right of withdrawal may be exercised:

- by the dissenting or non-voting holders of the adversely affected class of shares (including any holder of preferred shares) in the event that a Shareholders' Meeting resolves to:
  - create preferred shares or increase an existing class of preferred shares relative to the other class or classes of preferred shares;
  - modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares;
  - create a new class of preferred shares with greater privileges than the existing class of preferred shares; or
- by the dissenting or non-voting shareholders (including any holder of preferred shares) in the event that a general shareholders' meeting resolves to:
  - reduce the mandatory distribution of dividends;
  - change our corporate purpose;

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- transfer all of our shares to another company, making us a wholly owned subsidiary of such company, known as an "*incorporação de ações*;" or
- by the dissenting or non-voting holder of common shares, in the event that a Shareholders' Meeting resolves to:
  - acquire control of another company at a price exceeding certain limits set forth in Brazilian Law;
  - merge or consolidate a company, *provided that* its shares do not have liquidity and are widely held by the market;
  - participate in a "*grupo de sociedades*" as defined under the Brazilian Law, provided that its shares do not have liquidity and are widely held by the market; or
  - spin off a company or companies resulting in, among other things, a reduction of the mandatory annual dividend, participation in a group of companies, or a change of corporate purpose.

Our dissenting or non-voting shareholders also have a right of withdrawal in the event that the entity resulting from our merger, merger of our shares or spin-off does not become a listed company within 120 days of the shareholders' meeting at which the relevant decision was taken. The dissenting or non-voting shareholders only have a withdrawal right if they owned the shares, which have been adversely affected at the time of the first call for the shareholders' meeting in which the relevant decision was made. If a public announcement of the action taken or to be taken was made prior to the call for the shareholders' meeting, the shareholders' ownership of shares is based on the date of announcement.

The right of withdrawal lapses 30 days after publication of the minutes of the shareholders' meeting at which the action is taken, except when the resolution is subject to confirmation by the preferred shareholders (which must be made at a special meeting to be held within one year). In that case the 30-day term is counted from the date the minutes of the special meeting are published. We would be entitled to reconsider any action giving rise to redemption rights within ten days following the maturity of such rights if the redemption of shares of dissenting shareholders would jeopardize our financial stability.

In all the situations described above, our shares would be redeemable at their book value, determined on the basis of the last balance sheet approved by our shareholders. If the shareholders' meeting giving rise to withdrawal rights occurs 60 days after the date of the last approved balance sheet, a shareholder may demand that its shares be valued on the basis of a new balance sheet of a date within 60 days preceding such shareholders' meeting.

***Liquidation***

In the event of our liquidation, our preferred shareholders would be entitled to priority over common shareholders in the return of capital. The amount to which they would be entitled is based on the portion of the Capital Stock represented by the preferred shares, adjusted from time to time to reflect any capital increases or reductions. After all our creditors had been paid, our residual assets would be used to return the amount of capital represented by the preferred shares to the preferred shareholders. Once the preferred shareholders had been fully reimbursed, the common shareholders would be reimbursed on the portion of the Capital Stock represented by the common shares. All our shareholders would participate equally and ratably in any remaining residual assets.

***Redemption***

Our Bylaws provide that our shares are not redeemable. However, Brazilian Law authorizes us to redeem minority shareholders' shares if, after a public tender offer for our delisting, our controlling shareholder increases to more than 95.0% its participation in our total capital stock.

***Conversion rights***

Our Bylaws provide that our common shares cannot be converted into preferred shares or our preferred shares into common shares.

***Liability of our shareholders for further capital calls***

Neither Brazilian law nor our Bylaws provide for capital calls. Our shareholders' liability is limited to the payment of the issue price of the shares subscribed or acquired.

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***Form and transfer***

Our shares are registered in book-entry form and we perform all the services of safekeeping and transfer of shares. To make the transfer we make an entry in the register, debit the share account of the transferor and credit the share account of the transferee.

Transfers of shares by a foreign investor are made in the same way and executed by the investor's local agent on the investor's behalf. However, if the original investment was registered with the Central Bank pursuant to a foreign investment mechanism regulated by the CMN Resolution No. 4,373/14 as described under "Item 10.D. Exchange Controls," the foreign investor must declare the transfer in its electronic registration.

Our shareholders may opt to hold their shares through B3. Shares are added to the B3 system through Brazilian institutions, which have clearing accounts with B3. Our shareholder registry indicates which shares are listed on the B3 system. Each participating shareholder is in turn registered in a register of beneficial shareholders maintained by the B3 and is treated in the same manner as our registered shareholders.

***Brazilian rules related to information disclosure***

In January 2002, through CVM Instruction No. 358/02, the CVM issued regulations that were amended in June 2002 and March 2007, regarding the disclosure of information to the market. These regulations include provisions which:

- determine what information must be filed with the CVM in the form of a notice to the shareholders or a material fact ("*fato relevante*"). The "*fato relevante*" includes any controlling shareholder decisions that could influence the price of our securities and any controlling shareholder decision to trade, cease to trade, or exercise any rights under our securities;
- expand the list of events which may be considered material, including, among others:
  - execution of an agreement for the transfer of the shareholding control of the company, even under a suspensive or resolute condition;
  - change in the control of the company, including through the signing, amendment or termination of the shareholders' agreement;
  - the signature, amendment or termination of shareholders' agreements to which the company is a party, or which have been registered in our records;

- the entry or withdrawal of shareholders that have a financial, operational, technological or management collaboration agreement with us;
- any authorization to trade our securities in any market, national or abroad;
- a decision upon deregistration of a publicly-held company;
- the merger, consolidation or spin-off of a company or its affiliates;
- change or dissolution of the company
- the change in the composition of a company's capital stock;
- the change in accounting criteria;
- debt renegotiation;
- approval of a stock option plan to purchase shares;
- the change in rights and advantages attached to the securities of a company;
- split or reverse split of shares or attribution of bonus;
- the acquisition of a company's shares to keep in treasury or cancellation, and their sale;
- the company's profit or loss and the allocation of its cash dividends;
- the execution or termination of an agreement, or failure on its implementation, when the expectation of its accomplishment is public's knowledge;
- the approval, change or abandonment of a project or delay in its implementation;

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- inception, resumption or stoppage of the manufacturing or commercialization of product or the provision of service;
- discovery, change or development of technology or resources of the company;
- change of projections disclosed by the company; and
- agreement with creditors, request or confession of bankruptcy or filing of a legal action that might affect the economic and financial situation of the company.
- extend, in the event our executive officer in charge of investor relations does not make required disclosure, the responsibility to make the required disclosure to our controlling shareholders, our Management, the members of our Fiscal Council and to any member of a technical or consulting body created by our Bylaws;
- extend confidentiality obligations related to undisclosed information to, in addition to our Management and controlling shareholders, the members of any technical or consulting bodies created by our Bylaws and our employees in charge of the issues considered relevant matters;
- forcing the Director of Investor Relations to provide clarifications on the disclosure of material act or fact by request of the CVM or the stock market, at any moment;
- disclose the information contained in material facts in all markets where our securities are traded;
- disclose any intention to delist the company within the period of one year if we acquire a controlling participation in a company that has its securities traded on a market;
- fulfill disclosure requirements related to the acquisition and sale of relevant shareholder participations, or the acquisition and sale of our securities by our managing shareholders, members of our Fiscal Council or any member of a technical or consulting body created by our Bylaws; and
- before a material fact is publicly disclosed, prohibit the trading of our securities by our direct and indirect controlling shareholders, officers, members of our Board of Directors, fiscal council and any technical or advisory committees or whomever by virtue of their position has knowledge of information related to the material fact.

In February 2014, the CVM provided publicly-held companies with the option of disclosing material facts by way of a news portal on the internet, in addition to the disclosure carried out through large circulation newspapers (as previously made).

Under CVM rules, we are also required to disclose a series of additional details to the market if a general meeting is called to decide on an absorption, merger, or split.

On April 27, 2017, the CMN issued the Resolution no. 4,567/17 requiring that that financial institutions and other entities authorized to operate by the Central Bank inform to the CMN any situation that may affect the reputation of its: (i) controlling shareholders; (ii) shareholders holding more than 15% of the capital of the entity; (iii) Directors; and (iv) Officers.

In accordance with the existing regulations, the Central Bank considers the following situations to compromise the reputation of such people: (i) criminal investigations or criminal proceedings against the person or any company controlled or managed by this person at the time of occurrence; (ii) administrative or judicial proceedings related to the SFN; and/or (iii) other similar situations that the Central Bank may consider relevant.

According to such rule, the Brazilian financial institution has 10 working days from the date it becomes aware of the situation to communicate the fact to the Central Bank.

***Disclosure of periodic information***

In December 2009, the CVM issued Instruction No. 480/09 that addresses, among other topics, the issuance of securities and periodic disclosure of information by companies that have their securities traded on the Brazilian market. As a result of this rule, Brazilian issuers must file a "Reference Form" with the CVM every year, a document similar to a "Form 20-F," providing several detailed aspects of the company's operations and administration. Furthermore, the rules related to financial statements and information disclosure were improved and the management's responsibility for the information provided was increased. As a result, the quantity and quality of information provided to the Brazilian market and to CVM has

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increased considerably, reinforcing the transparency of our activities for the local investor. In addition, new issuances for companies already listed were made easier. Instruction No. 480/09 is periodically changed by CVM.

***Disclosure of operating information to the public***

CMN rules determine that financial institutions should establish a formal policy approved by its board of directors or, in its absence, by its board of executive officers, for disclosure of information referring to risk management, determination of amount of risk-weighted assets and adequacy of RC. In October 2013, pursuant to Circular No. 3,678/13, the Central Bank established the current standards on disclosure of this information to the public.

***Regulations and restrictions on non-Brazilian holders***

The Brazilian Constitution bars any increase in foreign interest in the share capital of financial institutions headquartered in Brazil. However, because we are a publicly-traded financial institution, non-Brazilian holders of our preferred shares benefit from an exception to this provision. Accordingly, foreign holders face no legal restrictions on the ownership of our preferred shares or of preferred share ADSs, and are entitled to all the rights and preferences of such preferred shares. Furthermore, in accordance with the Central Bank authorization for the ADR program for common shares in the U.S. market, foreigners can hold up to 30.0% of our total common shares.

The ability to convert dividend payments and proceeds from the sale of our shares or preemptive rights into foreign currency and to remit such amounts abroad from Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investment be registered with the Central Bank. Nonetheless, any non-Brazilian holder who registers with the CVM in accordance with CMN Resolution No. 4,373/14 may buy and sell securities on Brazilian stock exchanges without obtaining a separate certificate of registration for each transaction. These rules are applicable both to common and preferred shares.

Our ADR program is duly registered with the Central Bank.

Our Bylaws do not restrict the rights of Brazilian residents or non-residents to hold our shares and exercise related rights.

***Rights of the holders of our ADSs***

Holders of our ADSs are not treated as our shareholders and do not have the same rights that our shareholders have. The depositary bank will hold the preferred shares and common shares that underlie the preferred share ADSs and common shares ADSs through a custodian in accordance with the provisions of the Deposit Agreements. The rights of our ADS holders are governed by the Deposit



Agreements, which are New York law governed contracts. In contrast, the rights of our shareholders are provided for by Brazilian law.

Holders of our ADSs will receive notifications and voting instructions in relation to any meetings only if we authorize and direct the depositary bank to distribute such information to the holders. If we do not provide that authorization and direction to the depositary bank, holders of ADSs will not be able to vote at our meetings, or otherwise, unless they surrender their preferred share ADSs or common share ADSs and receive the underlying preferred shares or common shares, as applicable, in accordance with the terms of the applicable Deposit Agreement. If we authorize and direct the depositary bank to distribute voting instructions to our ADS holders, such holders may guide the depositary bank to vote in accordance with the number of shares represented by their ADSs. See "Item 3.D – Risk Factors – Risks relating to our shares and ADSs – The Deposit Agreements governing the ADSs provide that holders of such ADSs will only receive voting instructions if we authorize the depositary bank to contact those holders to obtain voting instructions; there are also practical limitations on any ability to vote we may give such holders."

***Transfer of control***

Our Bylaws do not contain any provision that would have the effect of delaying, deferring or preventing a change in our control or that would operate only with respect to a merger, acquisition or corporate restructuring involving ourselves or any of our subsidiaries. However, Brazilian banking regulations require that any transfer of control of a financial institution be previously approved by the Central Bank.

Additionally, Brazilian law stipulates that acquisition of control of a publicly held company is contingent on tender offers for all outstanding common shares at a price equivalent to at least 80.0% of the price per share paid for the controlling block. In December 2003, we amended our Bylaws to ensure that in the event of a change in our control, the acquirer will be required to pay our shareholders an amount equal to (a) for our non-controlling common shareholders, 100% of the price per share paid to our controlling

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shareholders and (b) for our preferred shareholders, 80.0% of the price per share paid for our controlling shareholders.

In the event of our liquidation, our preferred shareholders would have priority over our common shareholders when returning capital. See "Organization – Liquidation" for more information. In addition, in the event of a transfer of control, our shareholders have the right of withdrawal under certain circumstances. See "Organization – Right of withdrawal" for more information.

Brazilian law also obliges our controlling shareholder to make a tender offer for our shares if it increases its interest in our share capital to a level that materially and negatively affects the liquidity of our shares.

***Disclosure of shareholder ownership***

Brazilian regulations require that any person or group of persons representing the same interest that has directly or indirectly acquired an interest corresponding to 5.0% of any type or class of shares of a publicly traded company must disclose its share ownership to the CVM and to Brazilian stock exchanges. In addition, a statement containing the required information must be published in the newspapers. Any subsequent increase or decrease of 5.0% or more in ownership of any type or class of shares must be similarly disclosed.

***B3's differentiated corporate governance practices***

In 2001, we voluntarily adhered to B3's Level 1 Corporate Governance which establishes special requirements for the Company's listing and rules for its directors and shareholders, including its controlling shareholders. Companies listed on Level 1 must adopt practices favoring transparency and the disclosure, in addition to legal requirements, of more comprehensive financial reporting data, details of trading by directors, officers, executives and controlling shareholders and related party transactions, among others – in all cases focusing on providing access to information for shareholders, investors and other stakeholders. Note that companies listed in this segment must also maintain a minimum free float of 25.0%.

## **10.C. Material contracts**

In July 2016, we announced to the market the acquisition of 100% of the share capital of HSBC Brasil.

In July 2015, we entered into a share purchase agreement with HSBC Latin America Holdings (UK) Limited, pursuant to which the Bank agreed to acquire 100% of the share capital of HSBC Brasil. The acquisition was approved by the Central Bank in December 2015 and by the CADE in June 2016, subject to an Agreement on Concentration Control, and therefore approved by all relevant regulatory bodies. The purchase was completed in July 2016, for R\$16 billion. In October 2016, HSBC Brasil's spin-off was approved by our shareholders, enabling the integration of people and technological platforms and the

replacement of the brand in the service network, providing greater synergy in the transaction. With the acquisition, we took over all operations of HSBC in Brazil, including retail, insurance and asset management, as well as all branches and clients. The acquisition allowed us to grow in scale and optimize our platforms, while increasing national coverage, consolidating our leadership in a number of branches in several states, and strengthening our presence in the high-income segment. The acquisition also enabled us to expand our operations, increasing the range of products offered in Brazil, especially in the insurance, credit card and asset management segments.

For more information, see “Item 4.A History and Development of the Company – Recent acquisitions.”

## **10.D. Exchange controls**

The Central Bank may place temporary restrictions on the remittance of foreign capital abroad, including payments of principal, interests or dividends, and on the repatriation of capital if there is a significant imbalance in Brazil's balance of payments, or one is expected. The last occurrence of restrictions on the remittance of foreign capital was in 1989, when for approximately six months in 1989 and early 1990, the government suspended all remittances abroad of dividends and invested capital. The Central Bank subsequently released these amounts for remittance abroad in accordance with specific guidelines. The government may take similar measures in the future.

Under Brazilian tax laws, non-Brazilian holders of securities enjoy favorable tax treatment if they are qualified in terms of CMN Resolution No. 4,373/14. To qualify under this Resolution, a non-Brazilian holder must:

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- appoint a representative in Brazil with power to undertake acts relating to the investment;
- register as a foreign investor with the CVM; and
- register its investment with the Central Bank.

See "Item 10.E. Taxation – Brazilian tax considerations – Taxation of gains" for a description of tax benefits extended to non-Brazilian holders of securities who qualify under CMN Resolution No. 4,373/14.

Under CMN Resolution No. 4,373/14, securities held by non-Brazilian holders must be maintained under the custody of, or in deposit accounts held in, financial institutions duly authorized by the Central Bank and the CVM. In addition, securities trading are restricted under CMN Resolution No. 4,373/14 to transactions on Brazilian stock exchanges or qualified over-the-counter markets.

Registered non-Brazilian holders are allowed to invest in any type of investment available to Brazilian citizens in the financial and securities markets, with the exception that the Brazilian Constitution limits the ability of non-Brazilian holders to acquire capital of financial institutions, as mentioned above under "Regulation of and Restrictions on Non-Brazilian holders." Registration allows investors to remit foreign currency abroad when the funds are distributions on registered shares or proceeds from the disposition of such shares. The funds are converted into foreign currency at the forex market rate.

The registered capital for each share purchased in Brazil and deposited with the custodian is equal to its purchase price (informed in U.S. dollars). If ADS holder chooses to cancel ADSs in exchange for the underlying shares, the investment in the shares may be registered with the Central Bank. This registration is necessary for the holder to receive dividends or proceeds from the sale of the shares outside of Brazil.

When a holder of ADSs exchanges ADSs for the underlying shares, the holder is entitled to either:

- sell the shares on the stock exchange and remit the proceeds abroad within five business days; or
- freely convert the investment in the underlying shares to either an investment under CMN Resolution No. 4,373/14 (subject to satisfaction of the legal requirements described above) or a direct foreign investment in Brazil (in accordance with applicable rules).

Holders that do not comply with the rules previously described may still register their investment, but the registration process will be subject to detailed procedures established by the Central Bank. Holders that do not comply with these rules may also be subject to monetary penalties.

## 10.E. Taxation

The following summary contains a description of the principal Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of our shares and ADSs. However, it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase our shares and/or ADSs. Accordingly, prospective purchasers of our shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of our shares and/or ADSs.

This summary is based upon the tax laws of Brazil and the United States in effect on the date hereof, which are subject to change.

Currently, there is no income tax treaty for double taxation between Brazil and the United States. However, due to the reciprocity of treatment in the United States, the Brazilian tax authority assures to residents in Brazil the right to deduct, from the income tax due, the amount of tax levied on income that has already been paid in the United States. Although the tax authorities of the two countries have had discussions that may culminate in such a treaty, no assurance can be provided regarding the possibility of a treaty of this kind or how it will affect the U.S. holders of our shares or ADSs. Accordingly, prospective holders of our shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of shares or ADSs in their particular circumstances.

### ***Brazilian tax considerations***

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of our shares or ADSs by a holder not residing in Brazil.

### ***Taxation of dividends***

Dividends paid to the holders of ADSs or to investor non-resident in Brazil related to our shares are not subject to Brazilian withholding income tax, provided that these dividends are paid from the profits generated as of January 1, 1996. Dividends paid from profits before January 1, 1996 may be withheld at the

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variable rates, according to the legislation applicable at the time.

In this context, Law No. 11,638/07 significantly changed the Brazilian Corporate Law, with the objective of more closely aligning BR GAAP with IFRS. The changes promoted by Law No. 11,638/07 produced effects from January 1, 2008, already predicting that the new accounting rules could conflict with the provisions of the tax law, Law No. 11,941/09, the Transition Tax System ("RTT") was instituted. In general, under the implementation of the RTT, the changes promoted by the IFRS to modify the criterion of recognition of revenues, costs and expenses, would have no tax effects.

In this sense, profits recorded in line with the rules laid down by Law No. 11,638/07 ("IFRS Profits") may be different for profits calculated following the accounting methods and criteria in force on December 31, 2007 ("2007 Profits").

Although market practice is for the distribution of dividends calculated using the IFRS Profits to be exempt from taxes, the Brazilian tax authorities, through Normative Instruction No. 1,397/13, understand that companies should consider the 2007 Profits as the basis for determining the amount of profit exempt from taxes that could be distributed to the beneficiaries.

Surplus paid on 2007 Profits ("Surplus Dividends") should, in the opinion of the tax authorities and in the specific case of non-resident beneficiaries in Brazil, be subject to taxation as follows: (i) Withholding Income Tax at Source ("IRRF") at a rate of 15.0% in the case of non-resident beneficiaries in Brazil, but which were not domiciled in a tax haven; or (ii) IRRF at a rate of 25.0% in the case of non-residents in Brazil, domiciled in the tax haven.

As way to mitigate that issue, Law No. 12,973/14, in addition to revoking the RTT, made significant changes to federal tax law, including with relation to Excess Dividends. Following the changes introduced by Law No. 12,973/14, it was confirmed that Excess Dividends would be exempt with respect to profits made between 2008 and 2013. After 2015, this discussion is no longer relevant, as the differences relating to the previous accounting treatment have become irrelevant. Potential discussions remain, however, with regard to dividends paid from profits ascertained in the calendar year 2014, unless the company has voluntarily opted for the application of the provisions laid down in Law No. 12,973/14, since January 1, 2014.

***Taxation of gains***

In accordance with Law No. 10,833/03, the gains earned as a result of the divestiture of assets located in Brazil with investor non-resident in Brazil are subject to taxation in Brazil, regardless of the fact that the divestiture is performed to another non-resident or to a resident in Brazil.

In this sense, in the case of divestiture of our shares, which are regarded as Brazilian assets, the investor non-resident in Brazil shall be subject to the income tax on the capital gain ascertained in accordance with

the rules described in the following paragraphs, regardless of the operation being, or not, carried out in Brazil or abroad, or with a resident or non-resident in Brazil.

In relation to the ADSs, despite the theme not being pacified in Brazil, it is possible to argue that gains recorded by an investor non-resident in Brazil in the divestiture of these assets to another non-resident, should not be subject to taxation in Brazil. Such arguments would be based on the understanding that the ADSs do not represent Brazilian assets for purposes of the application of Law No. 10,833/03, because they represent securities issued and traded on stock exchanges abroad.

It is important to emphasize that, for purposes of the Brazilian legislation, the rules applicable to gains earned as a result of the divestiture of shares or ADSs may vary according to the domicile of the investor non-resident in Brazil, in accordance with the form through which he has recorded his investment before the Central Bank and/or in accordance with the way that the divestiture is structured and performed.

The deposit of our shares in exchange for ADSs may necessitate taxation by income tax at a rate of 15.0% or 25.0%, in the event of any capital gain ascertained by an investor non-resident in Brazil located in a tax haven, if the cost of acquisition of our shares is less than: (i) the average price per share, quoted on the Brazilian stock exchange in which the highest number of these shares has been sold on the day of deposit; or (ii) if no share is sold on that day, the average price quoted on the Brazilian stock exchange in which the highest number of shares has been sold in the last 15 trading sessions immediately prior to the deposit. In this case, the difference between the average price of our shares, as calculated above, and the corresponding acquisition cost, can be considered as capital gain. The withdrawal of ADSs in exchange for shares, should not, in principle, be understood as an operation liable to result in capital gain subject to income tax, provided that the regulatory rules in relation to the registration of the investment before the Central Bank are appropriately observed.

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The gains earned in the divestiture of shares on the Brazilian stock exchange (that include the transactions carried out in the OTC market) are:

- exempt from income tax when earned by an investor non-resident in Brazil that: (i) is an Investor 4,373; and (ii) is not resident in a location considered as a tax haven; or
- subject to income tax at a rate of 15.0% in the case of the gains earned by a foreign investor that: is not an Investor 4,373 and is not resident or domiciled in a location considered as a tax haven; or is an Investor 4,373 resident or domiciled in a location considered as a tax haven; or
- subject to a rate of 25% if the foreign investor is not an investor 4,373 resident or domiciled in a location considered as a tax haven.

In the case in which the non-resident investor is subject to the payment of the IR (Income Tax) on the capital gain earned with the sale on the stock exchange, the income tax withheld at source at the rate of 0.005%, on the value of the divestiture, will be applicable and may subsequently be compensated, with possible income tax on the capital gain.

Other gains earned in the divestiture of shares that are not carried out in Brazilian stock exchanges are subject to income tax at progressive rates that varies from 15.0% to 22.5% as detailed below, except for residents in locations considered as a tax haven, which, in this case, are subject to taxation by income tax at a rate of 25.0%. If the gains arising out of transactions carried out in the non-organized Brazilian over-the-counter market with mediation, the withholding of 0.005% on the value of the sale will be applicable and can be compensated with possible income tax due on the capital gain.

In September 2015, the government issued Provisional Measure No. 692/15, converted into Law No. 13,259/16, which introduced a regime based on the application of progressive tax rates for income tax on capital gains recognized by Brazilian individuals in the disposal of assets in general. In accordance with Law No. 13,259/16, in force as of January 1, 2017, the income tax rates on capital gains recognized by Brazilian individuals, which are also applicable to foreign investors, would be: (i) 15.0% for the part of the gain that does not exceed R\$5 million, (ii) 17.5% for the part of the gain that exceeds R\$5 million, but does not exceed R\$10 million, (iii) 20.0% for the part of the gain that exceeds R\$10 million but does not exceed R\$30 million, and (iv) 22.5% for the part of the gain that exceeds R\$30 million.

In the event of redemption of shares or reduction of capital by a Brazilian company, the positive difference between the amount actually received by an investor non-resident in Brazil and the acquisition cost of the shares redeemed will be considered as capital gain resulting from an operation not made on the stock exchange, therefore, it will be subject to taxation by income tax at progressive rates varying between 15.0% and 22.5%, except for residents of locations considered as JTF, which, in this case, are subject to taxation by income tax at a rate of 25.0%.



As a general rule, the regime of increased tax on capital gains should apply to transactions made outside the Brazilian stock exchange or organized over-the-counter market. Also, as a general rule, a foreign investor that is resident or domiciled in a location considered as a tax haven would be subject to income tax at a rate of 25.0%, as mentioned above. In addition, as a rule, gains recognized by a foreign investor in transactions made on the Brazilian stock exchange are not subject to increased taxation on capital gains, in accordance with Law No. 13,259/16.

As a general rule, the gains recorded as a result of the divestiture of shares or ADSs are equivalent to the positive difference between the sale value of the shares or ADSs and the respective costs.

The exercise of any preemptive right related to shares or ADSs will not be subject to taxation on income in accordance with the Brazilian legislation currently in force. Any gain on the sale or exercise of rights of preference related to shares or ADSs by an investor non-resident in Brazil will be subject to taxation in accordance with the same rules applied in the case of divestiture of those shares.

### ***Interest on equity (“JCP”)***

The Brazilian legislation allows a Brazilian company, instead of distributing dividends, to perform a distribution of interest on equity to its own shareholders, treating such values as deductible in calculating the actual profit and in the calculation base of the Social Contribution. For taxation purposes, the interest on equity is limited to the daily variation pro rata of the Long-term Interest Rate (“TJLP”), as the subsequent determinations of the Central Bank and may not exceed the value equivalent to:

- 50% of the net income (after deduction of the Social Contribution, however before considering the provision related to the Corporate Income Tax and the amount attributable to the shareholders as JCP) established in the period in which the payment is carried out; and

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- 50% of accumulated profits and profit reserves established on the date of commencement of the period in which the payment is made.

Specifically in relation to the payment of JCP for non-resident shareholders, such consignments are subject to IRRF at a rate of 15.0%, or 25.0%, where the recipient of the income is domiciled in a tax haven.

The values paid as JCP are subject to deduction in the calculation of the IRPJ and CSLL, which taxes are due on the profit, observing the limits detailed above.

***Tax haven (“JTF”)***

According to Law No. 9,430/96 and subsequent amendments, a tax haven is a country or location that (i) does not tax income; (ii) taxes income at an effective rate lower than 20.0% (or 17.0% in specific cases as detailed below); or (iii) imposes restrictions on the disclosure of the corporate structure of legal entities or their ownership.

The Brazilian tax authorities published NI No. 1,037/10, listing: (i) countries or jurisdictions considered as tax haven or whose internal legislation opposes confidentiality related to the corporate composition of legal entities or their ownership; and (ii) tax schemes considered as privileged, whose definition is brought by Law No.11,727/08.

In December 2014, the Brazilian Federal Revenue Office (“RFB”) published the Decree No. 488/14, reducing the tax haven concept to localities that tax income at a maximum rate of less than 17.0% for countries or regimes in line with international fiscal transparency standards as established by Brazilian tax authorities. However, note that Decree No. 488/14 is not applicable to foreign investors whose investments in Brazil are in agreement with CMN Resolution No. 4,373/14.

Despite our understanding that a better interpretation of the legislation currently in force, leads to the conclusion that the concept of the privileged tax scheme, mentioned above, would be applicable only for purposes of Brazilian rules of transfer and undercapitalized pricing, we cannot ensure that further legislation, or even interpretations of the tax authorities determine the application of the concept of the privileged tax scheme, established in Law No. 11,727/08 will also apply to investor non-resident in Brazil in the payment of JCP.

This way, it is recommended that private tax advisors are consulted regarding the consequences of the rules laid down in Law No. 11,727/08, NI No. 1,037/10 and Decree No. 488/14, if the tax authorities determine the application of the concept of the privileged tax regime.

***Tax on Foreign Exchange Transactions***

In accordance with Decree No. 6,306/07, the conversion of foreign currency into Brazilian currency or *vice-versa*, shall be subject to tax on foreign exchange operations. The rate of the current tax on foreign exchange operations, applicable to most of the foreign exchange operations, is 0.38%. However, foreign exchange operations carried out for inflows of resources in Brazil by an Investor 4,373 are subject to tax on foreign exchange operations at a rate of 0%: (i) in the case of variable income operations carried out on the Brazilian stock exchange, as well as acquisitions of shares of publicly held Brazilian companies or subscription of shares related to capital contributions, provided that the issuing company has registered its shares to be traded on the stock exchange; and (ii) for the transfer of resources from Brazil, related to this type of investment, including payments of dividends and JCP and the repatriation of resources invested in the Brazilian market. Additionally, the tax on foreign exchange operations is currently charged at a rate of 0% on the cancellation of ADSs in the exchange for shares.

In any case, the tax rate on foreign exchange operations can be increased at any time by an act of the Federal Executive Branch, up to the percentage of 25.0%, in relation to the transactions that occurred after this possible amendment.

***Tax on the transaction with securities***

In accordance with Decree No. 6,306/07, the tax on the transaction with securities may be charged on all transactions involving securities, even though the transactions are conducted on Brazilian stock exchanges. The tax rate on transactions with securities applicable to transactions involving our shares is currently 0%. In particular, the tax on the transaction with securities is also of 0% due on the deposit of shares traded on Brazilian stock exchanges with the purpose of issuing certificates of deposit to be marketed abroad. The government can increase the tax rate on transactions with securities at any moment by up to 1.5% per day, but only with respect to future transactions.

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***Other federal Brazilian taxes***

There are no federal Brazilian taxes on inheritance, gift or succession applicable to the ownership, transfer or disposition of preferred shares or ADSs by an investor non-resident in Brazil. Gift and inheritance taxes, however, can be levied by some states in Brazil on inheritances bestowed or gifts made by investor non-resident in Brazil to individuals or entities residing or domiciled within such states in Brazil. There are no Brazilian taxes on stamps, issue, registration or similar by investors holding our shares or ADSs.

***Registered capital***

Amounts invested in securities by a holder not residing in Brazil who: (i) qualifies for benefits under CMN Resolution No. 4,373/14 and who registers with the CVM; or (ii) holds ADSs and is represented by the depositary bank's registration, are eligible for registration with the Central Bank. In the case of ADSs, since the shareholder of record is the depositary bank, the depositary bank is responsible for obtaining the registration. The registration allows the remittance outside Brazil of foreign currency, converted at the Exchange Market rate, acquired with the proceeds of distributions on, or dispositions of, underlying shares.

***U.S. federal income tax considerations***

The statements regarding U.S. tax law set forth below are based on U.S. law as in force on the date of this annual report and changes to such law subsequent to the date of this annual report may affect the tax consequences described herein. This summary describes the principal tax consequences of the ownership and disposition of the shares and ADSs, but it does not purport to be a comprehensive description of all of the tax consequences that may be relevant to a decision to hold or dispose of the shares and ADSs. This summary applies only to purchasers of the shares and ADSs who will hold the shares and ADSs as capital assets and does not apply to special classes of holders such as dealers in securities or currencies, holders whose functional currency is not the U.S. dollar, holders of 10.0% or more of our shares (taking into account shares held directly, through depositary arrangements or through attribution), tax-exempt organizations, financial institutions, holders liable for the alternative minimum tax, securities traders who elect to account for their investment in the shares or ADSs on a mark-to-market basis, and persons holding the shares or ADSs in a hedging transaction or as part of a straddle or conversion transaction. Accordingly, each holder should consult such holder's own tax advisor concerning the overall tax consequences to it, including the consequences under laws other than U.S. federal income tax laws, of an investment in the shares or ADSs.

In this discussion, references to a "U.S. holder" are to a holder of a share or ADS that: (i) is a citizen or resident of the United States; (ii) is a corporation organized under the laws of the United States of America or any state thereof; or (iii) is otherwise subject to U.S. federal income taxation on a net basis with respect to the shares and ADSs.

The shares will be treated as equity for U.S. federal income tax purposes. For purposes of the U.S. Internal Revenue Code of 1986, as amended, or the "Code," holders of ADSs generally will be treated as owners of the shares represented by such ADSs.

### ***Taxation of distributions***

A U.S. holder will recognize dividend income for U.S. federal income tax purposes in an amount equal to the amount of any cash and the value of any property distributed by us as a dividend to the extent that such distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes, when such distribution is received by the custodian (or by the U.S. holder in the case of a holder of preferred shares). The amount of any distribution will include the amount of Brazilian tax withheld on the amount distributed, and the amount of a distribution paid in *reais* will be measured by reference to the exchange rate for converting *reais* into U.S. dollars in effect on the date the distribution is received by the custodian (or by a U.S. holder in the case of a holder of preferred shares). If this custodian (or U.S. holder in the case of a holder of preferred shares) does not convert such *reais* into U.S. dollars on the date it receives them, it is possible that the U.S. holder will recognize foreign currency loss or gain, which would be ordinary loss or gain, when the *reais* are converted into U.S. dollars. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations under the Code.

Subject to certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by an individual with respect to the ADSs will be subject to taxation at reduced rates if the dividends are "qualified dividends." Dividends paid on the ADSs will be treated as qualified dividends if: (i) the ADSs are readily tradable on an established securities market in the United States; and (ii) we were not, in the year prior to the year in which the dividend was paid, and are not, in the year in which the dividend is paid, a passive foreign investment company ("PFIC"). The ADSs are listed on the New York Stock Exchange, and will qualify as readily tradable on an established securities market in the United States so long as they are so listed. Based on existing guidance, it is not clear whether dividends received with respect to the shares will be treated as qualified dividends, because the shares themselves are not listed on a U.S.

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exchange. In addition, the U.S. Treasury has announced its intention to promulgate rules pursuant to which holders of the shares or ADSs, and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to treat dividends as qualified for tax reporting purposes. Because such procedures have not yet been issued, it is not clear whether we will be able to comply with them. Holders of ADSs and the shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in light of the considerations discussed above and their own particular circumstances.

Based on our audited financial statements and relevant market data, we believe that we were not treated as a PFIC for U.S. federal income tax purposes with respect to our 2009 to 2016 taxable years. In addition, based on our audited financial statements and our current expectations regarding the value and nature of our assets, the sources and nature of our income, and relevant market and shareholder data, we do not anticipate becoming a PFIC for the 2017 taxable year. Our belief that we are not, and will not in the future be, a PFIC is based on certain Proposed Treasury Regulations dealing with non-U.S. banks. Such regulations are not final and are subject to modification, in which case our determination regarding PFIC status may be different.

Distributions out of earnings and profits with respect to the shares and ADSs generally will be treated as dividend income from sources outside of the United States and generally will be treated separately with other items of "passive" (or, in the case of certain U.S. holders, "financial services") income for the purposes of determining the credit for foreign income taxes allowed under the Code. Subject to certain limitations, Brazilian income tax withheld in connection with any distribution with respect to the shares or ADSs may be claimed as a credit against the U.S. federal income tax liability of a U.S. holder if such holder elects for that year to credit all foreign income taxes. Alternatively such Brazilian withholding tax may be taken as a deduction against taxable income. Foreign tax credits will not be allowed for withholding taxes imposed in respect of certain short-term or hedged positions in securities and may not be allowed in respect of arrangements in which a U.S. holder's expected economic profit is not substantial. U.S. holders should consult their own tax advisors concerning the implications of these rules in light of their particular circumstances.

Distributions of additional shares to holders with respect to their shares or ADSs that are made as part of a *pro rata* distribution to all our shareholders generally will not be subject to U.S. federal income tax.

Holders of shares or ADSs that are foreign corporations or non-resident alien individuals, or "non-U.S. holders," generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to shares or ADSs that are treated as dividend income for U.S. federal income tax purposes unless such dividends are effectively connected with the conduct by the holder of a trade or business in the United States.

***Taxation of capital gains***

Upon the sale or other disposition of a share or ADS, a U.S. holder generally will recognize gain or loss for U.S. federal income tax purposes. The amount of the gain or loss will be equal to the difference between the amount realized in consideration for the disposition of the shares or ADSs and the U.S. holder's tax basis in the shares or ADSs. Such gain or loss generally will be subject to U.S. federal income tax as capital gain or loss and will be long-term capital gain or loss if held for more than one year. Capital losses may be deducted from taxable income, subject to certain limitations. Gain realized by a U.S. holder on a sale or disposition of shares or ADSs generally will be treated as U.S. source income. Consequently, if Brazilian tax is imposed on such gain, the U.S. holder will not be able to use the corresponding foreign tax credit, unless the holder has other foreign source income of the appropriate type in respect of which the credit may be used.

A non-U.S. holder will not be subject to U.S. federal income tax or withholding tax on gain realized on the sale or other disposition of a share or ADS unless: (i) such gain is effectively connected with the conduct by the holder of a trade or business in the United States; or (ii) such holder is an individual who is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

***Backup withholding and information reporting***

Dividends paid on income for the year, and proceeds from the sale or other disposition of the ADSs or the shares to a U.S. holder, generally may be subject to the information reporting requirements of the Code and to backup withholding unless the U.S. holder: (i) establishes, if required to do so, it is an exempt recipient; or (ii) in the case of backup withholding, provides an accurate taxpayer identification number and certifies that no loss of exemption from backup withholding has occurred. The amount of any backup withholding collected from a payment to a U.S. holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the U.S. holder to a refund, provided that certain required information is furnished to the U.S. Internal Revenue Service.

## **10.F. Dividends and Paying Agents**

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A non-U.S. holder generally will be exempt from these information reporting requirements and backup withholding tax, but may be required to comply with certain certification and identification procedures in order to establish its eligibility for such exemption.

Certain U.S. holders may be subject to additional reporting requirements. The penalty for failing to comply with these reporting requirements can be significant. U.S. holders should consult their own tax advisors concerning any U.S. reporting requirements that may arise out of the ownership or disposition of the shares or ADSs in light of their particular circumstances.

## **10.F. Dividends and Paying Agents**

Not applicable.

## **10.G. Statement by Experts**

Not applicable.

## **10.H. Documents on Display**

We file reports, including annual reports on Form 20 F, and other information with the SEC pursuant to the rules and regulations of the SEC that apply to foreign private issuers. You may read and copy any materials filed with the SEC at its Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Any filings we make electronically will be available to the public over the Internet at the SEC's website.

## **10.I. Subsidiary Information**

For information on subsidiaries, see "Item 4.B. Business Overview – Main Subsidiaries" and Note 2(b) of our consolidated financial statements in "Item 18. Financial Statements."

## **ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### ***Market risk***



Market risk is represented by the possibility of financial losses due to the variation of prices and interest rates of our financial assets, since its active and liability portfolios may have mismatches of periods, currencies and indexes. We are exposed to market risk, both in our trading and banking portfolios. The main market risks of our portfolios are interest rate risk and foreign exchange risk.

We use methodologies such as sensitivity analysis and Value at Risk (VaR), among others, for evaluating our market risk.

***Interest rate risk***

Interest rate risk arises as a result of timing differences on the re-pricing of assets and liabilities, unexpected changes in the slope and shape of yield curves, base risk and changes in correlation of interest rates between different financial instruments/indexes. We are exposed to the risk of interest rate movements when there is a mismatch between fixed rates and market interest rates. For a discussion of our management of interest rate sensitivity, see "Item 5.B. Liquidity and Capital Resource – Interest rate sensitivity."

***Exchange risk***

Exchange risk arises as a result of our having assets, liabilities and off-balance sheet items that are denominated in, or indexed to, currencies other than *reais*, either as a result of trading or in the normal course of banking activities. We control exposure to exchange rate movements by ensuring that mismatches are managed and monitored, and our policy is to avoid material exchange rate mismatches. For a discussion of our management of exchange rate sensitivity, see "Item 5.B. Liquidity and Capital Resource – Exchange rate sensitivity."

***Market risk of trading activities***

We enter into derivatives transactions to manage our exposure to interest rate and exchange rate risk. As a result, our exposure to the potential losses described below is generally reduced by these transactions. These derivatives do not qualify as hedges under IFRS. Accordingly, we classify derivatives as

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**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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financial assets held for trading.

**Sensitivity analysis**

Below, a sensitivity analysis for our financial exposure in trading and banking portfolios, based on three scenarios applied to market rates and prices. We considered 25.0% and 50.0% shocks in prices and rates that would adversely affect our positions, and a scenario reflecting an impact of 1 basis point on rates and 1.0% on market prices. These scenarios comply with CVM Instruction No. 475/08.

These figures represent the impact for each scenario in a static portfolio position. Due to the market and portfolios dynamism these positions change continuously and do not necessarily reflect the position shown here. In addition, the Bank has a process of ongoing management of the market risk, which seeks constantly, through the dynamism of the market, manners to mitigate the associated risks, according to the strategy defined by the Senior Management. Thus, in cases where there is evidence of deterioration of a certain position, proactive actions are taken to minimize the possible negative impacts, in order to maximize the risk/return ratio.

Risk Factor	Market as of December 31, 2017	1 base point shock for interest rate and 1% variation for prices	Scenarios	
			25% shock for prices and rates	50% shock for prices and rates
Foreign exchange rate R\$/USD	3.14	3.17	3.93	4.72
1-year fixed rate in reais	6.90%	6.91%	8.62%	10.35%

Shocks were also applied to other risk factors and terms of the interest curves. It is important to note that, in the fourth quarter of 2017, the maximum depreciation of the real against the U.S. dollar was 6.79% (from R\$.1269 as of October, 4, 2017 to R\$.3391 as of December 14, 2017 per U.S. dollar), which is below the 25.0% and 50.0% shock scenarios.

The impacts of these scenarios on our positions would be as follows:

Trading and banking portfolios Risk Factors	On December 31, 2017 Definition	R\$ in thousands Scenarios <sup>(1)</sup>		
		1	2	3
Interest rate in <i>reais</i>	Exposure subject to the variation of fixed interest rates and interest rate coupon	(12,579)	(2,339,939)	(4,560,181)
Price Index	Exposure subject to the variation of price index coupon rates	(512)	(56,130)	(107,716)

Exchange risk

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Exchange coupon	Exposure subject to the variation of foreign exchange coupon rates	(1,575)	(80,110)	(158,548)
Foreign currency	Exposure subject to foreign exchange variation	(600)	(15,004)	(30,008)
Variable income	Exposure subject to the variation of share prices	(16,289)	(407,237)	(814,475)
Sovereigns/Eurobonds and Treasuries	Exposure subject to the variation of interest rates of securities traded abroad	(4,978)	(205,764)	(406,054)
Other	Exposure not eligible in the previous definitions	(12)	(307)	(613)
<b>Total not correlated</b>		<b>(36,545)</b>	<b>(3,104,491)</b>	<b>(6,077,595)</b>
<b>Total correlated</b>		<b>(26,956)</b>	<b>(2,678,101)</b>	<b>(5,232,466)</b>

(1) Amounts net of tax effects.

Banking portfolio Risk Factors	On December 31, 2017 Definition	R\$ in thousands Scenarios <sup>(1)</sup>		
		1	2	3
Interest rate in reais	Exposure subject to the variation of fixed interest rates and interest rate coupon	(12,226)	(2,279,661)	(4,442,044)
Price index	Exposure subject to the variation of price index coupon rates	(368)	(38,791)	(74,890)
Exchange coupon	Exposure subject to the variation of foreign exchange coupon rates	(1,567)	(79,720)	(157,768)
Foreign currency	Exposure subject to foreign exchange variation	(1,253)	(31,322)	(62,644)
Variable income	Exposure subject to the variation share prices	(16,150)	(403,762)	(807,524)
Sovereigns/Eurobonds and Treasuries	Exposure subject to the variation of interest rates of securities traded abroad	(2,684)	(150,051)	(294,541)
Other	Exposure not eligible in the previous definitions	(12)	(307)	(613)
<b>Total not correlated</b>		<b>(34,260)</b>	<b>(2,983,614)</b>	<b>(5,840,024)</b>
<b>Total correlated</b>		<b>(25,050)</b>	<b>(2,567,670)</b>	<b>(5,015,679)</b>

(1) Amounts net of tax effects.

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Trading Portfolio Risk Factors	On December 31, 2017 Definition	R\$ in thousands Scenarios <sup>(1)</sup>		
		1	2	3
Interest rate in reais	Exposure subject to the variation of fixed interest rates and interest rate coupon	(359)	(61,497)	(120,385)
Price index	Exposure subject to the variation of price index coupon rates	(147)	(17,576)	(33,298)
Exchange coupon	Exposure subject to the variation of foreign exchange coupon rates	(9)	(420)	(839)
Foreign currency	Exposure subject to foreign exchange variation	(1,629)	(40,736)	(81,473)
Variable income	Exposure subject to the variation share prices	(1,215)	(30,378)	(60,757)
Sovereigns/Eurobonds and Treasuries	Exposure subject to the variation of interest rates of securities traded abroad	(2,469)	(61,730)	(123,461)
<b>Total not correlated</b>		<b>(5,828)</b>	<b>(212,337)</b>	<b>(420,213)</b>
<b>Total correlated</b>		<b>(3,448)</b>	<b>(131,662)</b>	<b>(259,684)</b>

<sup>(1)</sup> Amounts net of tax effects.**Value at Risk ("VaR")**

The Trading portfolio's risk is measured using the Delta-Normal VaR methodology with a 99.0% confidence level, and the time horizon applied includes the number of days required to undo the existing exposures. Additionally, for the measurement of all risk factors of the options portfolio, the historic simulation models and Delta-Gama-Vega are applied, whichever is the most conservative of the two, whereby this risk of options is added to the *VaR* of the portfolio.

For the calculation of volatilities, correlations, and historic returns, a minimum window of 252 business days is adopted. The methodology applied and the existing statistical models are assessed on a permanent basis using backtesting techniques, which compare the VaR with holding periods of one day and hypothetical results, obtained with the same positions used in the VaR calculation, and effectively considering also the transactions of the day for which the VaR was estimated.

The main purpose is to monitor, validate and evaluate the VaR model's adherence and the number of breaks occurred should be in line with the number of breaks accepted by the statistical tests carried out for

the required level of confidence (99.0%). Another purpose is to improve the models used by us, by way of analyses carried out for different VaR observation periods and confidence levels, both for Total VaR and by risk factors.

In 2017 the daily results, both hypothetical and effective point of view, exceeded the respective VaR with a confidence level of 99.0% only once. In accordance with the paper published by the Basel Committee on Banking Supervision (Supervisory Framework for the use "Backtesting" in Conjunction with the Internal Models Approach to Market Risk Capital Requirements of January 1996), any deviations would be classified as "either bad luck or the markets moved in a fashion unanticipated by the model," that is, the volatility was significantly higher than expected and/or the correlations differed from those forecast by the model.

In 2017, VaR of the trading portfolio, at one-day horizon and net of tax effects, presented maximum and minimum values of R\$100.6 million in the 2Q17 and R\$5.5 million in the 3Q17, respectively. The tables below show the value at risk, according to the methodology of the *VaR*.

	2017 - R\$ in thousands			At March 31
	Average	1 <sup>st</sup> Quarter Minimum	Maximum	
<b>Risk Factors</b>				
Reais (fixed and floating rate)	17,223	8,364	27,106	13,168
Foreign exchange coupon	751	64	1,883	1,007
Foreign currency	1,871	17	6,203	977
Variable income	418	-	1,677	572
Sovereign risk	4,557	3,154	6,989	4,072
Other	2	1	4	2
<b>Total VaR</b>	<b>20,552</b>	<b>11,145</b>	<b>29,972</b>	<b>15,261</b>

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	2017 - R\$ in thousands			
	Average	2 <sup>nd</sup> Quarter Minimum	Maximum	At June 30
<b>Risk Factors</b>				
Reais (fixed and floating rate)	36,091	13,060	94,515	22,758
Foreign exchange coupon	556	62	1,908	139
Foreign currency	1,399	129	7,743	245
Variable income	601	8	2,851	94
Sovereign risk	2,599	1,922	3,949	2,363
Other	1	-	2	2
<b>Total VaR</b>	<b>39,043</b>	<b>15,301</b>	<b>100,640</b>	<b>25,133</b>

	2017 - R\$ in thousands			
	Average	3 <sup>rd</sup> Quarter Minimum	Maximum	At September 30
<b>Risk Factors</b>				
Reais (fixed and floating rate)	16,688	4,493	25,965	19,883
Foreign exchange coupon	353	5	2,947	131
Foreign currency	809	157	2,052	1,640
Variable Income	385	60	1,975	270
Sovereign risk	1,739	702	3,082	2,388
Other	1	-	3	2
<b>Total VaR</b>	<b>18,542</b>	<b>5,499</b>	<b>27,900</b>	<b>23,262</b>

	2017 - R\$ in thousands			
	Average	4 <sup>th</sup> Quarter Minimum	Maximum	At December 31
<b>Risk Factors</b>				
Reais (fixed and floating rate)	15,648	10,636	34,044	11,233
Foreign exchange coupon	357	12	1,802	48
Foreign currency	2,058	358	4,920	2,925
Variable Income	311	118	871	289
Sovereign risk	1,214	455	2,325	826
Other	2	-	4	1
<b>Total VaR</b>	<b>18,150</b>	<b>13,026</b>	<b>37,485</b>	<b>14,417</b>

The following table shows trading portfolio VaR concentration in frequency terms in the year ended December 31, 2017:

<b>Value at Risk (R\$ in millions)</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Annual Average</b>
Up to R\$20	43.1%	15.6%	56.9%	79.7%	48.8%
Over R\$20 up to R\$30	56.9%	45.3%	43.1%	17.2%	40.3%
Over R\$30 up to R\$40	0.0%	12.5%	0.0%	3.1%	4.3%
Over R\$40 up to R\$50	0.0%	3.1%	0.0%	0.0%	0.8%
Over R\$50	0.0%	23.4%	0.0%	0.0%	5.8%

## **ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

### **12.A. Debt Securities**

Not applicable.

### **12.B. Warrants and Rights**

Not applicable.

**12.C. Other Securities**

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**12.C. Other Securities**

Not applicable.

**12.D. American Depositary Shares**

The table below describes the services and the respective rates and fees that the direct or indirect holders of our ADRs (preferred and common) may be subject to pay to our depository bank, The Bank of New York Mellon ("BNYM").

<b>RATES AND FEES</b>	<b>SERVICE</b>
US\$0.05 (or less) for ADSs or common share ADSs.	<ul style="list-style-type: none"> <li>· Issuance of ADSs or common share ADSs, including issuances from share distribution, rights or other assets.</li> <li>· ADS or common share ADS cancellation due to withdrawal, including in the event the deposit agreement is terminated.</li> </ul>
US\$0.02 (or less) per ADSs or common share ADSs.	<ul style="list-style-type: none"> <li>· Any cash distribution to registered ADS or common share ADS holders.</li> </ul>
A fee equivalent to the one that should be paid if the distributed bonds were equivalent to shares and shares were deposited for the issuance of ADSs or common share ADSs.	<ul style="list-style-type: none"> <li>· Distribution of bonds to deposit holders, which are distributed by the depository to registered ADS or common share ADS holders.</li> </ul>
US\$0.02 (or less) per ADSs or common share ADSs per year.	<ul style="list-style-type: none"> <li>· Depository services.</li> </ul>
Registration or transfer fees.	<ul style="list-style-type: none"> <li>· Transfer and registration of shares in custodian's books on behalf of the depository or his/her agent, when shares are deposited or withdrawn.</li> <li>· Expenses related to telegram, telephone and fax (when expressly indicated in the deposit agreement).</li> <li>· Converting foreign currency into U.S. dollars.</li> </ul>
Depository's expenses.	<ul style="list-style-type: none"> <li>· As necessary.</li> </ul>
Taxes and other governmental fees the depository or the custodian must pay on any ADS or common share ADSs, or share backed by any ADS or common share ADSs, for example: taxes for transfer of shares, stamp tax or withholding taxes.	<ul style="list-style-type: none"> <li>· As necessary.</li> </ul>



Any costs incurred by the depositary or the agent for services provided relating to deposited bonds.

From January 1 to December 31, 2017, we received from our depositary bank the amount of US\$15.4 million, as reimbursement or payment made in our favor.

## **PART II**

### **ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

Not applicable.

### **ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

Not applicable.

### **ITEM 15. CONTROLS AND PROCEDURES**

Financial responsibility, disclosure controls and procedures, and report on internal control over financial reporting.

#### ***(a) Disclosure controls and procedures***

As of December 31, 2017, evaluations of the effectiveness of our disclosure controls and procedures (as defined in Articles 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 of the SEC) were carried out under the supervision of our Management, including our Chief Executive Officer and Chief Financial Officer. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, and it may not prevent or identify deficiencies. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based upon the evaluation referred to above, our Chief Executive Officer and Chief Financial Officer concluded, subject to the limitations noted above, that for the period covered by this annual report, our disclosure controls and procedures were adequate and effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act of the

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**ITEM 16. [RESERVED]**

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SEC is recorded, processed, summarized and disclosed within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our Management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

***(b) Management's annual report on internal control over financial reporting***

Our Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Articles 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 of the SEC. Our internal control was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting practices.

Our Management made an assessment of the effectiveness of our internal control over consolidated financial reporting as of December 31, 2017 based upon the 2013 framework "Integrated Internal Control Structure" established by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and has concluded that our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting, as of December 31, 2017, has been audited by KPMG Auditores Independentes, a PCAOB – registered independent accounting firm, as stated in their report beginning on page F-3 of "Item 18. Financial Statements."

***(c) Attestation report of the independent registered public accounting firm***

For the report of KPMG Auditores Independentes, our PCAOB – registered independent accounting firm, dated April 30, 2018, on the effectiveness of the internal control over financial reporting as of December 31, 2017, see "Item 18. Financial Statements."

***(d) Changes in internal control over financial reporting***

Except for the implementation of certain new processes and internal controls related to the classification and measurement of financial instruments and impairment of loans and advances, in which includes: (i) new models for the classification and measurement of financial instruments; (ii) measurement of expected credit losses for financial assets; and (iii) new requirements on hedge accounting, in order to estimate the impacts on shareholders' equity in relation to the adoption of IFRS 9 and prospective application, there have been no changes in our internal control over financial reporting (as such term is defined in Articles 13a-15(f) and 15d-15(f) under the "Securities Exchange Act of 1934" of the SEC) that occurred during the fiscal year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## ITEM 16. [RESERVED]

### 16.A. Audit Committee Financial Expert

Our Board of Directors has reviewed the qualifications and backgrounds of the members of the Audit Committee and designated Paulo Roberto Simões da Cunha as "Audit Committee financial expert," within the meaning of Item 16.A, and as independent member. For more information regarding our Audit Committee, see "Item 6.C. Board Practices – Board Committees – Audit Committee."

### 16.B. Code of Ethics

We have adopted a Code of Ethics and Sectorial Codes of Ethics under the Securities Exchange Act of 1934, as amended. Our Codes of Ethics apply to our Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer and persons performing similar functions, to our directors, officers and other executives, employees, business partners, suppliers and service providers. Our Codes of Ethical Conduct are available on our website at [www.bradesco.com.br/ir](http://www.bradesco.com.br/ir). If we amend the provisions of our Codes of Ethical Conduct, or if we grant any waiver of such provisions, we will disclose such amendment or waiver on our website at the same address.

### 16.C. Principal Accountant Fees and Services

#### *Audit and non-audit fees*

The following table sets forth the fees billed to us by our independent accounting firm during the fiscal years ended as of December 31, 2017 and 2016:

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**16.D. Exemptions from the listing standards for Audit Committees**

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	Year ended December 31,	R\$ in thousands	
		2017	2016
Audit fees		40,604	38,504
Audit-related fees		775	2,008
Other fees		2,321	3,213
<b>Total fees</b>		<b>43,700</b>	<b>43,725</b>

The fees for the years 2017 and 2016 correspond to those paid to our auditor for those years (KPMG Auditores Independentes).

Our independent accounting firm audits our annual financial statements in accordance with IFRS and BR GAAP, the annual financial statements of our investee companies, as well as the quarterly review of our interim financial statements.

Audit-related fees in the above table are the aggregate fees billed by the independent auditors for accounting attestation reports requested by our Management and the issue of comfort letters for placement of bonds abroad.

Other fees in the above table are fees billed by the independent auditors primarily related to agreed upon procedures, due diligence and reviews of, substantially, financial, fiscal and actuarial information.

***Audit Committee pre-approval policies and procedures***

The Audit Committee recommends to the Board of Directors for approval, the entity to be hired to provide us and our subsidiaries independent audit services, and their compensation, as well as its replacement. The engagement of an independent auditor for non-audit services is not subject to the Board of Directors. However, it must be previously reviewed by the Audit Committee in respect to compliance with independence rules. For more information regarding our Board of Directors and Audit Committee, see "Item 6.C. Board of Directors Practices."

**16.D. Exemptions from the listing standards for Audit Committees**

Under the NYSE and the SEC listed-company audit committee rules effective July 31, 2006, we must comply with Exchange Act Rule 10A-3, which requires us to either establish an Audit Committee composed of members of the Board of Directors that meets specified requirements or designate and empower a Fiscal

Council or similar body to perform the role of an Audit Committee based on the exemption in Exchange Act Rule 10A-3(c)(3).

Pursuant to Central Bank regulations, we have established a body denominated Audit Committee, which performs nearly all of the functions of an Audit Committee of a U.S. company. Of the three members of our Audit Committee, one member is also a member of our Board of Directors. Under Brazilian law, the function of hiring independent auditors is a power reserved for the Board of Directors. As a result, our Board of Directors acts as our Audit Committee, as specified in Section 3(a)(58) of the Exchange Act, for purposes of approving the engagement of our independent auditors for audit. Except in these respects, our Audit Committee is comparable to and performs the functions of an audit committee of the Board of Directors of a U.S. company. Since our Audit Committee is not a committee of our Board of Directors, but a separate body, as required under Brazilian law, we believe that our Audit Committee satisfies the requirements of Exchange Act Rule 10(a)(3). However, based on the exemption set forth in Exchange Act Rule 10A-3(c)(3) the Audit Committee is a separate body from our Board of Directors and in accordance with Central Bank regulations, we believe that our Audit Committee is able to act independently in performing the responsibilities of an Audit Committee under the Sarbanes-Oxley Act and to satisfy the other requirements of Exchange Act Rule 10A-3.

## **16.E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

The purpose of the program of acquisition of shares to be held in treasury and to be subsequently disposed of or canceled, without capital reduction, is the application of funds available for investments from the "Earnings Reserve – Statutory Reserve" account. This program authorizes the acquisition of up to 15,000,000 nominative book-keeping shares, with no par value, whereby 7,500,000 are common shares and 7,500,000 are preferred shares; and it is effective from June 27, 2017 until June 26, 2018.

In 2017, any class of shares were acquired to be held in treasury.

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**16.F. Change in Registrant's Certifying Accountant**

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**16.F. Change in Registrant's Certifying Accountant**

Not applicable.

**16.G. Corporate Governance**

In May 2006, our Board of Directors approved our Corporate Governance Policy. This policy is available on our website at [www.bradesco.com.br/ri](http://www.bradesco.com.br/ri).

***Comparison of our corporate governance practices with NYSE rules applicable to North American companies***

Under the NYSE's corporate governance rules approved by the SEC, foreign private issuers are subject to a more limited set of corporate governance requirements than U.S. domestic issuers. As a foreign private issuer, we must comply with three rules imposed by the NYSE:

- SEC requirements concerning audit committees;
- our CEO must promptly notify the SEC in writing as soon as an executive officer becomes aware of any non-compliance with any of the applicable NYSE corporate governance rules; and
- we must provide a brief description disclosing any significant ways in which our corporate governance practices differ from those followed by U.S. companies under NYSE listing standards.

The chart below provides a brief description of the significant differences between our corporate governance practices and those followed by U.S. companies under NYSE listing standards.

Article	NYSE corporate governance rules for US issuers	Our corporate governance practices
<b>303A.01</b>	Independent directors must comprise a majority of the members of the Board of Directors of a listed company on NYSE.	Brazilian law provides that only individuals may be appointed to a company's Board of Directors. Accordingly, there is no legal or statutory provision requiring us to have independent directors.
<b>303A.03</b>	Non management directors of a listed company must meet at regularly scheduled executive sessions without the Board of Executive Officers.	Among our Directors, two are members of the Board of Executive Officers <i>Diretoria Executiva</i> (Vice-Presidents). The directors have regularly scheduled executive sessions at least once a year in order to evaluate their performance.

- 303A.04** Listed companies must have a nomination/corporate governance committee composed entirely of independent directors, with a written charter that addresses specific minimum requirements.
- We have an Executive Committee of Corporate Governance subordinate to the *Diretoria Executiva*, and the Succession Planning and Nomination Committee, which reports to the Board of Directors. Both committees are composed of members of our Management, and have a charter that addresses its minimum requirements.
- 303A.05** Listed companies must have a compensation committee composed entirely of independent directors, with a written charter that addresses specific minimum requirements.
- We have a Compensation Committee of three to seven members chosen among the members of the Board of Directors, except for one who is not a senior manager, each with a five-year term of office. The committee's primary responsibility is to assist the Board of Directors with conducting policies related to the compensation of our executive managers, according to legislation in force. None of the members of the Compensation Committee are independent directors. The Compensation Committee has a written charter that states the responsibilities of the committee.

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**16.G. Corporate Governance**

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**303A.06**

**303A.07** Listed companies must have an audit committee, composed by a minimum of three members who satisfy the requirements of Rule 10A-3 under the Exchange Act, with a written charter that addresses specific minimum requirements.

Pursuant to our Bylaws and to Central Bank regulations since December 2003, we have appointed an Audit Committee. Our Audit Committee comprises three to five members, each of whom serves for a term of five years, and is appointed by, and may be replaced by, the Board of Directors. We currently have three members on our Audit Committee, one of them is also our director. Under Brazilian law, the function of hiring independent auditors is reserved for the Board of Directors of a company. As a result, our Board of Directors acts as our Audit Committee, as specified in Section 3(a)(58) of the Exchange Act, for purposes of approving the engagement of our independent auditors for audit. Except in these respects, our Audit Committee is comparable to and performs the functions of audit committees of U.S. companies. Since our Audit Committee is a separate body from our Board of Directors, pursuant to Central Bank regulations, we have relied on the exemption set forth in Exchange Act Rule 10A-3(c)(3) in this regard. For more information on their main tasks, see "Item 6.C. Board Practices – Board Advisory Committees – Board Committees."

We also have a Fiscal Council, which currently has five members and five alternates. The Fiscal Council is an independent corporate body.

For more information about the rights and obligations of our Fiscal Council, see "Item 6.C.

- Shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, with limited exemptions set forth in the NYSE rules.
- 303A.08
- Listed companies must adopt and disclose corporate governance guidelines addressing specific minimum requirements.
- 303A.09
- Listed companies must adopt and disclose a Code of Ethical Conduct for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.
- 303A.10
- A CEO of a listed company must promptly notify the NYSE in writing after any executive officer of the listed company becomes aware of any non-compliance with any applicable provisions of Section 303A.
- 303A.12
- Board Practices – Fiscal Council.” Under the Brazilian Corporate Law, shareholder approval is required for the adoption of any compensation plans upon delivery of equity interests. We currently do not have any stock option based compensation plan. Our corporate governance guidelines and practices are available in our website at [www.bradesco.com.br/ri](http://www.bradesco.com.br/ri), in the corporate governance section. We have adopted a Code of Ethical Conduct, which applies to our Senior Management, employees, business partners, suppliers and service providers, parent companies, subsidiaries and companies under common control, directly or indirectly and, when applicable, to non-profit entities managed by members of Senior Management or employees appointed or transferred by our member companies. We have an Ethical Conduct Committee, appointed by the Board of Directors, which is responsible for dissemination and fulfillment of the Codes of Ethical Conduct, as well as ensuring its effectiveness.
- We will post any modifications or waivers to either Codes of Ethical Conduct on our website. Our CEO shall promptly notify the NYSE in writing, should any executive officer become aware of any non-compliance with any applicable provision of the NYSE corporate governance rules.

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## **PART III**

### **ITEM 17. FINANCIAL STATEMENTS**

See "Item 18. Financial Statements."

### **ITEM 18. FINANCIAL STATEMENTS**

See our financial statements on pages F-2 through F-153.

### **ITEM 19. EXHIBITS**

Documents filed as exhibits to this annual report:

1.1 - Our Amended and Restated Bylaws.

2.1 - Deposit Agreement, amended and restated, dated as of December 11, 2015, by and among us, The Bank of New York Mellon, as depository, and the holders and beneficial owners of preferred share ADSs evidenced by preferred share ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the ADSs filed on December 1, 2015 (File No. 333-208281)).

2.2 – Common share Deposit Agreement, amended and restated, dated as of December 11, 2015, by and among us, The Bank of New York Mellon, as depository, and the holders and beneficial owners of common share ADSs evidenced by common share ADRs issued thereunder (incorporated by reference to the Registration Statement on Form F-6 relating to the common share ADSs filed on December 1, 2015 (File No. 333-179623)).

2.3 - The total amount of our long-term debt securities and our subsidiaries' long-term debt securities under any one instrument does not exceed 10.0% of our total assets and our subsidiaries' total assets on a consolidated basis. We agree to furnish copies of any or all such instruments to the SEC upon request.

4.1+ – Share Purchase Agreement dated July 31, 2015 between HSBC Latin America Holdings (UK) and us (incorporated by reference to the Annual Report on Form 20-F/A filed on August 29, 2016 – File No. 001-15250).

6.1 - Calculation of earnings per share data and weighted average number of shares outstanding.

7.1 - Calculation of dividends/interest on equity per share data.

8.1 - List of Subsidiaries .

12.1 - Certification of the Chief Executive Officer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934 .

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**ITEM 19. EXHIBITS**

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12.2 - Certification of the Chief Financial Officer, pursuant to Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934.

13.1 - Certification of the Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

13.2 - Certification of the Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

+ Registrant has omitted portions of the referenced exhibit pursuant to a request for confidential treatment pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.

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## SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the Registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused this annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

### **Banco Bradesco S.A.**

/s/ Octavio de Lazari Junior  
Octavio de Lazari Junior  
Chief Executive Officer

/s/ André Rodrigues Cano  
André Rodrigues Cano  
Vice-President

Date: April 30, 2018.







Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

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Consolidated Financial Statements in compliance with International Financial Recording Standards (IFRS)

***Independent Auditors' Report***

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders

Banco Bradesco S.A.

*Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying consolidated statement of financial position of Banco Bradesco S.A. and subsidiaries (“Bradesco”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for each of the years in the three-year period ended December 31, 2017 and the related notes. We also have audited Bradesco’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Banco Bradesco S.A. and subsidiaries as of December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2017, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Also in our opinion, Bradesco maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

*Basis for Opinions*

Bradesco’s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting,

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included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on Bradesco's consolidated financial statements and an opinion on Bradesco's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bradesco in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Bradesco \_\_\_\_\_

Consolidated Financial Statements in compliance with International Financial Recording Standards (IFRS)

### ***Independent Auditors' Report***

#### *Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

KPMG Auditores Independentes

We have served as the Company's auditor since 2011.

Osasco, Brazil

April 30, 2018

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Consolidated Statements of Income**

	Note	R\$ thousand		
		Years ended December 31		
		2017	2016	2015
Interest and similar income		126,232,328	147,700,375	127,048,252
Interest and similar expenses		(75,589,415)	(91,037,386)	(71,412,210)
<b>Net interest income</b>	6	<b>50,642,913</b>	<b>56,662,989</b>	<b>55,636,042</b>
Fee and commission income		22,748,828	20,341,087	17,856,873
Fee and commission expenses		-	(36)	(36,203)
<b>Net fee and commission income</b>	7	<b>22,748,828</b>	<b>20,341,051</b>	<b>17,820,670</b>
Net gains/(losses) on financial instruments classified as held for trading	8	9,623,108	16,402,770	(8,252,055)
Net gains/(losses) on financial instruments classified as available for sale	9	570,358	(1,341,400)	(671,810)
Losses on investments held-to-maturity	22	(54,520)	-	-
Net gains/(losses) on foreign currency transactions	10	1,422,957	150,757	(3,523,095)
Net income from insurance and pension plans	11	6,239,990	4,155,763	5,497,505
<b>Other operating income</b>		<b>17,801,893</b>	<b>19,367,890</b>	<b>(6,949,455)</b>
Impairment of loans and advances	12	(16,860,835)	(15,350,278)	(14,721,152)
Personnel expenses	13	(20,723,265)	(17,003,783)	(14,058,047)
Other administrative expenses	14	(16,882,461)	(16,149,563)	(13,721,970)
Depreciation and amortization	15	(4,568,568)	(3,658,413)	(2,942,003)
Other operating income/(expenses)	16	(10,133,357)	(14,004,162)	(12,988,553)
<b>Other operating expense</b>		<b>(69,168,486)</b>	<b>(66,166,199)</b>	<b>(58,431,725)</b>
<b>Income before income taxes and share of profit of associates and joint ventures</b>		<b>22,025,148</b>	<b>30,205,731</b>	<b>8,075,532</b>
Share of profit of associates and joint ventures	27	1,718,411	1,699,725	1,528,051

<b>Income before income taxes</b>		<b>23,743,559</b>	<b>31,905,456</b>	<b>9,603,583</b>
Income tax and social contribution	17	(6,428,956)	(13,912,730)	8,634,322
<b>Net income for the year</b>		<b>17,314,603</b>	<b>17,992,726</b>	<b>18,237,905</b>
<b>Attributable to shareholders:</b>				
Controlling shareholders		17,089,364	17,894,249	18,132,906
Non-controlling interest		225,239	98,477	104,999
<b>Basic and diluted income per share based on the weighted average number of shares attributable to shareholders (expressed in R\$ per share):</b>				
– Earnings per common share	18	2.67	2.80	2.84
– Earnings per preferred share	18	2.94	3.08	3.12

The Notes are an integral part of the Consolidated Financial Statements.

Bradesco \_\_\_\_\_



Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Consolidated Statements of Comprehensive Income**

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
<b>Net income for the year</b>	<b>17,314,603</b>	<b>17,992,726</b>	<b>18,237,905</b>
<b>Items that are or may be reclassified to the Consolidated Statement of Income</b>			
Financial assets available for sale			
Unrealized gains/(losses) on financial assets available for sale	2,931,550	7,757,475	(4,754,469)
Realized gains/(losses) on financial assets available for sale	487,017	(1,459,372)	(923,433)
Tax effect	(1,231,202)	(2,587,076)	2,273,982
Exchange differences on translations of foreign operations			
Foreign exchange on translations of foreign operations	23,010	(194,566)	118,485
Tax effect	5,992	87,555	(57,788)
<b>Total adjustments not included in the net income</b>	<b>2,216,367</b>	<b>3,604,016</b>	<b>(3,343,223)</b>
<b>Total comprehensive income for the year</b>	<b>19,530,970</b>	<b>21,596,742</b>	<b>14,894,682</b>
<b>Attributable to shareholders:</b>			
Controlling shareholders	19,305,731	21,498,265	14,789,683
Non-controlling interest	225,239	98,477	104,999

The Notes are an integral part of the Consolidated Financial Statements.



Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Consolidated Statements of Financial Position**

		R\$ thousand	
	Note	On December 31	
		2017	2016
<b>Assets</b>			
Cash and cash equivalents	19	81,742,951	72,554,651
Financial assets held for trading	20a	241,710,041	213,139,846
Financial assets available for sale	21	159,412,722	113,118,554
Investments held to maturity	22	39,006,118	43,002,028
Financial assets pledged as collateral	23	183,975,173	155,286,577
Loans and advances to banks, net of impairment	24	32,247,724	94,838,136
Loans and advances to customers, net of impairment	25	346,758,099	367,303,034
Non-current assets held for sale	26	1,520,973	1,578,966
Investments in associates and joint ventures	27	8,257,384	7,002,778
Premises and equipment	28	8,432,475	8,397,116
Intangible assets and goodwill, net of accumulated amortization	29	16,179,307	15,797,526
Taxes to be offset	17g	10,524,575	7,723,211
Deferred income tax assets	17c	43,731,911	45,116,863
Other assets	30	50,853,987	47,170,370
<b>Total assets</b>		<b>1,224,353,440</b>	<b>1,192,029,656</b>
<b>Liabilities</b>			
Deposits from banks	31	285,957,468	301,662,682
Deposits from customers	32	262,008,445	232,747,929
Financial liabilities held for trading	20b	14,274,999	13,435,678
Funds from issuance of securities	33	135,174,090	151,101,938
Subordinated debt	34	50,179,401	52,611,064
Technical provisions for insurance and pension plans	35	239,089,590	215,840,000
Other reserves	37	18,490,727	18,292,409
Current income tax liabilities		2,416,345	2,130,286
Deferred income tax assets	17c	1,251,847	1,762,948
Other liabilities	38	97,816,824	96,965,515
<b>Total liabilities</b>		<b>1,106,659,736</b>	<b>1,086,550,449</b>
<b>Shareholders' equity</b>			
Capital	39	59,100,000	51,100,000
Treasury shares		(440,514)	(440,514)
Capital reserves		35,973	35,973
Profit reserves		49,481,227	50,027,816
Additional paid-in capital		70,496	70,496

Other comprehensive income	1,817,659	(398,708)
Retained earnings	7,338,990	4,907,381
<b>Equity attributable to controlling shareholders</b>	<b>117,403,831</b>	<b>105,302,444</b>
<b>Non-controlling interest</b>	<b>289,873</b>	<b>176,763</b>
<b>Total equity</b>	<b>117,693,704</b>	<b>105,479,207</b>
<b>Total liabilities</b>	<b>1,224,353,440</b>	<b>1,192,029,656</b>

The Notes are an integral part of the Consolidated Financial Statements.

Bradesco \_\_\_\_\_



Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Consolidated Statements of Changes in Equity**

	Capital	Treasury shares	Capital reserves	Profit reserves		Additional paid-in capital	Other comprehensive income (1)	Retained earnings	at c sh
				Legal	Statutory				
<b>Balance on December 31, 2014</b>	<b>38,100,000</b>	<b>(298,015)</b>	<b>35,973</b>	<b>193,467</b>	<b>38,571,882</b>	<b>70,496</b>	<b>(659,501)</b>	<b>1,153,439</b>	
Net income	-	-	-	-	-	-	-	18,132,906	
Financial assets available for sale	-	-	-	-	-	-	(3,403,920)	-	
Foreign currency translation adjustment	-	-	-	-	-	-	60,697	-	
<b>Comprehensive income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	
Increase of non-controlling shareholders' interest	-	-	-	-	-	-	-	-	
Purchase of treasury shares	-	(133,033)	-	-	-	-	-	-	
Capital increase of with reserves (2)	5,000,000	-	-	-	(5,000,000)	-	-	-	
Transfers to reserves	-	-	-	859,482	10,295,189	-	-	(11,154,671)	
Interest on equity and dividends	-	-	-	-	-	-	-	(6,034,964)	
<b>Balance on December 31, 2015</b>	<b>43,100,000</b>	<b>(431,048)</b>	<b>35,973</b>	<b>6,341,482</b>	<b>43,867,071</b>	<b>70,496</b>	<b>(4,002,724)</b>	<b>2,096,710</b>	
Net income	-	-	-	-	-	-	-	17,894,249	
Financial assets available for	-	-	-	-	-	-	3,711,027	-	

sale									
Foreign currency translation adjustment	-	-	-	-	-	-	(107,011)	-	-
<b>Comprehensive income</b>	-	-	-	-	-	-	-	-	-
Increase of non-controlling shareholders' interest	-	-	-	-	-	-	-	-	-
Purchase of treasury shares	-	(9,466)	-	-	-	-	-	-	-
Capital increase of with reserves (3)	8,000,000	-	-	-	(8,000,000)	-	-	-	-
Transfers to reserves	-	-	-	754,179	7,353,617	-	-	(8,107,796)	-
Interest on equity and dividends	-	-	-	-	-	-	-	(6,975,782)	-
<b>Balance on December 31, 2016</b>	<b>51,100,000</b>	<b>(440,514)</b>	<b>35,973,807</b>	<b>128,432,220</b>	<b>688,70,496</b>	<b>(398,708)</b>	<b>4,907,381</b>		

The Notes are an integral part of the Consolidated Financial Statements.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Consolidated Statements of Changes in Equity (continued)**

	Capital	Treasury shares	Capital reserves	Profit reserves		Additional paid-in capital	Other comprehensive income (1)	Retained earnings	att
				Legal	Statutory				co
									sha
<b>Balance on December 31, 2016</b>	51,100,000	(440,514)	35,973	6,807,128	43,220,688	70,496	(398,708)	4,907,381	10
Net income	-	-	-	-	-	-	-	17,089,364	-
Financial assets available for sale	-	-	-	-	-	-	2,187,365	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	29,002	-	-
<b>Comprehensive income</b>									
Increase of non-controlling shareholders' interest	-	-	-	-	-	-	-	-	-
Capital increase with reserves (4)	8,000,000	-	-	-	(8,000,000)	-	-	-	-
Transfers to reserves	-	-	-	732,888	6,720,523	-	-	(7,453,411)	-
Interest on shareholders' equity	-	-	-	-	-	-	-	(7,204,344)	(
<b>Balance on December 31, 2017</b>	59,100,000	(440,514)	35,973	7,540,016	41,941,211	70,496	1,817,659	7,338,990	10

(1) In 2017, consists, basically of unrealized net gains/losses of marketable securities, classified as available for sale (Notes 21 and 23), whose accumulated effect net of taxes amounts to R\$ (1,070,252) thousand (December 2016 – R\$ 154,958 thousand);

(2) At Special Shareholders' Meeting held on March 10, 2015, the shareholders deliberated the increase of Capital stock by R\$ 5,000,000 thousand, from R\$ 38,100,000 thousand to R\$ 43,100,000 thousand, through capitalization of part of the balance of the caption "Profit reserves - Statutory Reserve", in conformity with Article 169 of Law No. 6.404/76, with bonus of 20% in shares, with issuance of 841,454,808 new

registered shares, without par value, of which 420,727,426 are common and 420,727,382 are preferred shares. These shares are granted to the shareholders, free of charge, as bonus, at the proportion of two (2) new share to each ten (10) shares of the same type held by them, which benefits the shareholders enrolled in the records of Bradesco on March 26, 2015;

(3) At Special Shareholders' Meeting held on March 10, 2016, the shareholders approved the Board of Directors' proposal to increase the capital by R\$ 8,000,000 thousand, from R\$ 43,100,000 thousand to R\$ 51,100,000 thousand, with bonus in shares, through capitalization of part of the balance of the caption "Profit reserves - Statutory Reserve", in conformity with Article 169 of Law No. 6.404/76, with issuance of 504,872,885 new registered shares, without par value, of which 252,436,456 are common and 252,436,429 are preferred shares, which will be granted to the shareholders, free of charge, as bonus, at the proportion of 1 new share to each 10 shares of the same type held by them on the base date; and

(4) At Special Shareholders' Meeting held on March 10, 2017, the shareholders approved the Board of Directors' proposal to increase the capital by R\$ 8,000,000 thousand, from R\$ 51,100,000 thousand to R\$ 59,100,000 thousand, with bonus in shares, through capitalization of part of the balance of the caption "Profit reserves - Statutory Reserve", in conformity with Article 169 of Law No. 6.404/76, with issuance of 555,360,173 new registered shares, without par value, of which 277,680,101 are common and 277,680,072 are preferred, which were granted to the shareholders, free of charge, as bonus, at the proportion of 1 new share to each 10 shares of the same type held by them on the base date.

The Notes are an integral part of the Consolidated Financial Statements.

Bradesco \_\_\_\_\_

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Consolidated Statements of Cash Flows**

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
<b>Operating activities</b>			
<b>Income before income taxes</b>	<b>23,743,559</b>	<b>31,905,456</b>	<b>9,603,583</b>
<b>Adjustments to reconcile income before income tax to net cash flow from operating activities:</b>			
Impairment of loans and advances	16,860,835	15,350,278	14,721,152
Changes in the technical provisions for insurance and pension plans	34,805,771	32,781,918	28,286,039
Net (gains)/losses from disposals of assets available for sale	(2,299,397)	(764,707)	247,288
Expenses with provisions and contingent liabilities	2,471,288	2,518,761	3,510,916
Deferred acquisition cost (insurance)	680,136	194,994	(95,110)
Impairment of assets	1,925,304	2,388,580	650,588
Depreciation	1,237,328	1,140,369	1,057,722
Amortization of intangible assets	3,331,240	2,516,777	1,884,281
Share of profit of associates and joint ventures	(1,718,411)	(1,699,725)	(1,528,051)
Losses on disposal of non-current assets held for sale	577,212	442,251	180,602
Net losses from disposal of property and equipment	106,722	24,791	96,630
(Gains) on sale of investments in associates	(270,977)	-	-
Effect of Changes in Exchange Rates in Cash and Cash equivalents	(806,312)	5,617,747	(2,911,155)
<b>Changes in assets and liabilities:</b>			
(Increase)/Decrease in reserve requirement - Central Bank	(8,677,695)	11,651,121	(3,866,979)
(Increase)/decrease in loans and advances to banks	(2,493,535)	10,368,220	2,045,985
(Increase)/decrease in loans and advances to customers	(59,578,512)	(49,649,090)	(95,025,702)
(Increase)/decrease in financial assets held for trading	(23,089,236)	(40,248,319)	(80,159,223)
(Increase)/decrease in other assets	(23,384,107)	(8,296,942)	(32,926,622)
Increase/(decrease) in deposits from banks	3,955,797	33,269,744	40,729,421
Increase/(decrease) in deposits from customers	36,853,866	(6,707,994)	(3,463,924)
Increase/(decrease) in financial liabilities held for trading	839,321	(9,700,099)	16,030,156
Increase/(decrease) in technical provisions for insurance and pension plans	(11,556,181)	(2,042,897)	(3,904,319)
Increase/(decrease) in other provisions	(2,272,970)	(3,019,960)	(2,011,000)
Increase/(decrease) in other liabilities	19,117,355	10,312,756	29,295,296
Interest received	61,743,368	70,917,068	62,725,684
Interest paid	(27,254,361)	(45,140,018)	(38,823,738)
Income tax and social contribution paid	(8,575,438)	(9,771,075)	(7,419,802)

Other changes in taxes	(720,182)	(400,787)	(283,883)
<b>Net cash provided by/(used in) operating activities</b>	<b>35,551,788</b>	<b>53,959,218</b>	<b>(61,354,165)</b>

**Investing activities**

(Acquisitions)/disposal of subsidiaries, net of cash and cash equivalents paid/received	-	(7,188,659)	-
(Acquisitions) of financial assets available for sale	(114,186,612)	(108,296,179)	(61,153,632)
Proceeds from sale of financial assets available for sale	82,760,146	115,724,092	39,147,316
Maturity of investments held to maturity	4,219,351	-	269,063
(Acquisitions) of investments held to maturity	(204,557)	-	-
Disposal of non-current assets held for sale	796,869	629,768	742,732
(Acquisitions) of investments in associates	(83,172)	(376,434)	(971,672)
Dividends and interest on capital received	845,134	510,285	668,178
(Acquisition) of property and equipment	(1,897,645)	(2,779,321)	(2,181,549)
Sale of premises and equipment	445,347	486,303	205,094
(Acquisition) of intangible assets	(3,743,704)	(2,343,497)	(1,971,881)
Dividends received	83,341	117,972	251,623
Interest received	12,735,539	12,668,011	13,033,426
<b>Net cash provided by/(used in) investing activities</b>	<b>(18,229,963)</b>	<b>9,152,341</b>	<b>(11,961,302)</b>

**Financing activities**

Funds from securities issued	62,237,380	47,253,373	68,385,187
Payments on securities issued	(72,494,509)	(47,861,607)	(49,217,829)
Issuance of subordinated debts	6,594,610	3,787,207	11,304,318

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Consolidated Statements of Cash Flows**

	R\$ thousand		
	<b>Years ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Payments on subordinated debts	(8,666,038)	(581,713)	(1,271,261)
Acquisition of treasury shares	-	(9,466)	(133,033)
Increase/(decrease) of non-controlling interest	2,099	3,265	28,446
Interest paid	(24,465,562)	(20,504,528)	(11,093,967)
Interest on equity and dividends paid	(6,512,102)	(5,611,350)	(5,007,596)
<b>Net cash provided by/(used in) financing activities</b>	<b>(43,304,122)</b>	<b>(23,524,819)</b>	<b>12,994,265</b>
<b>(Decrease)/Increase in cash and cash equivalents</b>	<b>(25,982,297)</b>	<b>39,586,740</b>	<b>(60,321,202)</b>
<b>Cash and cash equivalents</b>			
At the beginning of the year	181,230,427	147,261,434	204,671,481
Effect of Changes in Exchange Rates in Cash and Cash equivalents	806,312	(5,617,747)	2,911,155
At the end of the year	156,054,442	181,230,427	147,261,434
<b>(Decrease)/Increase in cash and cash equivalents</b>	<b>(25,982,297)</b>	<b>39,586,740</b>	<b>(60,321,202)</b>
<b>Non-cash transactions</b>			
Credit operations transferred to non-current assets held for sale	1,953,996	2,122,871	1,591,998
Dividends and interest on equity declared but not yet paid	4,295,314	4,482,718	3,622,958
Unrealized (gains)/losses on securities available for sale	(2,187,365)	(3,711,027)	3,403,920

The Notes are an integral part of the Consolidated Financial Statements.

Bradesco \_\_\_\_\_

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

***Notes to the Consolidated Financial Statements***

## **1) General information**

Banco Bradesco S.A. and subsidiaries (“Bradesco”, the “Bank”, the “Company” or the “Organization”) is a publicly-traded company established according to the laws of the Federative Republic of Brazil with headquarters in the city of Osasco, state of São Paulo, Brazil.

Bradesco is a bank that provides multiple services within two segments: banking and insurance. The Bank complies with Brazilian banking regulations and operates throughout all of Brazil. The banking segment includes a range of banking activities, serving individual and corporate customers in the following operations: investment banking, national and international banking operations, asset management operations and consortium administration. The insurance segment covers auto, health, life, accident and property insurance and pension plans as well as capitalization bonds.

The retail banking products include demand deposits, savings deposits, time deposits, mutual funds, foreign exchange services and a range of loans and advances , including overdrafts, credit cards and loans with repayments in installments. The services provided to corporate entities include fund management and treasury services, foreign exchange operations, corporate finance and investment banking services, hedge and finance operations including working capital financing, lease and loans with repayments in installments. These services are provided, mainly, in domestic markets, but also include international services on a smaller scale.

The Organization was originally listed on the São Paulo Stock Exchange (“B3”) and then subsequently on the New York Stock Exchange (“NYSE”).

The consolidated financial statements, in accordance with the IFRS, were approved by the Board of Directors on March 07, 2018.

## 2) Significant accounting practices

These consolidated financial statements of the Organization were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The consolidated financial statements include the consolidated statements of financial position, consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows as well as the notes to the consolidated financial statements.

These consolidated financial statements have been prepared based on historical cost, except for the following material items in the balance sheet: available for sale measured at fair value, assets and liabilities held for trading measured at fair value and financial instruments designated at fair value through profit or loss, and defined-benefit liabilities that are recognized at the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains less the cost of past services not recognized.

The Organization has classified its expenses according to their nature.

The consolidated statement of cash flows shows the changes in cash and cash equivalents during the year arising from operating, investing and financing activities. Cash and cash equivalents include highly liquid investments. Note 19 details the accounts of the consolidated statement of financial position that comprise cash and cash equivalents. The consolidated statement of cash flows is prepared using the indirect method. Accordingly, the income before taxes was adjusted by non-cash items such as provisions, depreciation, amortization and Impairment losses on loans and advances. The interest and dividend received and paid are classified as operating, financing or investment cash flows according to the nature of the corresponding assets and liabilities.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

### ***Notes to the Consolidated Financial Statements***

The preparation of the consolidated financial statements requires the use of estimates and assumptions which affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the profit and loss amounts for the year. The consolidated financial statements also reflect various estimates and assumptions, including, but not limited to: adjustments to the impairment provision of loans and advances; estimates of the fair value of financial instruments; depreciation and amortization rates; impairment losses on assets; the useful life of intangible assets; evaluation of the realization of tax assets; assumptions for the calculation of technical provisions for insurance, supplemental pension plans and capitalization bonds; provisions for contingencies and provisions for potential losses arising from fiscal and tax uncertainties. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The accounting policies listed below were used in all the periods presented and by all the companies of the Organization.

#### **a) Recent Acquisitions**



In August, 2015, Bradesco signed the Purchase and Sale of Shares Agreement with HSBC Latin America Holdings Limited for the acquisition of 100% of the equity of HSBC Bank Brasil S.A. (“HSBC Bank”) and HSBC Serviços e Participações Ltda. (“HSBC Serviços”). In June 2016, the final approval of regulatory agencies was given in compliance with legal formalities. With the conclusion of the acquisition, on July 1, 2016, Bradesco assumed all operations of HSBC in Brazil, including retail, insurance and asset management, as well as all the branches and clients, reinforcing its presence and competitiveness throughout the national territory.

In July 2016, there was a total division of the equity of HSBC Serviços, where portions of this equity were transferred to HSBC Bank and to Credival Participações, Administração e Assessoria Ltda. (Credival), that is a wholly owned subsidiary of HSBC Bank.

In October 2016, approval was granted in an Extraordinary General Meeting for the partial spin-off of HSBC Brasil, through the absorption of portions of its equity by companies of the Organization, enabling progress with the integration of operational and technological platforms, resulting in the replacement of the HSBC brand in its service network, becoming Bradesco. Thus, Bradesco began to operate with a unified platform (branches, ATMs, and systems), to which all clients have access to. Bradesco adds, from now on the products and services already offered to HSBC Brasil clients, a nationwide service network, a state-of-the-art technology platform, and an even more extensive portfolio of products and services.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

### **Notes to the Consolidated Financial Statements**

See below the summarized balance sheet for the acquisition with HSBC Bank and HSBC Serviços (HSBC Brasil) at the date of acquisition:

	Accounting	Adjustments	R\$ thousand Fair Value (1)
Cash and cash equivalents	8,476,708	-	8,476,708
Deposits with the central banks	14,895,767	-	14,895,767
Loans and advances	69,364,585	(1,650,016)	67,714,569
Financial assets held for trading	20,881,824	-	20,881,824
Financial assets available for sale	23,745,717	-	23,745,717
Investments held to maturity	13,450	22,411	35,861
Property and equipment, net of accumulated depreciation	1,175,554	622,246	1,797,800
Intangible assets	558,015	3,993,743	4,551,758
Other assets	25,808,692	848,699	26,657,391
Deposits from banks	(7,808,801)	-	(7,808,801)
Deposits from customers	(56,766,587)	-	(56,766,587)
Financial liabilities held for trading	(3,790,048)	-	(3,790,048)
Funds from securities issued	(40,187,105)	(64,701)	(40,251,806)
Subordinated debt	(1,401,348)	-	(1,401,348)
Provisions	(3,429,291)	-	(3,429,291)
Other liabilities	(42,242,831)	-	(42,242,831)
<b>Sub-total</b>	<b>9,294,301</b>		<b>13,066,683</b>
Goodwill	-	4,221,787	4,221,787
<b>Total amount of shareholders' equity acquired</b>	<b>9,294,301</b>		<b>17,288,470</b>

(1) Based on an assessment made on July 01, 2016, were identifiable the fair values of the assets acquired and liabilities assumed in the acquisition.

The fair value of the consideration transferred was composed as follows:

	R\$ thousand
Payment to HSBC Latin America Holding Limited, net of adjustment after closure <sup>(1)</sup>	15,665,367
Adjustment to the cost acquisition related to the fair value of the firm commitment <sup>(2)</sup>	1,623,103
<b>Fair value of the consideration transferred</b>	<b>17,288,470</b>

(1) Includes the IOF collection, and withholding Income Tax; and

(2) Includes the results from changes to the fair value of the firm commitment attributable to the hedged risk that was recognized in the statement in the financial position hired with the objective of protecting the effects of exchange rate variation of the firm commitment, though the use of a hedging instrument derivative.

In December 2016, Bradesco, based on a study report on purchase price allocation ("PPA"), prepared by a contracted specialized and independent company, made the allocation of the fair value of assets acquired and liabilities assumed by HSBC Brasil, as follows:

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

	R\$ thousand
Shareholders' equity acquired	9,294,301
Fair value of assets acquired and liabilities assumed	(221,361)
Intangible assets acquired	3,993,743
Goodwill in the acquisition of the "HSBC Bank" and "HSBC Serviços" investments	4,221,787
<b>Fair value of the consideration transferred</b>	<b>17,288,470</b>

These acquisitions were recorded on the business combination method and the companies were consolidated from the date that the majority control was acquired.

The goodwill on acquisition, in the amount of R\$ 4,221,787 thousand, recorded by Bradesco, is not amortized and is subject to annual impairment test. Goodwill is attributed to the expected future profitability of the respective businesses acquired and to the strengthening of Bradesco's strategy to strengthen its presence throughout the national territory, giving a greater degree of competition in a highly competitive market, so as to take advantage of the synergies generated by the products and base of HSBC Brasil customers, which are complementary.

**b) Consolidation**

The consolidated financial statements include the financial statements of Bradesco and those of its direct and indirect subsidiaries, including exclusive mutual funds and special purpose entities.

The main subsidiaries included in the consolidated financial statements are as follows:

Activity	Country	Shareholding interest	
		December 31 2017	2016

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Banco Alvorada S.A.	Banking	Brazil	99.99%	99.99%
Banco Bradesco Financiamentos S.A.	Banking	Brazil	100.00%	100.00%
Banco Boavista Interatlântico S.A. (1)	Banking	Brazil	-	100.00%
Banco Bradesco Argentina S.A.	Banking	Argentina	99.99%	99.99%
Banco Bradesco Europa S.A.	Banking	Luxembourg	100.00%	100.00%
Banco Bradesco BERJ S.A.	Banking	Brazil	100.00%	100.00%
Banco Bradescard S.A.	Cards	Brazil	100.00%	100.00%
Banco Bradesco BBI S.A. (1)	Investment bank	Brazil	99.85%	99.81%
Banco Bradesco Cartões S.A.	Cards	Brazil	100.00%	100.00%
Bradesco Administradora de Consórcios Ltda. (2)	Consortium Management	Brazil	100.00%	100.00%
Bradseg Participações S.A.	Holding	Brazil	100.00%	100.00%
Bradesco Auto/RE Cia. de Seguros	Insurance	Brazil	100.00%	100.00%
Bradesco Capitalização S.A.	Capitalization bonds	Brazil	100.00%	100.00%
Odontoprev S.A.	Dental care	Brazil	50.01%	50.01%
Bradesco Leasing S.A. Arrendamento Mercantil	Leasing	Brazil	100.00%	100.00%
Ágora Corretora de Títulos e Valores Mobiliários S.A.	Brokerage	Brazil	100.00%	100.00%
Bradesco S.A. Corretora de Títulos e Valores Mobiliários	Brokerage	Brazil	100.00%	100.00%
Bradesco Saúde S.A.	Insurance / Health	Brazil	100.00%	100.00%
Bradesco Seguros S.A.	Insurance	Brazil	100.00%	100.00%
Bradesco Vida e Previdência S.A.	Pension plan/Insurer	Brazil	100.00%	100.00%
Bradesplan Participações Ltda.	Holding	Brazil	100.00%	100.00%
BRAM – Bradesco Asset Management S.A. DTVM	Asset Management	Brazil	100.00%	100.00%
Tempo Serviços Ltda.	Services	Brazil	100.00%	100.00%
União Participações Ltda.	Holding	Brazil	100.00%	100.00%
Banco Losango S.A.	Banking	Brazil	100.00%	100.00%
Kirton Administradora de Consórcios Ltda (2)	Consortium management	Brazil	-	100.00%
Kirton Bank Brasil S.A.	Banking	Brazil	100.00%	100.00%
Bradesco Kirton Corretora de Títulos e Valores Mobiliários S.A.	Brokerage	Brazil	99.97%	99.97%
Kirton Capitalização S.A. (3)	Capitalization bonds	Brazil	100.00%	99.97%
Kirton Seguros S.A. (4) (5)	Insurance	Brazil	98.54%	98.08%
Kirton Vida e Previdência S.A.	Pension plan/Insurer	Brazil	100.00%	100.00%
Kirton Participações e Investimentos Ltda (5)	Holding	Brazil	-	100.00%

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### **Notes to the Consolidated Financial Statements**

- (1) In November, 2017, Banco Boavista Interatlântico S.A. was merged into Banco Bradesco BBI S.A. with an increase in subscription for shares;
- (2) In May 2017, Kirton Administradora de Consórcios Ltda. was merged into Bradesco Administradora de Consórcios Ltda.;
- (3) Increase in interest, by means of acquisition of shares held by minority shareholders;
- (4) Increase in interest by means of subscription of shares in July 2017; and
- (5) Company merged into Kirton Seguros S.A., in July 2017.

#### **i. Subsidiaries**

Subsidiaries are all of the companies over which the Organization, has control. The Organization has control over an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The subsidiaries are fully consolidated from the date at which the Organization obtains control over its activities until the date this control ceases.

For acquisitions meeting the definition of a business combination, the acquisition method of accounting is used. The cost of an acquisition is measured as the fair value of the consideration, including assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration given over the fair value of the Organization's share of the identifiable net assets and non-controlling interest acquired is recorded as goodwill. Any goodwill arising from business combinations is tested for impairment at least once a year and whenever events or changes in circumstances may indicate the need for an impairment write-down. If the cost of acquisition is less than the fair value of the Organization's share of the net assets acquired, the difference is recognized directly in the consolidated statement of income.

For acquisitions not meeting the definition of a business combination, the Organization allocates the cost between the individual identifiable assets and liabilities. The cost of acquired assets and liabilities is determined by (a) recognizing financial assets and liabilities at their fair value at the acquisition date; and (b) allocating the remaining balance of the cost of purchasing assets and assuming liabilities to individual assets and liabilities, other than financial instruments, based on their relative fair values of these instruments at the acquisition date.

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## ***Notes to the Consolidated Financial Statements***

### **ii. Associates**

Companies are classified as associates if the Organization has significant influence, but not control, over the operating and financial management policy decisions. Normally significant influence is presumed when the Organization holds in excess of 20%, but no more than 50%, of the voting rights. Even if less than 20% of the voting rights are held, the Organization could still have significant influence through its participation in the management of the investee or representations on its Board of Directors, providing it has executive power; i.e. voting power.

Investments in associates are recorded in the Organization's consolidated financial statements using the equity method and are initially recognized at cost. The investments in associates include goodwill (net of any impairment losses) identified at the time of acquisition.

### **iii. Joint ventures**

The Organization has contractual agreements in which two or more parties undertake activities subject to joint control. Joint control is the contractual sharing of control over an activity and it exists only if strategic, financial and operating decisions are made on a unanimous basis by the parties. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the arrangement, rather than rights to its assets and obligations for its liabilities. Investments in joint ventures are recorded in the consolidated financial statements of the Organization using the equity method.

### **iv. Structured entities**

A structured entity is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative



tasks only and the relevant activities are directed by means of contractual arrangements.

Structured entities normally have some or all of the following features or characteristics:

- restricted activities;
- a narrow and well-defined objective, such as, to effect a specific structure like a tax efficient lease, to perform research and development activities, or to provide a source of capital or funding to an entity or to provide investment opportunities for investors by passing risks and rewards associated with the assets of the structured entity to investors;
- thin capitalisation, that is, the proportion of 'real' equity is too small to support the structured entity's overall activities without subordinated financial support; and
- financing in the form of multiple contractually linked instruments to investors that create concentrations of credit risk or other risks (tranches).

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***Notes to the Consolidated Financial Statements***

**v. Transactions with and interests of non-controlling shareholders**

The Organization applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Bank. For purchases of equity from non-controlling interests, the difference between any consideration paid and the share of the carrying value of net assets of the subsidiary acquired is recorded in equity. Gains or losses on sales to non-controlling shareholders are also recorded in equity.

Profits or losses attributable to non-controlling interests are presented in the consolidated statements of income under this title.

**vi. Balances and transactions eliminated in the consolidation**

Intra-group transactions and balances (except for foreign currency transaction gains and losses) are eliminated in the consolidation process, including any unrealized profits or losses resulting from operations between the companies except when unrealized losses indicate an impairment loss of the asset transferred which should be recognized in the consolidated financial statements. Consistent accounting policies as well as similar valuation methods for similar transactions, events and circumstances are used throughout the Organization for the purposes of consolidation.

**c) Foreign currency translation**

**i. Functional and presentation currency**

Items included in the financial statements of each of the Organization's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Brazilian Reais (R\$), which is the Organization's presentation currency. The domestic and foreign subsidiaries use the Real as their functional currency, with the exception of the subsidiary in Mexico, which uses the Mexican Peso as its functional currency.

**ii. Transactions and balances**

Foreign currency transactions, which are denominated or settled in a foreign currency, are translated into the functional currency using the exchange rates prevailing on the dates of the transactions.

Monetary items denominated in foreign currency are translated at the closing exchange rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate on the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates on the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at each period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income as "Net gains/(losses) of foreign currency transactions".

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the consolidated statement of income, and other changes in the carrying amount, except impairment, are recognized in equity.



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### ***Notes to the Consolidated Financial Statements***

#### **iii. Foreign operations**

The results and financial position of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the reporting date;
- Income and expenses for each consolidated statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rate prevailing on the transaction dates, in which case income and expenses are translated at the rates in effect on the dates of the transactions); and
- All resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the above process are reported in equity as “Foreign currency translation adjustment”.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to ‘Other comprehensive income’. If the operation is a non-wholly owned subsidiary, then the relevant proportion of the transaction difference is allocated to the non-controlling interest. When a foreign operation is partially sold or disposed, such exchange differences, which were recognized in equity, are recognized in the consolidated statement of income as part of the gain or loss on sale.

**d) Cash and cash equivalents**

Cash and cash equivalents include: cash, bank deposits, unrestricted balances held with the Central Bank of Brazil and other highly liquid short-term investments, with original maturities of three months or less and which are subject to insignificant risk of changes in fair value, used by the Organization to manage its short-term commitments. See Note 19(b) – “Cash and cash equivalents”.

**e) Sale and repurchase agreements**

Securities sold subject to repurchase agreements are presented in the consolidated financial statements in “Financial assets pledged as collateral”. The counterparty liability is included in “Deposits from Banks”. Securities purchased under agreements to resell are recorded in “Loans and advances to banks” or “Loans and advances to customers”, as appropriate. The difference between sale and repurchase price is treated as interest in the consolidated statement of income and recognized over the life of the agreements using the effective interest rate method.

**f) Financial assets and liabilities**



i. **Financial assets**

The Organization classifies financial assets in the following four categories: measured at fair value through profit or loss; available for sale; held to maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets upon initial recognition.

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***Notes to the Consolidated Financial Statements***

• **Measured at fair value through profit or loss**

Financial assets are initially recorded at fair value with subsequent changes to the fair value recognized immediately in profit or loss. These assets can be subdivided into two distinct classifications at the time of initial recognition: financial assets designated at fair value through profit or loss and financial assets held for trading.

- ***Financial assets designated at fair value through profit or loss***

The Organization does not have any financial assets designated at fair value through profit or loss.

- ***Financial assets held for trading (non-derivatives)***

A financial asset is classified as held for trading if it is acquired by Management for the purpose of selling it in the short term or if it is part of a portfolio of identified financial instruments that are managed together for short-term profit or position taking. Derivative financial instruments are also categorized as held for trading.

Financial assets held for trading are initially recognized in the consolidated statement of financial position at fair value and the transaction costs are recorded directly in the consolidated statement of income.

Realized and unrealized gains and losses arising from changes in fair value of non derivative assets are recognized directly in the consolidated statement of income under "Net gains and losses from financial instruments held for trading." Interest income on financial assets held for trading are included in "Net interest income". For the treatment of derivative assets see Note 2(f)(iii).

- **Financial assets available for sale**

Financial assets available-for-sale are non-derivative financial assets that are intended to be held for an undefined period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Financial assets available-for-sale are initially recognized at fair value, which is the cash consideration including any transaction costs and, subsequently, are measured at fair value with gains and losses being recognized in the consolidated statement of other comprehensive income, except for impairment losses and foreign exchange gains and losses on debt securities, until the financial asset is derecognized. If a financial asset available-for-sale is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the consolidated statement of income.

Interest is recognized in the consolidated statement of income using the effective interest method. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income in 'Dividend income' when the Organization's right to receive payment is established. Exchange gains and losses on investments in debt securities classified as available for sale are recognized in the consolidated statement of income. See Note 2(f)(viii) for more details of the treatment of impairment losses.

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### ***Notes to the Consolidated Financial Statements***

- **Investments held to maturity**

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed term maturities, which the Organization has the positive intention and ability to hold to maturity, and are not designated as at fair value through profit or loss or available for sale and do not meet the definition of loans and receivables.

Investments held to maturity are recognized initially at fair value including direct and incremental costs, and are subsequently recorded at amortized cost, using the effective interest rate method.

Interest on investments held-to-maturity is included in the consolidated statement of income and reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and is recognized in the consolidated statement of income.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets having fixed or determinable payments that are not quoted in an active market, that have not been designated as "available for sale" or "at fair value through profit or loss" and that the Organization has no intention of selling, either immediately or in the near term.

Loans and receivables are initially measured at their fair value plus direct transaction costs and are subsequently valued at amortized cost using the effective interest rate method.

Loans and receivables are reported in the consolidated statement of financial position as loans and advances to banks or customers. Interest on loans is included in the consolidated statement of income and is reported as "Interest and similar income". In the case of impairment, the impairment loss is reported as a

deduction in carrying amount of loans and advances, and is recognized in the consolidated statement of income as "Impairment of loans and advances".

ii. **Financial liabilities**

The Organization classifies its financial liabilities under the following categories: measured at fair value through profit and loss and amortized cost.

- **Measured at fair value through profit and loss**

These financial liabilities are recorded and measured at fair value and the respective changes in fair value are immediately recognized in the income statement. These liabilities can be subdivided into two different classifications upon initial recognition: financial liabilities designated at fair value through profit and loss and financial liabilities held for trading.

- **Financial liabilities designated at fair value through profit and loss**

The Organization does not have any financial liability classified at fair value through profit and loss in income.

- **Financial liabilities held for trading**

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### ***Notes to the Consolidated Financial Statements***

Financial liabilities held for trading recognized by the Organization are derivative financial instruments. For the treatment of derivatives see Note 2(f)(iii).

- **Financial liabilities at amortized cost**

These are financial liabilities that are not classified as at fair value through profit or loss. Initially they are recognized at fair value and, subsequently, are measured at amortized cost. They include deposits from banks and customers, securities issued and subordinated debt securities, among others.

- iii. **Derivative financial instruments and hedge transactions**

Derivatives are initially recognized at fair value on the date the derivative contract is signed and are, subsequently, re-measured at their fair values with the changes recognized in the income statement under "Net gains and losses from financial instruments for trading."

Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example for swaps and foreign currency transactions), such as discounted cash-flow models and options-pricing models, as appropriate. The calculation of fair value, the counterparty's and the entity's own credit risk are considered.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not recorded at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the consolidated statement of income.

**iv. Recognition**

Initially, the Organization recognizes loans and advances, deposits, securities issued and subordinated debts and other financial assets and liabilities on the trade date, in accordance with the contractual provisions of the instrument.

**v. Derecognition**

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognized when they have been discharged, paid, redeemed, cancelled or expired. If a renegotiation or modification of terms of an existing financial asset is such that the cash flows of the modified asset are substantially different from those of the original unmodified asset, then the original financial asset is derecognised and the modified financial asset is recognised as a new financial asset and initially measured at fair value.

**vi. Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when, the Organization has the intention and the legal enforceable right to offset the recognized amounts on a net basis or realize the asset and settle the liability simultaneously.

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## ***Notes to the Consolidated Financial Statements***

### **vii. Determination of fair value**

The determination of the fair values for the majority of financial assets and liabilities is based on the market price or quotes of security dealers for financial instruments traded in an active market. The fair value for other instruments is determined using valuation techniques. The valuation techniques which include use of recent market transactions, discounted cash flow method, comparison with other instruments similar to those for which there are observable market prices and valuation models.

For more common other instruments the Organization uses widely accepted valuation models that consider observable market data in order to determine the fair value of financial instruments.

For more complex instruments, the Organization uses own models that are usually developed from standard valuation models. Some of the information included in the models may not be observable in the market and is derived from market prices or rates or may be estimated on the basis of assumptions.

The value produced by a model or by a valuation technique is adjusted to reflect various factors, since the valuation techniques do not necessarily reflect all of the factors that market participants take into account during a transaction.

The valuations are adjusted to consider the risks of the models, differences between the buy and sell price, credit and liquidity risks, as well as other factors. Management believes that such valuation adjustments are necessary and appropriate for the correct evaluation of the fair value of the financial instruments recorded in the consolidated statement of financial position.

### **viii. Impairment of financial assets**



**(a) Financial assets recognized at amortized cost**

On each reporting date, the Organization assesses whether there is objective evidence that financial assets are impaired. The impairment losses are recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Organization uses to determine that there is objective evidence of an impairment include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the granting to the borrower of a concession that the lender would not otherwise consider for economic or legal reasons relating to the borrower's financial difficulty;
- when it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the loss event cannot yet be identified at the level of the individual financial assets in the portfolio, including:

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- (i) adverse changes in the payment status of group assessed borrowers; and
- (ii) national or local economic conditions that correlate with defaults in the assets.

The Organization takes into consideration evidence of impairment loss for both individually significant assets and groups of assets. All significant financial assets are evaluated to detect specific losses.

All significant assets for which the assessment indicates that there is no specific impairment are assessed as a group to detect any impairment loss that may have occurred, although not yet identified. The financial assets which are not individually significant are assessed as a group to detect any collective impairment loss (recorded at the amortized cost) based on similar risk features. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through provisions and the amount of the loss is recognized in the consolidated statement of income.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit-risk characteristics (that is, on the basis of the Organization's rating process that considers product type, market segment, geographical location, collateral type, past-due status and other related factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit-risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to mitigate any differences between loss estimates and actual loss experience.

Following impairment losses, interest income is recognized using the effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the relevant collection procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts

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previously written off are credited to the consolidated statement of income.

#### **(b) Financial assets classified as available for sale**

The Organization assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. For debt securities the Organization adopts the assessment described in item (a) above, in order to identify an impairment event.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered objective evidence of impairment resulting in the recognition of an impairment loss.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement.

If, in a subsequent period, the fair value increases, for debt instrument classified as available for sale, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of income. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income. Increases in the fair value of equity instruments after impairment are recognized in other comprehensive income.

#### **g) Non-current assets held for sale**

Under certain circumstances, property is repossessed following foreclosure of loans that are in default. Repossessed properties are measured at the lower of their carrying amount and fair value less the costs to sell and are included within "Non-current assets held for sale."

**h) Property and equipment**

**i. Recognition and valuation**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (see Note 2(k) below), if any.

The cost includes expenses directly attributable to the acquisition of an asset.

The cost of assets internally produced includes the cost of materials and direct labor, as well as any other costs that can be directly allocated and that are necessary for them to function. Software acquired for the operation of the related equipment is recorded as part of the equipment.

When different parts of an item have different useful lives, and separate control is practical, they are recorded as separate items (main components) comprising the property and equipment.

Useful lives and residual values are reassessed at each reporting date and adjusted, if appropriate.

Gains and losses from the sale of property and equipment are determined by comparing

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proceeds received with the carrying amount of the asset and are recorded in the consolidated income statement under the heading “Other operating income/(expenses).”

#### **ii. Subsequent costs**

Expenditure on maintenance and repairs of property and equipment items is recognized as an asset when it is probable that future economic benefits associated with the items will flow to the Organization for more than one year and the cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged to the consolidated statement of income during the reporting period in which they are incurred.

#### **iii. Depreciation**

Depreciation is recognized in the consolidated statement of income using the straight-line basis and taking into consideration the estimated useful economic life of the assets. The depreciable amount is the gross-carrying amount, less the estimated residual value at the end of the useful economic life. Land is not depreciated. Useful lives and residual values are reassessed at each reporting date and adjusted, if appropriate.

#### **i) Intangible assets**

Intangible assets comprise separately identifiable non-monetary items, without physical substance due to business combinations, such as goodwill and other purchase intangible assets, computer software and other such intangible assets. Intangible assets are recognized at cost. The cost of an intangible asset, acquired in a business combination, is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized over their estimated useful economic life. Intangible assets with an indefinite useful life are not amortized.

Generally, the identified intangible assets of the Organization have a definite useful life. At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits – see Note 2(k) below.

**i. Goodwill**

Goodwill (or bargain purchase gain) arises on the acquisition of subsidiaries, associates and joint ventures.

Goodwill reflects the excess of the cost of acquisition in relation to the Organization's share of the fair value of net identifiable assets or liabilities of an acquired subsidiary, associate or joint venture on the date of acquisition. Goodwill originated from the acquisition of subsidiaries is recognized as "Intangible Assets", and the goodwill from acquisition of associates and joint ventures is included in the carrying amount of the investment, (see Note 2(b)(ii)). When the difference between the cost of acquisition and the Organization's share of the fair value of net identifiable assets or liabilities is negative (bargain purchase gain), it is immediately recognized in the consolidated statement of income as a gain on the acquisition date.

Goodwill is tested annually, as well as whenever a trigger event has been observed, for impairment (see Note 2(k) below). Gains and losses realized in the sale of an entity include consideration of the carrying amount of goodwill relating to the entity sold.



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### **ii. Software**

Software acquired by the Organization is recorded at cost, less accumulated amortization and accumulated impairment losses, if any.

Internal software-development expenses are recognized as assets when the Organization can demonstrate its intention and ability to complete the development, and use the software in order to generate future economic benefits. The capitalized costs of internally developed software include all costs directly attributable to development and are amortized over their useful lives. Internally developed software is recorded at its capitalized cost less amortization and impairment losses (see Note 2(k) below).

Subsequent software expenses are capitalized only when they increase the future economic benefits incorporated in the specific asset to which it relates. All other expenses are recorded as expenses as incurred.

Amortization is recognized in the consolidated statement of income using the straight-line method over the estimated useful life of the software, beginning on the date that it becomes available for use. The estimated useful life of software is from two to five years. Useful lives and residual values are reviewed at each reporting date and adjusted, if necessary.

### **iii. Other intangible assets**

Other intangible assets refer basically to the customer portfolio and acquisition of banking service rights. They are recorded at cost less amortization and impairment losses, if any, and are amortized for the period in which the asset is expected to contribute, directly or indirectly, to the future cash flows.

These intangible assets are reviewed annually, or whenever events or changes in circumstances occur which could indicate that the carrying amount of the assets cannot be recovered. If necessary, the write-off or impairment (see Note 2(k) below) is immediately recognized in the consolidated statement of income.

**j) Leasing**

The Organization has both operating and finance leases and operates as a lessee and a lessor.

Leases in which a significant part of the risks and benefits of the asset is borne by the lessor are classified as operating leases. For leases in which a significant part of the risks and benefits of the asset is borne by the lessee, the leases are classified as financial lease.

Leases under the terms of which the Organization assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

As a lessee, the Organization classifies its leasing operations mainly as operating leases, and the monthly payments are recognized in the financial statements using the straight-line method over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

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When an operating lease is terminated before the contract expires, any payment that may be made to the lessor in the form of a penalty is recognized as an expense for the period.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

As a lessor, the Organization has substantial finance lease contracts, both in value and total number of contracts.

#### ***i. Finance Leases***

Finance lease assets in the consolidated statement of financial position are initially recognized in the "loans and advances" account at an amount equal to the net investment in the lease.

The initial direct costs generally incurred by the Organization are included in the initial measurement of the lease receivable and recognized as part of the effective interest rate of the contract, decreasing the amount of income recognized over the lease term. These initial costs include amounts for commissions, legal fees and internal costs. The costs incurred in relation to the negotiation, structuring and sales of leases are excluded from the definition of initial direct costs and therefore are recognized as expenses at the beginning of the lease term.

Recognition of financial revenue reflects a constant rate of return on the net investment made by the Organization.

The estimated non-guaranteed residual values used in the calculation of the gross investment of the lessor in the lease are reviewed at least annually. If there is a decrease in the estimated non-guaranteed residual value, the income allocated over the period of the lease is also reviewed periodically and any decrease in relation to the accumulated values is immediately recognized in the consolidated statement of income.

ii. ***Operating leases***

The assets leased under operating leases, where the Organization acts as lessor, are recognized in the consolidated statement of financial position as property and equipment according to the nature of the item leased.

The initial direct costs incurred by the Organization are added to the carrying amount of the leased asset and are recognized as expenses over the period of the lease and on the same basis as the income recognition.

Revenue from lease is recognized using the straight-line method over the term of the lease, even if the payments are not made on the same basis. Costs, including depreciation and maintenance, incurred in the generation of income are recognized as expenses.

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The depreciation policy for leased assets is the same as the depreciation policy used by the Organization for similar assets.

**k) Impairment losses on non-financial assets (except for deferred tax assets)**

Assets that have an indefinite useful life such as goodwill are not subject to amortization and are tested, at least, annually at the same date to verify the existence of impairment.

Assets, which are subject to amortization or depreciation, are reviewed to verify impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized based on the excess the carrying amount of the asset or the cash generating unit (CGU) over its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of its fair value, less costs to sell, and its value in use.

For the purpose of impairment testing, the assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to a ceiling of the operating segments, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGU's that are expected to benefit from the synergies of the combination.

The recoverable amount is the higher of an asset/CGU's fair value less costs to sell and its value in use. When assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current market conditions of the time value of money and the specific risks of the asset or CGU.

The Organization's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGU's on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in the consolidated Statement of Income. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGU's) and then to reduce the carrying amount of the other assets in the CGU (group of CGU's) on a pro rata basis.

An impairment of goodwill cannot be reversed. With regard to other assets, an impairment loss recognized in previous periods is reassessed at each reporting date for any indications that the impairment has decreased or no longer exists. An impairment loss will be reversed if there has been a change in the estimates used to determine the recoverable amount or to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment had been recognized.

**I) Deposits, debt securities issued and subordinated liabilities**



Deposits, debt securities issued and subordinated liabilities are the main sources of funding used by the Organization to finance its operations.

They are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest method.

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**m) Provisions, contingent liabilities and contingent assets**

A provision is recognized when, as a result of a past event, the Organization has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of resources will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Provisions were established by Management whenever it considers that there is a probable loss taking into account the opinion of their legal advisors; the nature of the actions; the similarity to previous suits; the complexity and the positioning of the Courts.

Contingent Liabilities are not recognized, since their existence will only be confirmed by the occurrence or not of one or more future and uncertain events that are not totally under the control of the Management. Contingent liabilities do not meet the criteria for recognition, 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.

Contingent assets are recorded only when there are real guarantees or favorable and non-appealable court decisions, and when the gain is considered to be virtually certain. Contingent assets for which the expectation is the outcome will be favorable are only disclosed in the financial statements, when material.

## **n) Classification of insurance contracts and investments**

An insurance contract is a contract in which the Organization accepts a significant insurance risk from the policy holder by agreeing to compensate the policyholder if a specific, uncertain, future event adversely affects the policy holder. Reinsurance contracts are also treated as insurance contracts because they transfer significant insurance risk. Contracts in the Insurance segment classified as investment contracts are related to our capitalization bonds, which do not transfer significant insurance risk and are accounted for as financial instruments in accordance with IAS 39 – Financial Instruments.

**o) Insurance and pension plan technical provisions**

**i. Property damage**

The Provision for Unearned Premiums (PPNG) is calculated on a daily pro-rata basis using premiums net of coinsurance premiums, including amounts ceded through reinsurance operations, and the value registered in the consolidated statement of financial position corresponds to the unexpired risk period of the insurance contracts less initial contracting costs. The portion of these reserves corresponding to the estimate for risks in effect on contracts that have been issued but are not yet fully binding is designated 'PPNG-RVNE'.

The Provision for Incurred But Not Reported (IBNR) is constituted based on the claims incurred and not yet paid (IBNP), subtracting the balance of the Provision for Claims to be settled (PSL) at the base date of calculation. To calculate the IBNP, the final estimate of claims that have not yet been paid based on semiannual run-off triangles, which consider the historical development of the claims paid in the last 10 semesters for the branches of damages and the last 11 quarters for the extended guarantee business, in order to establish a future projection by period of occurrence of occurrence and also considers the estimate of claims

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Incurred But Not Enough Reported (IBNER), reflecting the expectation of alteration of the provisioned amount throughout the regulation process. Until the base date of December 2016, only IBNR was constituted, without IBNER segregation. This change in methodology was made in January 2017 in the automobile portfolio in order to allow better allocation of capital among the loss provisions, and had no impact on the results of the Organization.

The reserve for unsettled claims (PSL) is determined based on the indemnity payment estimates, considering all administrative and judicial claims existing at the reporting date, restated monetarily, net of salvage and payments expected to be received.

The reserve for related expenses (PDR) is recorded on a monthly basis to cover expenses related to estimated claims and benefits. It covers both costs that can be individually allocated to each claim as well as claims costs not discriminated, meaning those incurred at the portfolio level.

The Complementary Reserve for Coverage (PCC) shall be established when there is insufficiency of the technical provisions required under the legislation, as determined in the Liability Adequacy Test (see Note 2(o)(vi) below). At the reporting date management did not identify the need for PCC on property damage contracts.

Other technical provisions (OPT) correspond to the Provision for Administrative Expenses (PDA) arising on the Mandatory Insurance For Personal Injury Caused by Motor Vehicles (DPVAT) insurance operations.

#### **ii. Life insurance, excluding life insurance with survival coverage (VGBL product)**

The Provision for Unearned Premiums (PPNG) is calculated on a daily pro-rata basis using premiums net of coinsurance premiums, but including amounts ceded through reinsurance operations, and the value registered in the consolidated statement of financial position corresponds to the unexpired risk period of the insurance contracts and includes an estimate for risks in effect on contracts that have been issued but are not yet fully binding is designated 'PPNG-RVNE'.

The Mathematical Provision for Benefits to be Granted (PMBaC) is calculated by the difference between the present value of the future benefits and the present value of the future contributions to be received for these benefits.

The Provision for Redemptions and other Amounts to be Settled (PVR) comprises amounts related to redemptions to settle, premium refunds owed and portability (transfer-outs) requested but not yet transferred to the recipient insurer.

The reserve for IBNR is calculated based on semiannual run-off triangles, which consider the historical development of claims paid and outstanding in the last 10 semesters, to establish a future projection per period of occurrence. A residual cause study is carried out to forecast the claims reported after 10 semesters of the date of occurrence. The change in the calculation methodology of IBNP, which considered 16 semesters of claims development, to reflect a higher level of precision in the estimate within the current portfolio of the Organization. The change generated a reduction of approximately R\$ 180 million in the provision of IBNR, net of reinsurance.

The reserve for unsettled claims (PSL) considers all claim notifications received up to the end of the reporting period. The reserve is adjusted for inflation and includes all claims in litigation.

The Complementary Reserve for Coverage (PCC) refers to the amount necessary to complement technical reserves, as calculated through the Liability Adequacy Test. LAT is calculated using statistical and actuarial methods based on realistic considerations, taking into account the biometric table BR-EMS of both genders, adjusted by longevity development criteria compatible with the latest published versions and improvement using a risk free forward interest rate structures which was approved by SUSEP to discount the future cash flows. The improvement rate is calculated from automatic updates of the biometric table, considering the expected increase in future life expectancy.

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The Technical Surplus Provision (PET) corresponds to the difference between the value of the expected cost and the actual cost of claims that occurred during the period for contracts of individual life insurance with rights to participate in technical surplus.

The Provision of Related Expenses (PDR) is recorded to cover expenses related to estimated claims and benefits. For products structured in self-funding and partially regimes, the reserve covers claims incurred. For products structured under a capitalization regime, the reserve covers the expected expenses related to incurred claims and also claims expected to be incurred in the future.

#### **iii. Health and Dental Insurance**

The reserve for claims incurred but not reported (IBNR) is calculated from the final estimate of claims already incurred and still not reported, based on monthly run-off triangles that consider the historical development of claims reported in the last 12 months for health insurance and 18 months for dental insurance, to establish a future projection per period of occurrence

The provision for unsettled claims (PSL) is based on claims received up to the reporting date, including judicial claims and related costs adjusted for inflation.

The mathematical reserve for unvested benefits (PMBAC) relates to the individual health care plan portfolio and accounts for the risk related to the cover of the holder's dependents for five years following the death of the holder. It is calculated using: a 4.5% annual discount rate (5.1% in 2016); the period over which holders are expected to remain in the plan up to their death; and the projected costs of the five-year-period cover in which no premiums will be received.

The mathematical reserve of benefits granted (PMBC) is constituted by the obligations arising from the contractual clauses of remission of installments in cash, regarding the coverage of health assistance and by the premiums through payment of insured persons participating in the Bradesco Saúde insurance - "GBS Plan", and considering a discount rate of 4.5% per annum (5.1% in 2016).

The unearned premium or contribution reserve (PPCNG) is calculated on the currently effective contracts on a daily pro-rata basis based on the portion of health insurance premiums corresponding to the remaining period of coverage.

The other provisions for the individual health portfolio are constituted to cover differences between the expected present value of claims and related future costs and the expected present value of future premiums, considering a discount rate of 4.5% per year (5.1% in 2016).

#### **iv. Operations with DPVAT Insurance**

Revenues from DPVAT premiums and the related technical reserves are recorded gross, based on reports received from Seguradora Lider S.A. which acts as the "lead insurer" of the Consortium of Insurance DPVAT S.A. in proportion to the percentage of Bradesco's stake in the

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consortium. It is the function of the lead insurer to collect the premiums, coordinate policy issuance, settle claims and manage the administrative costs within the consortium, in accordance with the CNSP Normative Resolution nº 332/15. As defined in the regulations of the consortium, 50% of the monthly net income is distributed to the consortium's members in the following month. The remaining 50% of the monthly income is retained by the lead insurer over the year and transferred to the members of the consortium at the start of the following year.

#### **v. Open pension plans and life insurance with survival coverage (VGBL product)**

The unearned premium reserve (PPNG) is calculated on a daily pro-rata basis, using net premiums and is comprised of the portion corresponding to the remaining period of coverage and includes an estimate for risks covered but not yet issued (RVNE).

The mathematical reserve for unvested benefits (PMBaC) is constituted to the participants who have not yet received any benefit. In defined benefit pension plans, the reserve represents the difference between the present value of future benefits and the present value of future contributions, corresponding to obligations assumed in the form of retirement, disability, pension and annuity plans. The reserve is calculated using methodologies and assumptions set forth in the actuarial technical notes.

The mathematical reserve for unvested benefits (PMBaC) related to life insurance with survival coverage and unrestricted benefit pension plans (VGBL and PGBL), and defined contribution plans, includes the contributions, received from participants, net of costs and other contractual charges, plus the financial return generated through the investment of these amounts in units of specially constituted investment funds (FIE).

The Provision for Redemptions and other Amounts to be Settled (PVR) comprises amounts related to redemptions to settle, premium refunds owed and portability (transfer-outs) requested but not yet transferred to the recipient insurer.

The mathematical reserve for vested benefits (PMBC) is recognized for participants already receiving benefits and corresponds to the present value of future obligations related to the payment of those on-going benefits.

The Complementary Reserve for Coverage (PCC) refers to the amount necessary to complement technical reserves, as calculated through the Liability Adequacy Test (see Note 2(n)(vi)). LAT is prepared using statistical and actuarial methods based on realistic assumptions, taking into account the biometric table BR-EMS of both genders, adjusted by longevity development criteria compatible with the latest versions disclosed improvement and forward interest rate curves (ETTJ) free from risk as authorized by SUSEP. The improvement rate is calculated from automatic updates of the biometric table, considering the expected increase in future life expectancy.

The Provision of Related Expenses (PDR) is recorded to cover expenses related to estimated claims and benefits. For products structured in self-funding and partially regimes, the reserve covers claims incurred. For plans structured under a capitalization regime, the reserve is made to cover the expected expenses related to incurred claims and also claims expected to be incurred in the future. The projections are performed through the passive adequacy test (LAT).

The Financial Surplus Provision (PEF) corresponds to the financial result, which exceeds the guaranteed minimum profitability of contracts with a financial surplus participation clause.

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The Provision for IBNR is calculated based on semiannual run-off triangles, which consider the historical development of claims paid and outstanding in the last 10 semesters (16 semesters in 2016) to establish a future projection by period of occurrence.

The reserve for unsettled claims (PSL) considers all claim notifications received up to the end of the reporting period. The reserve is adjusted for inflation.

#### **vi. Liability Adequacy Test (LAT)**

The Organization conducted the liability adequacy test for all the contracts that meet the definition of an insurance contract according to IFRS 4 and which are in force on the date of execution of the test. This test is conducted every six months and the liability of insurance contracts, gross of reinsurance, is calculated as the sum of the carrying amount, deducting the deferred acquisition costs and the related intangibles. This is compared to the expected cash flows arising from the obligations under commercialized contracts and certificates.

The test considers projections of claims and benefits that have occurred and are to occur, administrative expenses, allocable expenses related to the claims, intrinsic options and financial surpluses, salvage and recoveries and other income and expense directly related to the insurance contracts.

To calculate the present value of projected cash flows, the Organization used the risk free forward (ETTJ) rate which was approved by SUSEP.

According to SUSEP Circular nº 517/2015 and subsequent changes, the test was segmented between life insurance and pension products and property coverage, and liabilities related to DPVAT insurance were not included in the adequacy test.

- **Life and pension products**

For private pension products and Life Insurance with Coverage for Survival, the contracts are grouped based on similar risks or when the insurance risk is managed jointly by the Administration.

The cash flows related to future premiums not recorded in the PPNG were only included in the projections when the result of the LAT without these values was negative.

The projected average loss ratio was 42% for individual and collective individuals, obtained from analysis based on triangles for the development of Company claims generated with information from January 2007.

The calculation of LAT made for the base date December 2017, considered the update of the assumption of Rate of Conversion into Income (TCR) of PGBL and VGBL pension plans.

The result of the liability adequacy test for life insurance was fully recognized in the income statement, as set out in SUSEP Circular No. 517/15 (note 35a).

- **Property Coverage**

The expected present value of cash flows relating to claims incurred - primarily claims costs and salvage recoveries - was compared to the technical provisions for claims incurred - PSL and IBNR.

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The expected present value of cash flows relating to claims to be incurred on the policies in force, plus any administrative expenses and other expenses relating to products in run-off, was compared to the sum of the related technical provisions - PPNG and PPNG-RVNE.

The projected average loss ratio was 15.19% for the Extended Guarantee segment and 50.21% for the elementary lines, which were strongly influenced by the estimate of the future premium of the housing insurance portfolio, which is characterized by low loss ratio and long terms , since it accompanies the period of financing of the property.

The average reinsurance projected in the study, calculated on the basis of reported claims was 2.05%.

The result of the liability adequacy test, for property coverage, did not present insufficiency and, consequently, no additional PCC provisions were recorded.

**p) Reinsurance contracts**

Reinsurance contracts are used in the normal course of operations with the purpose of limiting potential losses, by spreading risks. Liabilities relating to contracts that have been reinsured are presented gross of their respective recoveries, which are booked as assets since the existence of the reinsurance contract does not nullify the Organization's obligations with the insured parties.

As required by the regulators, reinsurance companies with headquarters abroad must have a minimum rating from a risk classification agency to reinsure risks all other reinsurance operations must be with national missing If there are indications that the amounts recorded will not be realized by its carrying amount, these assets will be adjusted for impairment.

**q) Deferred acquisition costs**





These comprise deferred acquisition costs including commissions and brokers' fees related to the sale of insurance policies. Deferred commissions are recognized in the consolidated statement of income over the life of the respective policies and pension plan contracts or over an average period of twelve months. Expenses relating to insurance agency operations relating to the sale of health plans are amortized over a twenty-four month period and life assurance expenses are appropriated in the twelve-month period.

**r) Financial guarantees**

Financial guarantees are contracts that require the Organization to make specific payments under the guarantee for a loss incurred when a specific debtor fails to make a payment when due in accordance with the terms of the debt instrument.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Organization's obligations under such guarantees are measured as the higher of the initial amount, less the accumulated amortization, and the best estimate of the amount required to settle the guarantee if management deems such expenditure to be probable. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of Management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated statement of income within "Other operating income/ (expenses)".

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**s) Employee benefits**





IAS 19 establishes that the employer must recognize prospectively the surplus or deficit of its defined benefit plans and post-retirement plans as an asset or an obligation in its consolidated statement of financial position, and must recognize the changes in the financial condition during the year in which the changes occurred, in profit or loss.

**i. Defined contribution plan**

Bradesco and its subsidiaries sponsor pension plans for their employees and Management of the “Free Benefit Generator Plan (PGBL)” type. The PGBL is a pension plan with defined contributions which allows financial resources to be accumulated throughout the professional career of the participants based on contributions paid by them and the sponsoring company, the funds of which are invested in an Exclusive Mutual Fund (FIE). The actuarial obligations of PGBL are fully covered by the corresponding FIE. The PGBL is managed by the subsidiaries Bradesco Vida e Previdência S.A..

Contribution obligations for defined contribution pension plans are recognized as expenses in profit or loss as incurred. Once the contributions are paid, Bradesco, in the capacity of employer, has no obligation to make any additional payment.

In addition to the PGBL previously presented, the participants transferred from the defined benefit plan are assured a deferred proportional benefit until the date of migration. For participants in the defined benefit plan, whether or not transferred to the PGBL, retired participants and pensioners, the present value of the actuarial liabilities of the plan is fully covered by guarantee assets applied in the FIEs.

**ii. Defined benefit plans**

The Organization’s net obligation, in relation to the defined benefit plans, refers exclusively to institutions acquired are calculated separately for each plan, estimating the future benefit that the employees have earned in return for their service during the current and prior periods. The benefit is discounted to determine its present value and deducted by the fair value of any plan assets. The discount rate is the yield at the reporting date on “AA” credit rated bonds, which have maturity dates approximating the terms of the Organization’s obligations. The calculation is made by an actuary, using the projected unit credit method.

**iii. Termination benefits**

Severance benefits are required to be paid when the employment relationship is terminated by the Organization before the employee's normal date of retirement or whenever the employee accepts voluntary redundancy in return for such benefits.

Benefits which are payable twelve months or more after the reporting date are discounted to their present value.

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**iv. Short-term benefits**

Benefits such as wages, salaries, social security contributions, paid annual leave and paid sick leave, profit sharing and bonuses (if payable within twelve months of the reporting date) and non-monetary benefits such as health care, etc. are recorded as expenses in the consolidated statement of income, without any discount to present value, if the Organization has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be reliably estimated.

**t) Capitalization bonds**

The liability for capitalization bonds is registered in the line 'Other liabilities'. Financial liabilities and revenues from capitalization bonds are accrued at the time bonds are issued.

Bonds are issued according to the types of payments, monthly or single payment. Each bond bears a nominal value and the deposit portion of each payment is remunerated at the referential rate (TR) plus 0.5% per month, which is used to determine the liability.

Capitalization bond beneficiaries are eligible for a prize draw. At the end of a certain period that is determined at the time the capitalization bond is issued, a beneficiary may redeem the nominal value paid plus the referential rate (TR) +0.5% of interest, even if they have not won in the draw. These products are regulated by the insurance regulator in Brazil; however, they do not meet the definition of an insurance contract in accordance with IFRS 4 and, therefore, are classified as financial liabilities in accordance with IAS 39.

Unclaimed amounts from "capitalization plans" are derecognized when the obligation legally expires, in accordance with IAS 39 as it relates to the derecognition of a financial liability.

Expenses for placement of "capitalization plans", are recognized as they are incurred.

## **u) Interest**

Interest income and expenses are recognized on an accrual basis in the consolidated statement of income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments and receipts throughout the expected life of the financial asset or liability (or, when appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective rate, the Organization estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all commissions, transaction costs, discounts or bonuses which are an integral part of such rate. Transaction costs are incremental costs directly attributable to the acquisition, issuance or disposal of a financial asset or liability.

**v) Fees and commissions**

Fees and commission income and expense which are part of and are directly allocable to the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate.

Other fee and commission income, including account service fees, asset management fees, credit card annual charges, and collection and consortium fees are recognized as the related services are rendered. When a loan commitment is not expected to result in the drawdown of a loan, the related commitment fees are recognized on a straight-line basis over the commitment period. Other fees and commissions expense relate mainly to transaction as the services are received.

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**w) Net insurance income**

Insurance and coinsurance premiums, net of premiums transferred through coinsurance and reinsurance and related commissions, are recognized as income upon issuance of the respective policies / certificates / endorsements and invoices, or at the beginning of the risk period for cases in which the cover begins before issue date, and accounted for on a straight-line basis, over the duration of the policies, through the upfront recognition and subsequent reversal of the provision for unearned premiums and the deferred acquisition costs.

Income from premiums and the acquisition costs related to risks already assumed whose respective policies have not yet been issued are recognized in the consolidated statement of income at the start of the risk coverage period on an estimated basis.

The health insurance premiums are recorded in the premium account (result) or unearned premium or contribution reserve (PPCNG), according to the coverage period of the contracts in effect at the balance sheet date.

Revenues and expenses related to DPVAT insurance operations are recorded on the basis of information received from the Seguradora Líder dos Consórcios do Seguro DPVAT S.A.

Accepted co-insurance contracts and retrocession operations are recorded on the basis of information received from the lead co-insurer and IRB - Brasil Resseguros S.A., respectively.

Reinsurance operations are recorded based on the provision of accounts, which are subject to review by reinsurers. The deferral of reinsurance premiums granted under proportional contracts is carried out in a manner consistent with the related insurance premium, while the deferral of premiums for non-proportional reinsurance contracts is carried out according to the period of validity of the respective reinsurance contracts.

The receipts from insurance agency operations are deferred and recognized in income linearly, for a period of twenty-four months in health insurance operations and by the term of twelve months in the other operations.

Contributions to pension plans and life insurance premiums with survivor coverage are recognized in income upon their effective receipt.

**x) Income tax and social contribution**

Income tax and social contribution deferred tax assets, calculated on income tax losses, social contribution losses and temporary differences, are recorded in “Other Receivables - Sundry” and the deferred tax liabilities on tax differences in lease depreciation (applicable only for income tax), mark-to-market adjustments on securities, restatement of judicial deposits, among others, are recorded in “Other Liabilities - Tax and Social Security”.

Deferred tax assets on temporary differences are realized when the difference between the accounting treatment and the income tax treatment reverses. Deferred tax assets on income tax and social contribution losses are realizable when taxable income is generated, up to the 30% limit of the taxable profit for the period. Deferred tax assets are recorded based on current expectations of realization considering technical studies and analyses carried out by Management.

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The provision for income tax is calculated at 15% of taxable income plus a 10% surcharge. For financial companies, financial company equivalent and of the insurance industry, the social contribution on the profit was calculated until August 2015, considering the rate of 15%. For the period between September 2015 and December 2018, the rate was changed to 20%, according to Law nº13,169/15, returning to the rate of 15% as from January 2019. For the other companies, the social contribution is calculated considering the rate of 9%.

By virtue of the amendment of the rate, the Organization Bradesco constituted, in September 2015, a supplement to the deferred tax asset of social contribution, considering the annual expectations of realization and the respective rates in force in each period, according to the technical study conducted.

Tax expense comprises current and deferred tax. Current and deferred tax are recorded in the consolidated statement of income except when the result of a transaction is recognized directly in equity, in which case the related tax effect is also recorded in equity or in other comprehensive income.

Current tax assets are amounts of taxes to be recovered through restitution or offset with taxes due from excess of taxes paid in relation to the current and / or previous period.

Current tax expenses are the expected amounts payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Organization takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Organization believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of various factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve judgments about future events. New information may become available that causes the Organization to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**y) Segment reporting**

Information for operating segments is consistent with the internal reports provided to the Executive Officers (being the Chief Operating Decision Makers), which are comprised by the Chief Executive Officer, Executive Vice-Presidents, Managing Directors and Deputy Directors. The Organization operates mainly in the banking and insurance segments. The banking operations include operations in retail, middle market and corporate activities, lease, international bank operations, investment banking and private banking. The Organization's banking activities are performed through its own branches located throughout the country, in branches abroad and through subsidiaries, as well as by means of our shareholding interest in other companies. The insurance segment consists of insurance operations, supplementary pension plans and capitalization plans which are undertaken through a subsidiary, Bradesco Seguros S.A., and its subsidiaries.

**z) Equity**

Preferred shares have no voting rights, but have priority over common shares in reimbursement of capital, in the event of liquidation, up to the amount of the capital represented by such preferred shares, and the right to receive a minimum dividend per share that is ten percent (10%) higher than the dividend distributed per share to the holders of common shares.

**(i) Share issue costs**



Incremental costs directly attributable to the issuance of shares are shown net of taxes in equity, thus reducing the initial share value.

**(ii) Earnings per share**



The Organization presents basic and diluted earnings per share data. Basic earnings per share is calculated by dividing the net income attributable to shareholders of the Organization by the weighted average number of shares outstanding during the year, excluding the average number of shares purchased by the Organization and held as treasury shares. Diluted earnings per share are the same as basic earnings per share, as there are no potentially dilutive instruments.

**(iii) Dividends payable**

Dividends on shares are paid and provisioned during the year. In the Meeting of Shareholders are destined at least the equivalent of 30% of the annual net income, in accordance with the the Company's Bylaws. Dividends approved and declared after the reporting date of the financial statements, are disclosed in the notes as subsequent events.

(10) **Capital transactions**

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Capital transactions are transactions between partners qualified as investment owners. These transactions modify the equity held by the controlling shareholder in a subsidiary. Since there is no loss of control, the difference between the amount paid and the fair value of the transaction is recognized directly in equity.

### **3) Risk Management**

#### **Risk-management structure**

The risk and capital management structure is made up of committees, which assist the Board of Directors, the CEO and the Board of Executive Officers in their strategic decision-making process.

The Organization has a committee known as the Integrated Risk and Capital Allocation Management Committee (COGIRAC), whose duty is to advise the Board of Directors in performing its duties in risk management, capital and control.

This committee is assisted by the Capital Management Executive Committee, and Risk Management Executive Committees in managing a) Credit risk, b) Market and Liquidity risk, c) Operational and Social and Environmental risk and d) Bradesco's Insurance Group and BSP Empreendimentos Imobiliários. In addition, it also has the support of the Products and Services Executive Committee and the Executive Committees in business areas, which, among other duties, suggest exposure thresholds to their respective risks and prepare mitigation plans to be submitted to the Integrated Risk and Capital Allocation Management Committee and the Board of Directors.

To comply with Resolution 4.557/17 of the National Monetary Council (CMN), the Risk Committee was implemented in order to also assist the Board of Directors in the performance of its assignments related to risk and capital management, and the position of Chief Risk Officer (CRO) was formalized, which, among other responsibilities, exercises the supervision of the development, implementation and performance of the risk management structure, including its improvement, on independent basis and reporting to the Risk Committee, CEO and Board of Directors.

The Integrated Risk Control Department (DCIR), whose mission is to promote and to implementing risk control and capital allocation through robust practices and certification of existence, execution and effectiveness of controls which assure acceptable risk levels in the Organization's processes, independently, consistently, on a transparent and integrated manner. This Department is also responsible for complying with the Brazilian Central Bank rules for risk management activities.

## **Risk appetite**

The risk appetite refers to the types and levels of risks that the Organization is willing to accept in the conduct of its business and purposes. The Risk Appetite Statement – RAS is an important instrument that summarizes the risk culture of the Organization, and guides the strategic and business plans, driving the budget planning and allowing Senior Management to optimize the allocation of capital at acceptable risk levels and types.

At the same time, RAS emphasizes the existence of an efficient process of assignments in the operational risk management and in the performance of control functions, as well as for mitigation and disciplinary actions and processes of scheduling and reporting to Senior Management upon breach of the risk limits or control processes established.

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The Risk Appetite Statement is reviewed on annual basis, or whenever necessary, by the Board of Directors and permanently monitored by forums of the Senior Management and business and control areas.

RAS reinforces the dissemination of the risk culture by disclosing the main aspects of risk appetite of the Organization to all its members.

For the many types of risks, whether measurable or not, the Organization established control approaches, observing the main global dimensions :

- Solvency : to maintain a proper capital level, even on prospective basis, to cover unexpected losses, situations of stress and business opportunities, in compliance with regulatory requirements, thus ensuring the soundness of the Organization;
- Profitability: to remunerate its capital on sustainable basis, seeking to cover the remuneration expectation of its shareholders in relation to the risks assumed in their business;
- Liquidity: to maintain diversified and low cost sources of funding through interconnected network and dynamic and proper segmentation to provide a cash structure compatible with the size of its obligations; thus, ensuring survival even in adverse scenarios;
- Loan: to focus on domestic public, on diversified and dispersed manner, in terms of products and segments, aiming at the security and quality of the portfolio, with guarantees consistent with the risks assumed, considering the amounts, purposes and terms of loans granted and maintaining proper levels of provisions and concentrations;

- Market: to align the exposures to the strategic guidelines, with specific limits established on independent basis and with risks mapped, measured and classified as to the probability and magnitude; and
- Operational: to mitigate operating risks related to frauds, corruption, intentional violations of legislative or regulatory requirements, as well as to mitigate human or procedural errors in the performance of supporting and business activities.

More detailed information about the Risk Appetite Statement is available in the Risk Management Report - Pillar 3 published at <http://www.bradescom.br>.

### **Stress Test Program**

The risk management structure has a stress test program defined as a coordinated set of processes and routines, containing own methodologies, documentation and governance, whose principal purpose is to identify potential vulnerabilities of the institution. Stress tests are exercises of prospective evaluation of the potential impacts of adverse events and circumstances on capital, on liquidity or on the value of a portfolio of the Organization.

The Board of Executive Officers and Board of Directors are responsible for the approval of the program, guidelines to be followed and for the approval of the scenarios and results of stress tests.

Stress tests are used as tool for the management of risks, in its identification, measurement, evaluation, monitoring, control and mitigation of risks of the institution. The results of stress tests are used for evaluation of capital and liquidity levels of the institution, for preparation of the respective contingency plans, for evaluation of the capital adequacy, and for the recovery plan. Similarly, the results are considered in the decisions related to strategic guidelines, definition of the levels and limits of risk appetite applied to the management of risks and capital, as well as in the definition of governance actions aimed at mitigation of risks identified as inconsistent with the risk appetite of the Organization.



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**3.1. Credit risk**

Credit risk refers to the possibility of losses associated with the borrower's or counterparty's failure to comply with their financial obligations under the terms agreed, as well as the fall in value of loan agreements resulting from deterioration in the borrower's risk rating, the reduction in gains or remunerations, benefits granted to borrowers in renegotiations, recovery costs and other costs related to the counterparty's noncompliance with the financial obligations.

Credit risk management in the Organization is a continuous and evolving process of mapping, development, assessment and diagnosis through the use of models, instruments and procedures that require a high degree of discipline and control during the analysis of transactions in order to preserve the integrity and autonomy of the processes.

The Organization controls the exposure to credit risk which comprises mainly loans and advances, securities and derivatives. There is also the credit risk in financial obligations relating to commitments on loan or financial guarantees.

With the objective of not compromising the quality of the portfolio, all aspects inherent to credit concession, concentration, guarantee requirements and terms, among others, are observed.

The Organization continuously maps all the activities that could possibly generate exposure to credit risk, classifying them by their probability and magnitude, identifying their managers and mitigation plans.

## **Counterparty Credit Risk**

The counterparty credit risk to which the Organization is exposed includes the possibility of losses due to the non-compliance by counterparties with their obligations relating to the settlement of financial asset trades, including the settlement of derivative financial instruments. Counterparty credit risk also includes the risk related to a downgrade in the counterparty's credit standing.

The Organization exercises complete control over its net position (the difference between purchase and sale agreements) and potential future exposures from operations where there is counterparty risk. Each counterparty's exposure to risk is treated in the same way and is part of general credit limits granted by the Organization's to its customers. Usually, guarantees associated with this type of operation include margin deposits, which are made by the counterparty with the Organization or with other trustees, whose counterparty's risks are also appropriately evaluated.

## **Credit Concession**

Under the responsibility of the Credit Department, lending procedures are based on the Organization's credit policy emphasizing the security, quality and liquidity of the lending. The process is guided by the risk-management governance and complies with the rules of the Central Bank of Brazil.

The methodologies adopted value business agility and profitability, with targeted and appropriate

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procedures oriented to the granting of credit transactions and establishment of operating limits.

In the evaluation and classification of customers or economic groups, the quantitative (economic and financial indicators) and qualitative (personal data and behaviors) aspects associated with the customers capacity to honor their obligations are considered.

All business proposals are subject to operational limits, which are included in the Loan Guidelines and Procedures. At branches, the delegation of power to grant a loan depends on its size, the total exposure to the Organization, the guarantees offered, the level of restriction and their credit risk score/rating. Business proposals with risks beyond these limits are subject to technical analysis and approval of by the Credit Department.

In its turn, the Executive Credit Committee was created to decide, within its authority, on queries about the granting of limits or loans proposed by business areas, previously analyzed and with opinion from the Credit Department. According to the size of the operations/limits proposed, this Committee, may then submit the proposal for approval by the Board of Directors, depending on the amounts involved.

Loan proposals pass through an automated system with parameters set to provide important information for the analysis, granting and subsequent monitoring of loans, minimizing the risks inherent in the operations.

There are exclusive Credit and Behavior Scoring systems for the assignment of high volume, low principal loans in the Retail segment, meant to provide speed and reliability, while standardizing the procedures for loan analysis and approval.

Business is diversified wide-spread and aimed at individuals and companies with a proven payment capacity and solvency, seeking to support them with guarantees that are adequate to the risk assumed, considering the amounts, objectives and the maturities of loan granted.

## Credit Risk Rating

The credit risk assessment methodology, in addition to providing data to establish the minimum parameters for lending and risk management, also enables the definition of Special Credit Rules and Procedures according to customer characteristics and size. Thus, the methodology provides the basis not only for the correct pricing of operations, but also for defining the appropriate guarantees.

The methodology used also follows the requirements established by (CMN) Resolution 4,327/14 and includes analysis of social and environmental risk in projects, aimed at evaluating customers' compliance with related laws and the Equator Principles, a set of rules that establish the minimum social and environmental criteria which must be met for lending.

In accordance with its commitment to the continuous improvement of methodologies, the credit risk rating of the Organization's economic groups/customers uses an eighteen-level scale, in which fourteen levels represent performing loan operations, ensuring greater compliance with the requirements of the Basel Capital Accord.

Risk ratings for economic groups (legal entities) are based on standardized statistical and judgmental procedures, and on quantitative and qualitative information. Classifications are carried out in a corporate manner and periodically monitored in order to preserve the quality of the credit portfolio.

For individuals, in general, credit ratings are based on personal data variables, such as income, assets, restrictions and indebtedness, in addition to the history of their relationship with the Organization, and statistical credit evaluation models.

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The risk classification adopted on the basis of the customers' capacity of honoring their commitments is shown below:

	<b>Internal Rating</b>	<b>Organization classification</b>
1	AA1	
2	AA2	
3	AA3	
4	A1	
5	A2	Low risk
6	A3	
7	B1	
8	B2	
9	B3	
10	C1	
11	C2	
12	C3	
13	C4	Medium risk
14	D	
15	E	
16	F	High risk
17	G	
18	H	

**Credit-Risk Management Process**



The credit risk management process is conducted in a corporation-wide manner. This process involves several areas with specific duties, ensuring an efficient structure. Credit risk measurement and control are conducted in a centralized and independent manner.

The credit risk monitoring area actively participates in improving the customer risk rating models, following up large risks by periodically monitoring major delinquencies and the provisioning levels for expected and unexpected losses.

This area continuously reviews the internal processes, including the roles and responsibilities and its training and requirements, as well as conducts periodical reviews of risk evaluation processes to incorporate new practices and methodologies.

## **Control and Monitoring**

The credit risk of the Organization has its control and corporate follow-up done in the credit risk area of the DCIR. The Department advises the Executive Committee on Credit Risk Management, where methodologies for measuring credit risk are discussed and formalized. Significant issues discussed in this committee are reported to the COGIRAC, which is subordinate to the Board of Directors.

In addition to committee meetings, the area holds monthly meetings with all product and segment executives and officers, with a view to inform them about the evolution of the loan portfolio, delinquency, credit recoveries, gross and net losses, limits and concentrations of portfolios, among others. This information is also reported to the Audit Committee on a monthly basis.

The area also monitors any internal or external event that may cause a significant impact on the Organization's credit risk, such as spin-offs, bankruptcies and crop failures, in addition to monitoring economic activity in the sectors to which the company has significant risk exposures.

Both the governance process and existing limits are sanctioned by the Integrated Risk Management and Capital Allocation Committee, which are submitted for the approval of the Board of Directors, being reviewed at least once a year.

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**Internal Report**

Credit risk is monitored on a daily basis in order to maintain the risk levels within the limits established by the Organization. Managerial reports on risk control are provided to all levels of business, from branches to Senior Management.

With the objective of highlighting the risk situations that could result in the customers' inability to honor its obligations as contracted, the credit risk monitoring area provides daily reports, to the branches, business segments, as well as the lending and loan recovery areas. This system provides timely information about the loan portfolios and credit bureau information of customers, in addition to enabling comparison of past and current information, highlighting points requiring a more in-depth analysis by managers.

The Organization also has an electronic corporate system of credit risk indicators to provide the lending and loan recovery areas, business areas, regional managers and branches with information on assets by segment, product, region, risk classification, delinquency and expected and unexpected losses, among others. This electronic system provides both a macro-level and detailed view of the information, and also enables a specific loan operation to be viewed.

The information is viewed and delivered via dashboards, allowing queries at several levels such as business segment, divisions, managers, regions, products, employees and customers, and under several aspects (asset, delinquency, provision, write-off, restriction levels, guarantees, portfolio quality by rating, among others).

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## **Notes to the Consolidated Financial Statements**

### **Credit Risk Exposure**

We present below the credit risk exposure of the financial instruments.

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash and balances with banks	81,742,951	72,554,651
Derivative financial instruments	13,866,885	16,755,442
Loans and advances to banks	32,253,205	94,845,534
Loans and advances to customers	373,813,665	392,083,873
Other financial assets	599,199,362	497,974,002
<b>Total items recorded in the balance sheet (1)</b>	<b>1,100,876,068</b>	<b>1,074,213,502</b>
<b>Total items not recorded in the balance sheet (Note 41)</b>	<b>283,089,393</b>	<b>316,298,033</b>
<b>Total risk exposure</b>	<b>1,383,965,461</b>	<b>1,390,511,535</b>

(1) Collaterals are mainly represented by: securities, properties, financial investments, sureties and guarantees.

The Organization's maximum credit risk exposure was R\$ 1,383,965,461 thousand in 2017, which was an reduction of 0.5% compared to 2016.

Of this exposure, R\$ 81,742,951 thousand, or 5.9% is related to cash and bank deposits composed mainly of funds deposited with the Central Bank of Brazil that are assessed to have low credit risk.

Operations classified as "Other financial assets" item totaling R\$ 599,199,362 thousand (43.3% of the total exposure), have a low credit risks as it primarily consists of Brazilian government bonds which, are recorded at their market value, represented by "Financial assets held for trading" R\$ 241,710,041 thousand (2016 – R\$ 213,139,846 thousand), "Financial assets available for sale" R\$ 159,412,722 thousand (2016 – R\$ 113,118,554 thousand) and "Investments held to maturity" recognized as amortized cost in the amount of R\$ 39,006,118 thousand (2016 – R\$ 43,002,028 thousand).

In 2017, items not recorded in the consolidated statement of financial position (recorded in off-balance sheet accounts) amounted to R\$ 283,089,393 thousand (2016 - R\$ 316,298,033 thousand), reaching a level of 20.5% (2016 – 22.6%) of total exposure.

The following provides a detailed analysis of other exposures subject to credit risk totaling R\$ 419,933,755 thousand, representing 30.3% of the total exposure, including derivatives of R\$ 13,866,885 thousand, loans and advances to banks of R\$ 32,253,205 thousand and loans and advances to clients of R\$ 373,813,665 thousand.

### Derivative Financial Instruments

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Traded in the stock exchange	88,120	1,068,418
OTC contract	13,778,765	15,687,024
<b>Total</b>	<b>13,866,885</b>	<b>16,755,442</b>

In relation to derivatives, 99.4% of the total, refers basically to over-the-counter contracts, stock exchange depositories. Of the total of the Derivative financial instruments, 93.0% is assessed to have "low credit risk" by the Organization's internal procedures.

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***Notes to the Consolidated Financial Statements***

**Loans and advances to banks**

We present below the portfolio of loans and advances to banks as rated internally by the Organization:

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Low risk	32,253,205	94,845,534
Medium risk	-	-
High risk	-	-
<b>Total</b>	<b>32,253,205</b>	<b>94,845,534</b>

Ratings as assigned by the Organization: Low risk: Ratings AA1 – C3; Medium risk: Rating C4 - D; and High risk: Ratings E – H.

None of the loans and advances to banks are classified as past-due or impaired. In addition, the portfolio has no debt-restructuring history.

## Loans and advances to customers



The loans and advances to customers are classified as:

- Neither past due nor impaired.
- Past due but not impaired.
- Impaired, including loans and advances classified as impaired and loans and advances that are analyzed individually for loss classified as impaired.

The Organization's loans and advances to customers are classified as "impaired" when they fall in at least one of the following situations: (a) are delinquent more than 90 days, except for housing loan operations secured by residential property (overdue more than 180 days) and/or; (b) have incurred a loss and/or; (c) have been renegotiated and/or; (d) have been reclassified as a higher risk level; and/or (e) have been subject to bankruptcy events. The internal models used by the Organization are based on client or product.

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Neither past due nor impaired (i)	321,595,918	337,337,152
Past due but not impaired (ii)	10,684,314	12,612,906
Impaired (iii)	41,533,433	42,133,815
<b>Total loans and advances to customers</b>	<b>373,813,665</b>	<b>392,083,873</b>
Impairment of loans and advances	(27,055,566)	(24,780,839)
<b>Net amount</b>	<b>346,758,099</b>	<b>367,303,034</b>

The portfolio of loans and advances to customers presented a reduction of 4.7% from 2017 to December 2016.

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**(i) Loans and advances to customers neither past due nor impaired**

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Low risk	309,535,667	325,170,838
Medium risk	9,895,319	10,269,218
High risk	2,164,932	1,897,096
<b>Total</b>	<b>321,595,918</b>	<b>337,337,152</b>

Ratings as assigned by the Organization: Low risk: Ratings AA1 – C3; Medium risk: Rating D; and High risk: Ratings E – H.

The loans and advances to customers assessed to be neither past due nor impaired totaled R\$ 321,595,918 thousand in 2017.

Of the total transactions, 96.2% were classified as low risk.

**(ii) Loans and advances to customers past due but not impaired**

We present below the analysis by number of days past due of the contracts for loans and advances which were not classified as being impaired in the collective analysis and those which are not impaired based on the individual analysis.

For the purpose of this analysis, an asset is considered past due and included in the following table when payment is late or is not received strictly in accordance with the contractual terms. The amount included in this category comprises the total financial asset, i.e. not only the overdue installment amount but the full contractual amount plus accrued interest.

The loans and advances to customers which are not individually material, which have not been classified as impaired are presented in this category.

The individually material loans and advances may be presented in this category when, based on the individual analysis, it is not necessary to record an individual impairment loss and, accordingly, the asset is then subject to a collective loss analysis.

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Past due up to 60 days	8,177,461	9,737,697
Past due between 61 and 90 days	2,302,186	2,608,305
Past due for more than 90 days	204,667	266,904
<b>Total</b>	<b>10,684,314</b>	<b>12,612,906</b>

The above table shows loans and advances, which despite being past due, do not provide indications of possible impairment. This amount represented 2.9% of the portfolio in 2017 (2016 – 3.2%).

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**(iii) Loans and advances to customers impaired**

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Portfolio not yet due	20,342,024	17,567,703
Past due up to 60 days	2,915,081	4,067,322
Past due between 61 and 90 days	1,279,795	1,284,035
Past due for more than 90 days	16,996,533	19,214,755
<b>Total</b>	<b>41,533,433</b>	<b>42,133,815</b>

Loans and advances to customers impaired reached R\$ 41,533,433 thousand and accounted for 11.1% of the total portfolio in 2017 (2016 - 10.7%).

### **By type of loan category**



The following table presents the loans and advances impaired by category:

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Credit card	6,158,265	5,962,131
Working capital	6,052,758	5,940,498
Personal credit	4,632,789	4,951,949
Housing loans	4,071,447	2,553,802
Financing and export	2,770,221	2,456,658
Vehicles – CDC (Direct consumer credit)	1,333,748	1,651,852
Rural loans	982,699	946,282
Onlending BNDES/Finame	780,985	1,052,671
Overdraft for individuals	638,506	882,992
Acquisition of assets	295,944	459,574
Overdraft for corporates	256,271	406,296
Other	13,559,800	14,869,110
<b>Total</b>	<b>41,533,433</b>	<b>42,133,815</b>

## **Renegotiated loans and advances**

The total balance of “Loans and advances to customers impaired” includes renegotiated loans and advances to customers. Such loans contemplate extension of loan payment terms, grace periods, reductions in interest rates, and/or, in some cases, the forgiveness (write-off) of part of the loan principal amount.

Renegotiations may occur after debts are past due or when the Company has information about a significant deterioration in the client’s creditworthiness. The purpose of such renegotiations is to adapt the loan to reflect the client’s actual payment capacity.

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### **Notes to the Consolidated Financial Statements**

The following table shows changes made and our analysis of our portfolio of renegotiated loans and advances to customers:

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Opening balance</b>	<b>17,501,423</b>	<b>12,728,723</b>
Additional renegotiated amounts, including interest	16,185,863	18,777,814
Payments received	(10,108,040)	(8,997,802)
Write-offs	(6,395,377)	(5,007,312)
<b>Closing balance</b>	<b>17,183,869</b>	<b>17,501,423</b>
Impairment of loans and advances	(10,853,777)	(10,346,397)
<b>Total renegotiated loans and advances to customers, net of impairment at the end of the year</b>	<b>6,330,092</b>	<b>7,155,026</b>
Impairment on renegotiated loans and advances as a percentage of the renegotiated portfolio	63.2%	59.1%
Total renegotiated loans and advances as a percentage of the total loan portfolio	4.6%	4.5%
Total renegotiated loans and advances as a percentage of the total loan portfolio, net of impairment	1.8%	1.9%

At the time a loan is modified, Management considers the new loan's conditions and renegotiated maturity and it is no longer considered past due. From the date of modification, renegotiated interest begins to accrue, using the effective interest rate method, taking into consideration the customer's capacity to pay the loan based on the analysis made by Management. If the customer fails to maintain the new negotiated terms, management considers ceasing accrual from that point.

Additionally, any balances related to renegotiated loans and advances to customers that have already been written off and recorded in off-balance sheet accounts, as well as any gains from renegotiations, are recognized only when received.

## **Concentration of credit risk in loans and advances**



	On December 31	
	2017	2016
Largest borrower	2.5%	2.3%
10 largest borrowers	8.2%	8.5%
20 largest borrowers	12.2%	12.6%
50 largest borrowers	17.8%	18.5%
100 largest borrowers	22.2%	23.0%

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***Notes to the Consolidated Financial Statements***

**By Economic Activity Sector**



The credit-risk concentration analysis presented below is based on the economic activity sector in which the counterpart operates.

	On December 31 - R\$ thousand			
	2017	%	2016	%
<b>Public sector</b>	<b>9,676,927</b>	<b>2.6</b>	<b>8,813,581</b>	<b>2.2</b>
Oil, derivatives and aggregate activities	9,410,382	2.5	8,813,581	2.2
Production and distribution of electricity	1,322	-	-	-
Other industries	265,223	0.1	-	-
<b>Private sector</b>	<b>364,136,738</b>	<b>97.4</b>	<b>383,270,292</b>	<b>97.8</b>
<b>Companies</b>	<b>190,148,345</b>	<b>50.9</b>	<b>212,344,421</b>	<b>54.2</b>
Real estate and construction activities	29,383,442	7.9	33,888,418	8.6
Retail	23,935,638	6.4	25,346,471	6.5
Services	17,996,533	4.8	18,172,147	4.6
Transportation and concession	14,190,284	3.8	17,044,780	4.3
Automotive	10,014,454	2.7	13,148,526	3.4
Food products	8,866,028	2.4	10,870,635	2.8
Wholesale	9,045,916	2.4	10,704,646	2.7
Production and distribution of electricity	7,360,804	2.0	8,255,265	2.1
Siderurgy and metallurgy	7,001,290	1.9	7,800,237	2.0
Sugar and alcohol	7,042,811	1.9	7,514,693	1.9
Other industries	55,311,145	14.8	59,598,603	15.2
<b>Individuals</b>	<b>173,988,393</b>	<b>46.5</b>	<b>170,925,871</b>	<b>43.6</b>
<b>Total portfolio</b>	<b>373,813,665</b>	<b>100.0</b>	<b>392,083,873</b>	<b>100.0</b>
Impairment of loans and advances	(27,055,566)		(24,780,839)	
<b>Total of net loans and advances to customers</b>	<b>346,758,099</b>		<b>367,303,034</b>	

## Measurement of Credit Risk

Periodically, the Organization evaluates the existence of objective evidence of loss in the loans and advances portfolio, taking into account its historical experience of impairment losses and employing other methodologies to consider the customer' quality as well as the nature of the transaction including its guarantees for estimating the expected cash flows, which are reviewed regularly in order to constantly improve the models and to ensure that the provision is sufficient.

Initially, clients are classified as individually significant and individually non-significant. Following that initial classification, clients are evaluated on the basis of the existence of evidence of one or more objective loss events. As sometimes it may not be possible to identify a specific event that has caused a loss in the recoverable amount, the combined effects of several events are evaluated. In addition, loss events may be specific, that is, refer to only a particular client, such as payment defaults, renegotiation or bankruptcy event, or be collective and affect a group of assets as a result, for example, interest or exchange rate variations or a reduction in the activity level of one or more economic sectors.

For individually significant clients with specific objective evidences of impairment, the impairment loss is estimated by individual analysis, taking into account the future cash flows expected from each client, including the realization of guarantees associated with operations.

For individually non-significant clients with specific objective evidence of impairment, the, impairment loss is estimated using proprietary historic loss experience models which are based on observable information on the calculation date.

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Clients showing no specific objective evidence of impairment losses, both individually significant and individually non-significant clients, are evaluated collectively using the Organization's internal models based on collective parameters of loss identified and macroeconomic parameters of economic activity and default.

For collective evaluation, Probability of Default and Loss Given Default models, as well as the Loss Identification Period factor, are used.

Probability of Default (PD): determines the probability of default perceived by the Organization with respect to the customer, according to its internal evaluation model. This risk parameter is determined differently for each segment: retail models are quantitative, while wholesale models are both quantitative and qualitative (subjective).

Loss Given Default (LGD): refers to the percentage effectively lost after recovery efforts given the default of the contract, which is expressed as a percentage of exposure.

Loss Identification Period (LIP): interim period between the occurrence of the loss event in groups of collectively evaluated financial assets, significant and non significant, and its identification by the institution as being impaired.

### **Write-offs**

Credits are written off in the consolidated statement of financial position against impairment of loans and advances when they are considered uncollectible or a permanent loss. Loans and advances to banks are normally written off when they are overdue for 180 to 360 days. Loans and advances to banks with remaining maturities of at least 36 months are normally written off when they are overdue for 360 to 540 days.

## Credit Risk Mitigation

Potential credit losses are mitigated by the use of a variety of types of collateral formally stipulated through legal instruments, such as conditional sales, liens and mortgages, by guarantees such as third-party sureties or guarantees, and also by financial instruments such as credit derivatives. The efficiency of these instruments is evaluated considering the time to recover and realize an asset given as collateral, its market value, the guarantors' counterparty risk and the legal safety of the agreements. The main types of collaterals include: term deposits; financial investments and securities; residential and commercial properties; movable properties such as vehicles, aircraft. Additionally, collateral may include commercial bonds such as invoices, checks and credit card bills. Sureties and guarantees may also include bank guarantees.

Credit derivatives are bilateral contracts in which one of the counterparties buys protection against a credit risk of a particular financial instrument and its risk is transferred to the counterparty that sells the protection. Normally, it receives a remuneration over the life of the operation. In the event of default by the borrower, the counterparty who purchased the protection will receive a payment, the purpose of which is to compensate for the loss of value in the financial instrument. In this case, the selling counterparty receives the underlying asset in exchange for said payment.

On December 31, 2017, Bradesco had credit default swaps (CDS) with the following characteristics: the risk received in credit swaps whose underlying assets are "debtsecurities issued by companies" in the amount of R\$ 468,214 thousand (R\$ 114,069 thousand in 2016) and "bonds of the Brazilian public debt" in the amount of R\$ 116,773 thousand (R\$ 668,115 thousand in 2016) and in 2016 the risk transferred in credit swaps whose underlying assets are "securities the Brazilian public debt" was R\$ (16,296) thousand, amounting to a total net credit risk value of negative R\$ 584,987 thousand (R\$ 765,888 thousand in 2016), with an effect on the calculation of required shareholders' equity of negative R\$ 49,162 thousand (R\$ 11,977 thousand in 2016). The contracts related to credit derivatives transactions described above are due in 2022. The mark-to-market of the protection rates that remunerates the counterparty that received the risk totaled R\$ 195 thousand (R\$ (1,067) thousand in 2016). There were no credit events, as defined in the agreements, during the period.

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#### **Offsetting of financial assets and liabilities**

In accordance with IFRS 7, Bradesco must present the amounts related to financial instruments subject to master clearing agreements or similar agreements. In accordance with IAS 32, a financial asset and a financial liability are offset and their net value presented in the Consolidated Balance Sheet when, and only when, there is a legally enforceable right to offset the amounts recognized and the Bank intends to settle them in a liquid basis, or to realize the asset and settle the liability simultaneously.

The table below presents financial assets and liabilities subject to compensation.

	R\$ thousand		
	<b>On December 31, 2017</b>		
	<b>Amount of financial assets, gross</b>	<b>Related amount offset in the Balance Sheet</b>	<b>Net amount</b>
Interbank investments	123,691,195	-	123,691,195
Derivative financial instruments	13,866,885	-	13,866,885

	R\$ thousand		
	<b>On December 31, 2017</b>		
	<b>Amount of financial liabilities, gross</b>	<b>Related amount offset in the Balance Sheet</b>	<b>Net amount</b>
Securities sold under agreements to repurchase	233,467,544	-	233,467,544
Derivative financial instruments	14,274,999	-	14,274,999

	R\$ thousand		
	<b>On December 31, 2016</b>		
	<b>Amount of financial</b>	<b>Related amount not cleared in</b>	<b>Net amount</b>

	<b>assets, gross</b>	<b>the Balance Sheet</b>	
Interbank investments	84,728,590	-	84,728,590
Derivative financial instruments	16,755,442	-	16,755,442

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**Notes to the Consolidated Financial Statements**

	R\$ thousand		
	<b>On December 31, 2016</b>		
	<b>Amount of financial liabilities, gross</b>	<b>Related amount not cleared in the Balance Sheet</b>	<b>Net amount</b>
Securities sold under agreements to repurchase	241,978,931	-	241,978,931
Derivative financial instruments	13,435,678	-	13,435,678

On December 31, 2017 and 2016, Bradesco does not have financial instruments in its balance sheet as a result of failing to meet the IAS 32 compensation criteria, or because it has no intention to liquidate them on a net basis, or to realize the assets and settle the liabilities simultaneously.

**3.2. Market risk**

Market risk is represented by the possibility of financial loss due to fluctuating prices and interest rates of the Organization's financial instruments, such as its asset and liability transactions that may have mismatched maturities, currencies and indexes.

Market risk is identified, measured, mitigated, controlled and reported. The Organization's exposure to market risk profile is in line with the guidelines established by the governance process, with limits independently monitored on a timely basis.

All transactions that expose the Organization to market risk are mapped, measured and classified according to probability and magnitude, and the whole process is approved by the governance structure.

The risk management process relies on the participation of all levels of the Organization, from the business areas to the Board of Directors.

In compliance with the best Corporate Governance practices, to preserve and strengthen the management of market risk in the Organization, as well as to meet the requirements of Resolution n<sup>o</sup> 4,557/17, of (CMN), the Board of Directors approved the Market and Liquidity Risk Management Policy, which is reviewed at least annually by the relevant Committees and by the Board of Directors itself, and provides the main guidelines for acceptance, control and management of market risk.

In addition to the policy, the Organization has specific rules to regulate the market risk management process, as follows:

- Classification of Operations;
- Reclassification of Operations;
- Trading of Public or Private Securities;
- Use of Derivatives; and
- Hedging.

### **Market Risk Management Process**



The market risk management process is a corporation wide process, comprising from business areas to the Board of Directors; it involves various areas, each with specific duties in the process, thereby ensuring an efficient structure. The measurement and control of market risk is conducted in a centralized and independent manner. This process permits that the Organization be the first financial institution in the country authorized by the Central Bank of Brazil to use its internal market risk models to calculate regulatory capital requirements since January 2013. This process, is also revised at least once a year by the Committees and approved the Board itself.

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## ***Notes to the Consolidated Financial Statements***

### **Determination of Limits**

Proposed market-risk limits are validated by specific Committees and submitted for approval by the Integrated Risk Management and Capital Allocation Committee, and then for approval by the Board of Directors. Based on the business' characteristics, they are segregated into the following Portfolios:

Trading Portfolio: it comprises all operations involving financial instruments, held-for-trading, including derivatives, or used to hedge other instruments in the Trading Portfolio, which have no trading restrictions. Held-for-trading operations are those intended for resale, to obtain benefits from actual or expected price variations, or for arbitrage.

The Trading Portfolio is monitored with the following limits:

- Value at Risk (VaR);
- Stress;
- Income;
- Financial Exposure / Concentration.

Banking Portfolio: it comprises operations not classified in the Trading Portfolio, arising from Organization's other businesses and their respective hedges.

The Banking Portfolio is monitored with the following limits:

- Interest rate risk limit.

### **Market-Risk Measurement Models**

Market risk is measured and controlled using Stress, Value at Risk (VaR), Economic Value Equity (EVE) and Sensitivity Analysis methodologies, as well as limits for the Management of Results and Financial Exposure. Using several methodologies to measure and evaluate risks is of great importance, because they can complement each other and their combination allows for analysis of different scenarios and situations.

### **Trading and Regulatory Portfolio**

Trading Portfolio risks are controlled by the Stress and VaR methodologies. The Stress methodology quantifies the negative impact of economic shocks and events that are financially unfavorable to the Organization's positions. The analysis uses stress scenarios prepared by the Market Risk area and the Organization's economists based on historical and prospective data for the risk factors in which the Organization portfolio.

The methodology adopted to calculate VaR is the Delta-Normal, with a confidence level of 99% and considering the number of days necessary to unwind the existing exposures. The methodology is applied to the Trading and Regulatory Portfolio (Trading Portfolio positions plus Banking Portfolio foreign currency and commodities exposures). It should be noted that for the measurement of all the risk factors of the portfolio of options are applied the historical simulation models and Delta-Gama-Vega, prevailing the most conservative between the two. A minimum 252-business-day period is adopted to calculate volatilities, correlations and historical returns.

For regulatory purposes, the capital requirements relating to shares held in the Banking Portfolio of Prudential Conglomerate (includes, in its consolidation basis, entities located in the country and abroad, financial institutions, similar to financial institutions over which the institution has direct or indirect control, in addition to investment funds pursuant to Resolution No. 4,280/13 of CMN) are determined on a credit risk basis, as per Central Bank of Brazil resolution, ie, are not included in the market risk calculation.



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## ***Notes to the Consolidated Financial Statements***

### **Risk of Interest Rate in the Banking Portfolio**

The measurement and control of the interest-rate risk in the Banking Portfolio area is based on the Economic Value of Equity (EVE) methodology, which measures the economic impact on the positions, according to scenarios prepared by the Organization's economists. These scenarios determine the positive and negative movements of interest rate curves that may affect Organization's investments and capital-raising.

The EVE methodology consists of repricing the portfolio exposed to interest rate risk, taking into account the scenarios of increases or decreases of rates, by calculating the impact on present value and total term of assets and liabilities. The economic value of the portfolio is estimated on the basis of market interest rates on the analysis date and of scenarios projected. The difference between the values obtained for the portfolio will be EVE, that is, the interest-rate risk applicable to the Banking Portfolio.

To measure the Banking Portfolio interest rate risk, the premise of prepayment of loan is not used. For demand and savings deposits with undetermined maturity, their historical behaviors and the possibility of maintaining them are studied. After all the deductions related to demand and savings deposits, for example, the required compulsory deposits held at Brazilian Central Bank, the remaining balance (free funds) is allocated in accordance with the maturity flows of fixed-rate lending operations, and in the case of savings, the risk factor considered for its mapping is the TR coupon.

### **Financial Instrument Pricing**

To adopt the best market prices related to the assessment of financial instruments' market value, the Market and Liquidity Risk Management Executive Committee (CEGRIMEL) established the Mark-to-Market Commission (CMM), which is responsible for approving or submitting mark-to-market models to GEGRIMEL. CMM is composed of business, back-office and risk representatives. The risk area is responsible for the coordination of the Commission and for the submission the matters to the CEGRIMEL for reporting or approval, whichever is the case.

Whenever possible, the Bank uses prices and quotes from by the Securities, Commodities and Futures Exchange and the Secondary Markets. Failing to find such market references, prices made available by other sources (such as Bloomberg, Reuters and Brokerage Firms) are used. As a last resort, proprietary models are used to price the instruments, which also follow the same CMM approval procedure and are submitted to the Organization's validation and assessment processes.

Mark-to-market criteria are periodically reviewed, according to the governance process, and may vary due to changes in market conditions, creation of new classes of instruments, establishment of new sources of data or development of models considered more appropriate.

The financial instruments to be included in the Trading Portfolio must be approved by the Treasury Executive Committee or the Product and Service Executive Committee and their pricing criteria must be defined by the CMM.

The following principles for the mark-to-market process are adopted by the Organization:

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### ***Notes to the Consolidated Financial Statements***

- **Commitment:** the Organization is committed to ensuring that the prices used reflect the market value of the operations. Should information not be found, the Organization uses its best efforts to estimate the market value of the financial instruments;
- **Frequency:** the formalized mark-to-market criteria are applied on a daily basis;
- **Formality:** the CMM is responsible for ensuring the methodological quality and the formalization of the mark-to-market criteria;
- **Consistency:** the process to gather and apply prices should be carried out consistently, to guarantee equal prices for the same instrument within the Organization; and
- **Transparency:** the methodology must be accessible by the Internal and External Audit, Independent Model Validation Areas - AVIM and by Regulatory Agencies.

In December 2014, the (CMN) published Resolution 4,389/14, which amended Resolution 4,277/13. These resolutions set forth the basic procedures that entities must follow in pricing financial instruments valued at market value and guidelines for the application of prudential adjustments for such instruments. The organization aligned with these resolutions' guidelines, including applying due prudential adjustments required by the regulation.

### **Independent Risk Model Validation**

The Organization uses models to manage and measure risks and capital, which are developed based on specialist knowledge or on statistical, economic, financial or mathematical theories, which support and facilitate the structuring of critical issues and enable standardization and fast decision-making.

To identify, mitigate and control the risks independent of the use of the models in the decision-making process, there is the AVIM, whose main purpose is to evaluate if the models work according to the intended objectives, as well as if their results are suitable for the uses for which they are intended.

Independent Validation of Models adopts a methodology that encompasses quantitative and qualitative dimensions, evaluating the adequacy of processes, governance, the construction of models and their premises, the use and monitoring of models:

### **Qualitative**

- **Scope of the model:** scope or coverage of the model, which includes its goal, the type of risk addressed, companies exposed to this type of risk, portfolios, products, segments, channels, and etc;
- **Application of the Model:** aspects of the use of the model, which includes the definition of model, the reasonability in the use of the model's factors, the flow and the timeliness of the information for the decision-making process; and
- **Technological Environment and Data Consistency:** structure of systems and controls involved in the calculations performed by the model and the process in which the model is inserted. It also includes data consistency, taking into consideration the functionalities of version and access controls, backup, traceability, changes in parameters, data quality, system contingency and automated controls.

### **Quantitative**

- **Measurement System:** challenge to the risk measurement procedures, both base and stress, including the definition, implementation and internal validation of the method, which consists of methodology, assumptions, parameters, calculation routine, input data and results; and



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- Backtesting: statistic procedure used to assess the model by comparing the amounts estimated by the model and the amounts observed within a previously defined period. It includes methodological, formalization and utilization aspects for model improvement.

The responsibility for executing the independent validation process, that includes the analysis and the assessment of models, it's from AVIM, which uses structures that are already implemented and settled in the Organization to avoid overlapping tasks. Its results are reported to the managers and to the Committee of Integrated Risk Management and Capital Allocation.

### **Control and Follow-Up**

Market risk is controlled and monitored by an independent area, the DCIR, which, on a daily basis, measures the risk of outstanding positions, consolidates results and prepares reports required by the existing governance process.

In addition to daily reports, Trading Portfolio positions are discussed once a week by the Treasury Executive Committee, while Banking Portfolio positions and liquidity reports are examined every fifteen days by the Asset and Liability Management Treasury Executive Committee.

At both meetings, results and risks are assessed and strategies are discussed. Both the governance process and the existing thresholds are ratified by the Integrated Risk and Capital Allocation Management Committee and submitted to approval of the Board of Directors, and they are revised at least once a year.

Should any threshold controlled by the DCIR be exceeded, the head of the business area responsible for the position is informed that threshold was reached, and the Integrated Risk and Capital Allocation Management Committee is called in timely fashion to make a decision. If the Committee decides to raise the threshold and/or maintain the positions, the Board of Directors is called to approve the new threshold or revise the position strategy.

## Internal Communication

The market risk department provides daily managerial control reports on the positions to the business areas and Senior Management, in addition to weekly reports and periodic presentations to the Board of Directors.

Reporting is conducted through an alert system, which determines the addressees of risk reports as previously determined risk threshold percentage is reached; therefore, the higher the risk threshold consumption, more Senior Management members receive the reports.

## Hedging and Use of Derivatives

In order to standardize the use of financial instruments as hedges of transactions and the use of derivatives by the Treasury Department, the Organization created specific rules that were approved by the competent Committees.

The hedge transactions executed by Bradesco's Treasury Department must necessarily cancel or mitigate risks related to unmatched quantities, terms, currencies or indexes of the positions in the Treasury books, and must use assets and derivatives authorized to be traded in each of their books to:

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- control and classify the transactions, respecting the exposure and risk limits in effect;
- alter, modify or revert positions due to changes in the market and to operational strategies; and
- reduce or mitigate exposures to transactions in inactive markets, in conditions of stress or of low liquidity.

For derivatives classified in the "hedge accounting" category, there is a monitoring of their effectiveness, as well as their accounting implications.

### **Cash flow Hedge**

On December 31, 2017, Bradesco maintained the following cash flow hedges: (i) with the objective of protecting the cash flow of interest income from securities investments, related to the risk of DI interest rates, using DI Futures contracts at B3, amounting to R\$16,030,487 thousand (2016 - R\$21,502,218 thousand), to hedge DI securities, amounting to R\$14,708,544 thousand (2016 - R\$21,476,571 thousand), with the maturity between 2018 and 2019, making the cash flows fixed. The adjustment to the market, registered in the shareholders' equity, of R\$40,060 thousand (2016 - R\$43,190 thousand), net of tax effects was R\$ 24,036 thousand (2016 - R\$25,914 thousand); (ii) with the objective of protecting cash flow from interest payments on capitalizations, referring to the risk of DI interest rates by using DI Futuro contracts in B3, totaling R\$6,769,979 thousand, with the object of hedge as funds referenced to the DI, amounting to R\$6,671,048 thousand in terms of maturities between 2018 and 2020, making the cash flows fixed. The adjustment to market, recorded in shareholders' equity, of R\$(84,044) thousand, net of tax effects was R\$(50,426) thousand; and (iii) aiming at hedging the exchange variation on future cash flows, whose functional currency is other than Reais, using Forward contracts, in the amount of R\$1,110,888 thousand, with the purpose of hedging the investment abroad denominated in MXN (Mexican Peso), in the amount of R\$582,567 thousand. The mark-to-market adjustment these operations, recorded in shareholders' equity was R\$ (59,739) thousand, net of tax effects was R\$(35,843) thousand. The effectiveness of the hedge

portfolio was assessed in accordance with Bacen Circular Letter No. 3,082/02.

### Standardized and “Continuous Use” Derivatives

Organization’s Treasury Department may use standardized (traded on an exchange) and “continuous use” (traded over-the-counter) derivatives for the purpose of obtaining income or as hedges. The derivatives classified as “continuous use” are those habitually traded over-the-counter, such as vanilla swaps (interest rates, currencies, CDS – Credit Default Swap, among others), forward operations (currencies, for example) and vanilla options (currency, Bovespa Index), among others. Non-standardized derivatives that are not classified as “continuous use” or structured operations cannot be traded without the authorization of the applicable Committee.

### Evolution of Exposures

In this section are presented the evolution of financial exposure, the VaR calculated using the internal model and its backtesting and the Stress Analysis.

### Financial Exposure – Trading Portfolio (Fair value)

Risk factors	R\$ thousand			
	On December 31			
	2017		2016	
	Assets	Liabilities	Assets	Liabilities
Fixed rates	11,614,849	6,184,099	33,026,609	13,806,553
IGP-M (General Index of market pricing) / IPCA (Consumer price index)	1,053,893	532,957	330,819	404,612
Exchange coupon	1,808,598	1,658,084	997,507	878,284
Foreign Currency	1,808,598	2,103,715	1,005,349	1,024,526
Equities	461,957	468,911	-	-
Sovereign/Eurobonds and Treasuries	560,619	360,252	2,301,628	906,361
Other	257,537	98,517	218,421	-
<b>Total</b>	<b>17,566,051</b>	<b>11,406,535</b>	<b>37,880,333</b>	<b>17,020,336</b>



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### **Notes to the Consolidated Financial Statements**

#### **VaR Internal Model –Trading Portfolio**

The 1-day VaR of Trading Portfolio net of tax effects in end of 2017 was R\$ 14,417 thousand, with the interest rate risk as the largest participation of the portfolio.

<b>Risk factors</b>	<b>R\$ thousand</b>	
	<b>On December 31 2017</b>	<b>2016</b>
Fixed rates	8,956	20,704
IGP-M (General Index of market pricing) / IPCA (Consumer price index)	2,751	416
Exchange coupon	48	64
Foreign Currency	2,925	224
Sovereign/Eurobonds and Treasuries	826	3,230
Equities	289	-
Other	1	2
Correlation/diversification effect	(1,379)	(1,892)
<b>VaR at the end of the year</b>	<b>14,417</b>	<b>22,748</b>
Average VaR in the year	24,024	19,910
Minimum VaR in the year	5,499	9,408
Maximum VaR in the year	100,640	36,726

#### **VaR Internal Model – Regulatory Portfolio**

The capital is calculated by the normal delta VaR model based in Regulatory Portfolio, composed by Trading Portfolio and the Foreign Exchange Exposures and the Commodities Exposure of the Banking Portfolio. In addition, the historical simulation and the Delta–Gama–Vega models of risk are applied to measure all risk factors to an options portfolio, whichever is the most conservative. In this model, risk value is extrapolated to the regulatory horizon<sup>(1)</sup> (at least ten days) by the ‘square root of time’ method. VaR and

Stressed VaR shown below refer to a ten-day horizon and are net of tax effects.

Risk factors	On December 31				R\$ thousand
	2017		2016		
	VaR	Stressed	VaR	Stressed	
Interest rate	37,659	48,400	70,231	149,043	
Exchange rate	7,715	17,300	12,966	27,713	
Commodity price (Commodities)	1,110	200	12	29	
Equities	2,065	7,400	-	-	
Correlation/diversification effect	36,429	240	(1,872)	(8,296)	
<b>VaR at the end of the year</b>	<b>84,978</b>	<b>73,540</b>	<b>81,337</b>	<b>168,489</b>	
Average VaR in the year	87,358	107,059	70,249	179,169	
Minimum VaR in the year	24,945	26,803	38,810	83,230	
Maximum VaR in the year	369,342	236,895	131,105	247,814	

Note: Ten-day horizon VaR net of tax effects.

To calculate regulatory capital requirement according to the internal model, it is necessary to take into consideration the rules described by Brazilian Central Bank Circular Letters nº 3,646/13 and 3,674/13, such as the use of VaR and Stressed VaR net of tax effects, the average in the last 60 days and its multiplier.

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(1) The maximum amount between the book's holding period and ten days, which is the minimum regulatory horizon required by Brazilian Central Bank, is adopted.

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## ***Notes to the Consolidated Financial Statements***

### **VaR Internal Model – Backtesting**

The risk methodology applied is continuously assessed using backtesting techniques, which compare the one-day period VaR with the hypothetical P&L, obtained from the same positions used in the VaR calculation, and with the effective P&L, also considering the intraday operations for which VaR was estimated.

The main purpose of backtesting is to monitor, validate and assess the adherence of the VaR model, and the number of exceptions that occurred must be compatible with the number of exception accepted by the statistical tests conducted and the confidence level established. Another objective is to improve the models used by the Organization, through analyses carried out with different observation periods and confidence levels, both for Total VaR and for each risk factor.

Daily hypothetical and effective P&L over the last 250 business days surpassed their respective VaR only once, with a confidence level of 99%.

According to the document published by the Basel Committee on Banking Supervision<sup>(2)</sup>, exceptions are classified as being due to “either bad luck or the markets did not behave as expected by the model”, i.e. volatility was significantly higher than expected and, in certain situations, the correlations differed from those forecast by the model.

### **Stress Analysis – Trading Portfolio**

The Organization also assesses on a daily basis, the possible impacts on positions in stress scenarios for the next 20 business days, with limits established in the governance process. Thus, considering the effect of diversification between the risk factors and the tax effects, the average of the possible loss estimates in a stress situation would be R\$ 168,751 thousand in 2017 (2016 – R\$ 198,274 thousand), and the maximum estimated loss in the year of 2017 would be R\$ 387,884 thousand (2016 – R\$ 371,395 thousand).



	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
At the end of the year	103,949	338,004
Average in the year	168,751	198,274
Minimum in the year	53,426	87,152
Maximum in the year	387,884	371,395

Note: Values net of tax effects.

### Sensitivity Analysis

The Trading Portfolio is also monitored daily by sensitivity analyses that measure the effect of movements of market and price curves on our positions. Furthermore, a sensitivity analysis of the Organization's financial exposures (Trading and Banking Portfolio) is performed on a quarterly basis, in compliance with CVM Rule nº 475/08.

The sensitivity analyses were carried out based on the scenarios prepared for the respective dates, always taking into consideration market inputs available at the time and scenarios that would adversely impact our positions, in accordance with the scenarios below:

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<sup>(2)</sup> *Supervisory Framework for the use "Backtesting" in Conjunction with the Internal Models Approach to Market Risk Capital Requirements* (January 1996).

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### ***Notes to the Consolidated Financial Statements***

**Scenario 1:** Based on market information (B3, Anbima, etc.), stresses were applied for 1 basis point on the interest rate and 1 base point for interest rates and 1.0% variation on prices. For example: for a Real/US dollar exchange rate of R\$ 3.14 a scenario of R\$ 3.17 was used, while for a 1-year fixed interest rate of 6.90%, a scenario of 6.91% was applied;

**Scenario 2:** 25.0% stresses were determined based on market information. For example: for a Real/US dollar exchange rate of R\$ 3.14 a scenario of R\$ 3.93 was used, while for a 1-year fixed interest rate of 6.90%, a 8.62% scenario was applied. The scenarios for other risk factors also accounted for 25% stresses in the respective curves or prices; and

**Scenario 3:** 50.0% stresses were determined based on market information. For example: for a Real/US dollar quote of R\$ 3.14 a scenario of R\$ 4.72 was used, while for a 1-year fixed interest rate of 6.90%, a 10.35% scenario was applied; The scenarios for other risk factors also account for 50.0% stresses in the respective curves or prices.

The results show the impact for each scenario on a static portfolio position. The dynamism of the market and portfolios means that these positions change continuously and do not necessarily reflect the position demonstrated here. In addition, the Organization has a continuous market risk management process, which is always searching for ways to mitigate the associated risks, according to the strategy determined by Management. Therefore, in cases of deterioration indicators in a certain position, proactive measures are taken to minimize any potential negative impact, aimed at maximizing the risk/return ratio for the Organization.

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## Notes to the Consolidated Financial Statements

### Sensitivity Analysis – Trading Portfolio

		R\$ thousand					
		<b>Trading Portfolio (1)</b>					
		<b>On December 31</b>					
		<b>2017</b>			<b>2016</b>		
		<b>Scenarios</b>			<b>Scenarios</b>		
		<b>1</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>3</b>
Interest rate	Exposure subject to variations in fixed interest rates and interest rate coupons	(359)	(61,497)	(120,385)	(1,074)	(293,350)	(568,367)
Price indexes	Exposure subject to variations in price index coupon rates	(147)	(17,576)	(33,298)	(26)	(3,723)	(7,174)
Exchange coupon	Exposure subject to variations in foreign currency coupon rates	(9)	(420)	(839)	(2)	(224)	(437)
Foreign currency	Exposure subject to exchange rate variations	(1,629)	(40,736)	(81,473)	(106)	(2,649)	(5,297)
Equities	Exposure subject to variation in stock prices	(1,215)	(30,378)	(60,757)	-	-	-
Sovereign/Eurobonds and Treasuries	Exposure subject to variations in the interest rate of securities traded on the international market	(2,469)	(61,730)	(123,461)	(1,464)	(11,649)	(24,751)
Other	Exposure not classified in other definitions	-	-	-	-	(19)	(39)
<b>Total excluding correlation of risk factors</b>		<b>(5,828)</b>	<b>(212,337)</b>	<b>(420,213)</b>	<b>(2,672)</b>	<b>(311,614)</b>	<b>(606,065)</b>
<b>Total including correlation of risk factors</b>		<b>(3,448)</b>	<b>(131,662)</b>	<b>(259,684)</b>	<b>(2,058)</b>	<b>(295,900)</b>	<b>(574,058)</b>

(1) Values net of taxes.

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### Notes to the Consolidated Financial Statements

Presented below, the Sensitivity Analysis – Trading and Banking Portfolio.

### Sensitivity Analysis – Trading and Banking Portfolio

		R\$ thousand					
		<b>Trading and Banking Portfolios (1)</b>					
		<b>On December 31</b>					
		<b>2017</b>			<b>2016</b>		
		<b>Scenarios</b>					
		<b>1</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>3</b>
Interest rate	Exposure subject to variations in fixed interest rates and interest rate coupons	(12,579)	(2,339,939)	(4,560,181)	(8,994)	(2,466,388)	(4,786,687)
Price indexes	Exposure subject to variations in price index coupon rates	(512)	(56,130)	(107,716)	(9,255)	(1,224,208)	(2,264,187)
Exchange coupon	Exposure subject to variations in foreign currency coupon rates	(1,575)	(80,110)	(158,548)	(455)	(49,446)	(93,726)
Foreign currency	Exposure subject to exchange rate variations	(600)	(15,004)	(30,008)	(867)	(21,663)	(43,327)
Equities	Exposure subject to variation in stock prices	(16,289)	(407,237)	(814,475)	(14,817)	(370,420)	(740,841)
Sovereign/Eurobonds and Treasuries	Exposure subject to variations in the interest rate of securities traded on the international market	(4,978)	(205,764)	(406,054)	(1,786)	(15,940)	(32,801)
Other		(12)	(307)	(613)	(1)	(28)	(55)

Exposure not  
classified in other  
definitions

**Total excluding correlation of risk factors** (36,545)(3,104,491)(6,077,595) (36,175)(4,148,093)(7,961,624)

**Total including correlation of risk factors** (26,956)(2,678,101)(5,232,466) (26,893)(3,691,157)(7,090,253)

(1) Values net of taxes.

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***Notes to the Consolidated Financial Statements***

**3.3. Liquidity risk**

The Liquidity Risk is represented by the possibility of the institution not being able to efficiently meet its obligations, without affecting its daily operations and incurring significant losses.

The understanding and monitoring of this risk are crucial to enable the Organization to settle operations in a timely manner.

### **Management Process for Liquidity Risk**

The management of liquidity risk is a group-wide process. This process involves several areas with specific responsibilities. The measurement and control of liquidity risk are conducted in a centralized and independent manner, including the daily monitoring of available funds, the compliance with the liquidity level according to the risk appetite defined by the board, as well as the contingency plan and recovery for possible stress situations.

The Organization has a Liquidity Risk Management Policy approved by the Board of Directors, which has as one of its objectives to ensure the existence of norms, criteria and procedures for the correct monitoring of this type of risk, as well as the existence of a strategy and of action plans for liquidity crisis situations. The policy and controls established fully comply with the provisions of CMN Resolution 4,557/17.

### **Control and Monitoring**

Liquidity risk management is carried out by the Treasury Department, based on the positions available, by independent area. The DCIR is responsible for the measurement methodology, control of the limits established by type of currency and company (including non-financial), review of policies, standards, criteria and procedures and studies for new recommendations.

Liquidity risk is monitored daily by the business and control areas and at the meetings of the Treasury Asset and Liability Management Executive Committee, which manages liquidity reserves, with term and currency mismatches. Monitoring is also handled by the Integrated Risk and Capital Allocation Management Committee and the Board of Directors.

Since October, 2017, the Organization adopted as its main metric also for internal management, Short-Term Liquidity indicator (LCR), as provided by CMN Resolution 4,401/15 of CBB Circular Letter

3,749/16.

### **LCR - Liquidity Coverage Ratio**

The Liquidity Coverage Ratio (LCR) is designed to ensure that the Organization maintains a sufficient level of liquid assets to cover liquidity needs in an eventual stress scenario. The LCR is the ratio between the stock of High Quality Liquid Assets (HQLA) and total net cash outflow, calculated based on a generic stress scenario. The formula below shows the main components of the indicator:

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### **Notes to the Consolidated Financial Statements**

$$\text{LCR} = \frac{\text{Cash Outflows}}{\text{Cash Inflows}^*} \geq \% \text{ Required}$$

\*Limited to 75% of outflows

In accordance with the LCR implantation schedule, the level of the ratio between HQLA and total net cash outflows must comply with the following schedule:

<b>Year</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>As of 2019</b>
<b>% Required</b>	70%	80%	90%	100%

The stress scenarios parameterization was conducted by the Brazilian Central Bank to capture idiosyncratic and market shocks, considering the period of thirty days. The items below show some of the shocks included in the methodology:

- the partial loss of retail and uncollateralized wholesale funding, as well as short-term funding capacity;
- the additional outflow of funds, contractually foreseen, due to the downgrading of the institution's credit rating by up to three levels, including eventual additional collateral requirements;
- an increase in the volatility of factors that impact collateral quality or the potential future exposure of derivative positions, resulting in the application of larger collateral discounts or a call for additional collateral or in other liquidity requirements;
- withdrawals of higher than expected amounts from credit/liquidity lines granted; and
- the potential need to repurchase debt or honor non-contractual obligations in order to mitigate reputational risk.

### **High Quality Liquid Assets (HQLA)**

HQLA are assets that maintain their market liquidity in periods of stress and that meet the minimum requirements established by the Brazilian Central Bank, such as, among others, being free of any legal impediment or restriction; suffering little or no loss in market value when converted into cash; having a low credit risk; easy and accurate pricing; and being traded in an active and important market, with little difference between the purchase and sale price, high traded volume and a large number of participants. These assets are subject to weighting factors which may reduce their value, for example in accordance with the risk rating of their issuer or the historic variation in their market price, among other requirements.

### **Cash Outflows and Inflows**

Cash outflows are the result of a reduction in deposits and funding; the maturity of securities issued; scheduled contractual obligations for the next 30 days; margin adjustments and calls in derivative operations; the utilization/withdrawal of credit and liquidity lines granted by the Bank; and contingent cash outflows.

Cash inflows for the next thirty days correspond to the expected receipt of loans and financings; deposits; securities; and margin adjustments and easing in derivative operations.

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### Notes to the Consolidated Financial Statements

The table below shows the average LCR Prudential Conglomerate:

		R\$ thousand			
<b>Information on the Liquidity Coverage Ratio (LCR)</b>		<b>On December 31 (1)</b>		<b>On December 31 (2)</b>	
		<b>2017</b>		<b>2016</b>	
		<b>Average</b>	<b>Weighted</b>	<b>Average</b>	<b>Weighted</b>
		<b>Amount (3)</b>	<b>Average</b>	<b>Amount (3)</b>	<b>Average</b>
		<b>Amount (4)</b>		<b>Amount (4)</b>	
<b>Number of</b>	<b>High Quality Liquid Assets</b>				
<b>Line</b>	<b>(HQLA)</b>				
<b>1</b>	<b>Total High Quality Liquid Assets (HQLA)</b>		<b>125,596,242</b>		<b>146,652,484</b>
<b>Number of</b>	<b>Cash Outflows</b>				
<b>Line</b>					
<b>2</b>	<b>Retail funding:</b>	<b>210,005,411</b>	<b>17,749,477</b>	<b>227,352,566</b>	<b>16,702,571</b>
3	Stable funding	135,661,528	6,783,076	140,847,861	4,225,436
4	Less stable funding	74,343,883	10,966,401	86,504,705	12,477,135
<b>5</b>	<b>Non-collateralized wholesale funding:</b>	<b>112,474,083</b>	<b>50,716,519</b>	<b>102,652,197</b>	<b>49,853,687</b>
6	Operating deposits (all counterparties) and affiliated cooperative deposits	8,152,936	407,647	6,226,398	192,711
7	Non-operating deposits (all counterparties)	103,275,838	49,263,563	95,809,211	49,044,388
8	Other non-collateralized wholesale funding	1,045,309	1,045,309	616,588	616,588
<b>9</b>	<b>Collateralized wholesale funding</b>	<b>-</b>	<b>6,656,909</b>	<b>-</b>	<b>5,808,725</b>
<b>10</b>	<b>Additional requirements:</b>	<b>97,751,894</b>	<b>13,746,422</b>	<b>99,952,624</b>	<b>15,328,908</b>
11	Related to exposure to derivatives and other collateral requirements	15,192,265	7,089,564	16,283,688	9,017,294
12	Related to funding losses through the issue of debt instruments	345,574	345,574	33,682	6,332
13	Related to lines of credit and liquidity	82,214,055	6,311,284	83,635,254	6,305,282

<b>14</b>	<b>Other contractual obligations</b>	<b>30,492,461</b>	<b>28,811,462</b>	<b>29,749,147</b>	<b>29,749,147</b>
<b>15</b>	<b>Other contingent obligations</b>	<b>131,133,680</b>	<b>5,160,312</b>	<b>156,190,246</b>	<b>5,581,011</b>
<b>16</b>	<b>Total cash outflows</b>	<b>-</b>	<b>122,841,100</b>	<b>-</b>	<b>123,024,048</b>
<b>Number of</b>	<b>Cash Inflows</b>				
<b>Line</b>					
17	Collateralized loans	161,500,640	-	189,610,077	937,935
18	Outstanding loans whose payments are fully up-to-date	32,424,050	21,009,387	37,529,539	24,090,950
19	Other cash inflows	24,624,328	21,429,233	21,079,562	17,347,511
<b>20</b>	<b>Total cash inflows</b>	<b>218,549,018</b>	<b>42,438,620</b>	<b>248,219,178</b>	<b>42,376,396</b>
			Total Adjusted Amount (5)		Total Adjusted Amount (5)
21	Total HQLA		125,596,242		146,652,484
22	Total net cash outflow		80,402,480		80,647,652
<b>23</b>	<b>LCR (%) (5)</b>		<b>156.2%</b>		<b>181.8%</b>

- 1) Calculated based on the simple daily average of the months that compose the quarter (61 observations);
- 2) Calculated based on the simple average of the closing of the months that compose the quarter (3 observations);
- 3) Corresponds to the total balance related to the item of cash inflows or outflows;
- 4) Corresponds to the value after application of the weighting factors; and
- 5) Corresponds to the calculated value after the application of weighting factors and limits.

The amount of net assets (HQLA) consists, in addition to the compulsory returns and reserves at the Brazilian Central Bank, mainly of federal government securities. These net assets resulted in R\$125,596,242 thousand, the average of the year of 2017.

Related to the cash outflows, based on the regulatory stress scenario (line 16), about 54.0% are redemptions and non-renewals retail and wholesale funding without collateral (unsecured), as shown on the lines 2 and 5 of the table.

Another relevant group refers to the item "Other contractual obligations" (line 14), which mainly includes the output streams of onlending operations, credit cards and trade finance.

Regarding cash inflows, corresponding to R\$ 42,438,620 thousand in the average of the year, stand out the receipts of loans operations (partial renewal), the inflows of Trade Finance operations, cash and cash equivalents and redemptions of securities in addition to the inflow of transfer and credit card operations.

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## ***Notes to the Consolidated Financial Statements***

### **Internal Communication**

In the process of liquidity risk management, reports are distributed daily to the areas involved in management and control, as well as to Management. This process includes the use of several analysis instruments to monitor liquidity, such as:

- Daily distribution of liquidity control instruments;
- Automatic intra-day update of the liquidity reports for appropriate management by the Treasury Department;
- Preparation of reports with past behavior and future simulations based on scenarios;
- Daily verification of compliance with minimum liquidity levels;
- Elaboration of complementary reports where the concentrations of funding by type of product, term and counterparty are presented; and
- Weekly reports to the Board of Executive Officers, showing the behavior and expectations related to the liquidity situation.

The liquidity risk management process also has an alert system that selects the appropriate reporting level according to the percentage of the established limit utilized. Thus, the lower the liquidity ratios, the higher the number and echelon of Senior Management members who receive the reports.

### **Undiscounted cash flows of financial liabilities**

The table below presents the cash flows payable for non-derivative financial liabilities, covering the remaining contractual period to maturity as from the date of the consolidated statement of financial position. The values disclosed in this table represent the undiscounted contractual cash flows.

	On December 31, 2017					R\$ thousand
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	Total
Deposits from banks	197,275,471	17,199,209	47,240,285	25,251,295	6,593,477	293,559,737
Deposits from customers	141,846,015	7,519,939	16,476,264	106,861,185	117,268	272,820,671
Funds from issuance of securities	3,346,915	13,222,173	69,548,689	77,143,455	1,503,901	164,765,133
Subordinated debt	896,349	3,705,136	6,942,643	27,064,409	33,166,577	71,775,114
Other financial liabilities (1)	43,606,124	8,785,744	2,290,146	3,711,492	4,046,006	62,439,512
<b>Total liabilities</b>	<b>386,970,874</b>	<b>50,432,201</b>	<b>142,498,027</b>	<b>240,031,836</b>	<b>45,427,229</b>	<b>865,360,167</b>

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

### Notes to the Consolidated Financial Statements

R\$ thousand

	On December 31, 2016					Total
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	
Deposits from banks	166,104,038	18,369,626	67,893,343	57,316,125	6,602,647	316,285,779
Deposits from customers	137,186,325	9,655,017	16,460,997	87,377,222	103,507	250,783,068
Funds from issuance of securities	10,239,074	11,971,886	78,896,618	91,190,406	1,850,999	194,148,983
Subordinated debt	439,974	2,268,618	11,958,373	24,756,298	32,110,903	71,534,166
Other financial liabilities (1)	41,547,649	9,025,726	2,516,140	3,837,647	4,663,580	61,590,742
<b>Total liabilities</b>	<b>355,517,060</b>	<b>51,290,873</b>	<b>177,725,471</b>	<b>264,477,698</b>	<b>45,331,636</b>	<b>894,342,738</b>

(1) Include, mainly, credit card transactions, foreign exchange transactions, negotiation and intermediation of securities, finance lease and capitalization bonds.

The assets available to meet all the obligations and cover the outstanding commitments include cash and cash equivalents, financial assets, loans and advances. Management may also cover unexpected cash outflows by selling securities and by having access to sources of additional funds, such as asset-backed-markets.

The previous table shows the undiscounted contractual cash flows of the financial liabilities of the Organization. The cash flows that the Organization estimates for these instruments may vary significantly from those presented. For example, it is expected that demand deposits of customers will maintain a stable or increasing balance, and it is not expected that these deposits will be withdrawn immediately.

The gross cash outflows presented in the previous table refer to the undiscounted contractual cash flow related to the financial liability.

In the Organization, liquidity-risk management involves a series of controls, mainly related to the establishment of technical limits, with the ongoing evaluation of the positions assumed and the financial

instruments used.

### **Undiscounted cash flows for derivatives**

All the derivatives of the Organization are settled at net value, and include:

- Foreign currency derivatives – over-the-counter currency options, currency futures, and currency options traded on an exchange; and
- Interest rate derivatives – interest rate swaps, forward rate contracts, interest rate options, other interest rate contracts, interest rate futures traded on an exchange and interest rate options traded on an exchange.

The table below analyzes the derivative financial liabilities that will be settled at net value, grouped based on the period remaining from the reporting date to the respective maturity date. The values disclosed in the table are undiscounted cash flows.

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**Notes to the Consolidated Financial Statements**

R\$ thousand

	On December 31, 2017					Total
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	
Differential of swaps payable	279,134	125,468	536,406	12,169,717	166,038	13,276,763
Non-deliverable forwards	201,115	95,761	147,710	66,682	737	512,005
• Purchased	73,599	53,513	90,914	65,640	737	284,403
• Sold	127,516	42,248	56,796	1,042	-	227,602
Premiums of options	551,220	13,510	34,443	63,052	303,200	965,425
Adjustment payables - future	155,305	-	-	-	-	155,305
<b>Total of derivative liabilities</b>	<b>1,186,774</b>	<b>234,739</b>	<b>718,559</b>	<b>12,299,451</b>	<b>469,975</b>	<b>14,909,498</b>

R\$ thousand

	On December 31, 2016					Total
	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 to 5 years	More than 5 years	
Differential of swaps payable	1,426,666	183,769	546,569	8,695,486	169,285	11,021,775
Non-deliverable forwards	1,772,919	264,887	542,923	158,670	547	2,739,946
• Purchased	212,953	256,669	534,800	150,289	547	1,155,258
• Sold	1,559,966	8,218	8,123	8,381	-	1,584,688
Premiums of options	150,945	28,342	40,154	43,217	-	262,658
Adjustment payables - future	19,164	-	-	-	-	19,164
<b>Total of derivative liabilities</b>	<b>3,369,694</b>	<b>476,998</b>	<b>1,129,646</b>	<b>8,897,373</b>	<b>169,832</b>	<b>14,043,543</b>

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### Notes to the Consolidated Financial Statements

#### Statement of financial position by maturities

The tables below show the financial assets and liabilities of the Organization segregated by maturities used for the management of liquidity risks, in accordance with the remaining contractual maturities on the reporting date:

	On December 31, 2017						R\$ thousand
	1 to 30 days	Current 31 to 180 days	181 to 360 days	1 to 5 years	Non-current More than 5 years	No stated maturity	Total
<b>Assets</b>							
Cash and balances with banks	81,742,951	-	-	-	-	-	81,742,951
Financial assets held for trading	15,181,714	10,934,575	5,501,249	146,527,365	56,173,284	7,391,854	241,710,041
Financial assets available for sale	2,422,266	9,392,915	19,351,886	83,816,085	33,391,763	11,037,807	159,412,722
Investments held to maturity	7,753	2,454	19,205	10,284,940	28,691,766	-	39,006,118
Financial assets pledged as collateral	25,977,537	111,922,357	2,543,922	40,965,417	2,565,940	-	183,975,173
Loans and advances to banks	23,136,673	3,544,426	3,387,187	1,754,483	424,955	-	32,247,724
Loans and advances to customers	55,830,036	80,715,548	51,526,092	114,151,120	44,535,303	-	346,758,099
Other financial assets (1)	25,375,820	1,340,567	1,807,856	11,322,882	1,872,358	-	41,719,483
<b>Total financial assets</b>	<b>229,674,750</b>	<b>217,852,842</b>	<b>84,137,397</b>	<b>408,822,292</b>	<b>167,655,369</b>	<b>18,429,661</b>	<b>1,126,572,311</b>
<b>Liabilities</b>							

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Deposits from banks	197,177,061	29,640,587	31,589,994	22,221,075	5,328,751	-	285,957,468
Deposits from customers (2)	142,525,722	11,400,607	10,531,633	97,523,112	27,371	-	262,008,445
Financial liabilities held for trading	13,552,386	201,643	81,073	134,649	305,248	-	14,274,999
Funds from issuance of securities	3,422,727	31,299,770	48,540,240	51,142,979	768,374	-	135,174,090
Subordinated debt	738,929	9,428,997	640,536	20,767,242	18,603,697	-	50,179,401
Insurance technical provisions and pension plans (2)	207,499,559	2,411,996	939,034	28,239,001	-	-	239,089,590
Other financial liabilities (3)	43,606,124	8,785,744	2,290,146	3,711,492	4,046,006	-	62,439,512
<b>Total financial liabilities</b>	<b>608,522,508</b>	<b>93,169,344</b>	<b>94,612,656</b>	<b>223,739,550</b>	<b>29,079,447</b>	<b>-</b>	<b>1,049,123,505</b>

R\$ thousand

	On December 31, 2016						Total
	1 to 30 days	Current 31 to 180 days	181 to 360 days	1 to 5 years	Non-current More than 5 years	No stated maturity	
<b>Assets</b>							
Cash and balances with banks	72,554,651	-	-	-	-	-	72,554,651
Financial assets held for trading	18,475,080	6,768,610	9,759,221	134,589,655	35,837,056	7,710,224	213,139,846
Financial assets available for sale	5,629,209	2,127,660	4,149,003	60,251,675	31,143,446	9,817,561	113,118,554
Investments held to maturity	-	-	-	12,932,440	30,069,588	-	43,002,028
Financial assets pledged as collateral	83,646,950	3,394,834	1,904,827	48,753,065	17,586,901	-	155,286,577
Loans and advances to banks	88,759,292	2,545,217	2,120,712	1,398,574	14,341	-	94,838,136
Loans and advances to customers	58,151,213	87,409,338	54,879,049	125,744,273	41,119,161	-	367,303,034
Other financial assets (1)	25,657,932	633,472	287,442	10,384,379	2,207,966	-	39,171,191
<b>Total financial assets</b>	<b>352,874,327</b>	<b>102,879,131</b>	<b>173,100,254</b>	<b>394,054,061</b>	<b>157,978,459</b>	<b>17,527,785</b>	<b>1,098,414,017</b>
<b>Liabilities</b>							
	162,977,360	63,417,792	19,850,717	50,045,413	5,371,400	-	301,662,682



Deposits from banks							
Deposits from customers (2)	137,252,829	15,331,311	9,457,530	70,641,804	64,455	-	232,747,929
Financial liabilities held for trading	12,428,599	534,525	279,662	192,649	243	-	13,435,678
Funds from issuance of securities	7,295,059	45,280,096	40,140,968	57,237,747	1,148,068	-	151,101,938
Subordinated debt	426,665	3,904,856	7,068,023	21,554,158	19,657,362	-	52,611,064

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**Notes to the Consolidated Financial Statements**

	On December 31, 2016						R\$ thousand
	1 to 30 days	Current 31 to 180 days	181 to 360 days	1 to 5 years	Non-current More than 5 years	No stated maturity	Total
Insurance technical provisions and pension plans (2)	182,739,608	3,342,339	1,306,760	28,451,293	-	-	215,840,000
Other financial liabilities (3)	41,547,649	9,025,726	2,516,140	3,837,647	4,663,580	-	61,590,742
<b>Total financial liabilities</b>	<b>544,667,769</b>	<b>140,836,645</b>	<b>80,619,800</b>	<b>231,960,711</b>	<b>30,905,108</b>	<b>-</b>	<b>1,028,990,033</b>

(1) Includes mainly foreign exchange transactions, debtors for guarantee deposits and negotiation and intermediation of securities;

(2) Demand and savings deposits and Technical provisions for insurance and pension plans comprising VGBL and PGBL products are classified as up to 30 days, without considering average historical turnover; and

(3) Includes mainly credit card transactions, foreign exchange transactions, negotiation and intermediation of securities, finance lease and capitalization bonds.

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### **Notes to the Consolidated Financial Statements**

The tables below show the assets and liabilities of the Organization segregated by current and non-current, on the reporting date:

	R\$ thousand		
	On December 31, 2017		
	Current	Non-current	Total
<b>Assets</b>			
<b>Total financial assets</b>	<b>531,664,989</b>	<b>594,907,322</b>	<b>1,126,572,311</b>
Non-current assets held for sale	1,520,973	-	1,520,973
Investments in associated companies	-	8,257,384	8,257,384
Premises and equipment	-	8,432,475	8,432,475
Intangible assets and goodwill, net of accumulated amortization	-	16,179,307	16,179,307
Taxes to be offset	4,589,981	5,934,594	10,524,575
Deferred income tax assets	-	43,731,911	43,731,911
Other assets	6,602,669	2,531,835	9,134,504
<b>Total non-financial assets</b>	<b>12,713,623</b>	<b>85,067,506</b>	<b>97,781,129</b>
<b>Total assets</b>	<b>544,378,612</b>	<b>679,974,828</b>	<b>1,224,353,440</b>
<b>Liabilities</b>			
<b>Total financial liabilities</b>	<b>796,304,508</b>	<b>252,818,997</b>	<b>1,049,123,505</b>
Other reserves	1,349,366	17,141,361	18,490,727
Current income tax liabilities	2,416,345	-	2,416,345
Deferred income tax assets	36,344	1,215,503	1,251,847
Other liabilities	33,460,225	1,917,087	35,377,312
<b>Total non-financial liabilities</b>	<b>37,262,280</b>	<b>20,273,951</b>	<b>57,536,231</b>
<b>Total equity</b>	<b>-</b>	<b>117,693,704</b>	<b>117,693,704</b>
<b>Total liabilities</b>	<b>833,566,788</b>	<b>390,786,652</b>	<b>1,224,353,440</b>

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**Notes to the Consolidated Financial Statements**

	R\$ thousand		
	On December 31, 2016		
	Current	Non-current	Total
<b>Assets</b>			
<b>Total financial assets</b>	<b>528,853,712</b>	<b>569,560,305</b>	<b>1,098,414,017</b>
Non-current assets held for sale	1,578,966	-	1,578,966
Investments in associated companies	-	7,002,778	7,002,778
Premises and equipment	-	8,397,116	8,397,116
Intangible assets and goodwill, net of accumulated amortization	-	15,797,526	15,797,526
Taxes to be offset	3,114,609	4,608,602	7,723,211
Deferred income tax assets	-	45,116,863	45,116,863
Other assets	5,278,675	2,720,504	7,999,179
<b>Total non-financial assets</b>	<b>9,972,250</b>	<b>83,643,389</b>	<b>93,615,639</b>
<b>Total assets</b>	<b>538,825,962</b>	<b>653,203,694</b>	<b>1,192,029,656</b>
<b>Liabilities</b>			
<b>Total financial liabilities</b>	<b>766,124,214</b>	<b>262,865,819</b>	<b>1,028,990,033</b>
Other reserves	4,293,374	13,999,035	18,292,409
Current income tax liabilities	2,130,286	-	2,130,286
Deferred income tax assets	36,943	1,726,005	1,762,948
Other liabilities	34,917,264	457,509	35,374,773
<b>Total non-financial liabilities</b>	<b>41,377,867</b>	<b>16,182,549</b>	<b>57,560,416</b>
<b>Total equity</b>	<b>-</b>	<b>105,479,207</b>	<b>105,479,207</b>
<b>Total liabilities</b>	<b>807,502,081</b>	<b>384,527,575</b>	<b>1,192,029,656</b>

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***Notes to the Consolidated Financial Statements***

**3.4. Fair value of financial assets and liabilities**

The Organization applies IFRS 13 for financial instruments measured in the consolidated statement of financial position at fair value, which requires disclosure of fair-value measurements according to the following fair-value hierarchy of fair value measurement:

- Level 1

Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active market, as well as Brazilian government securities that are highly liquid and are actively traded in over-the-counter markets.

- Level 2

Valuation uses observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data, including but not limited to yield curves, interest rates, volatilities, equity or debt prices and foreign exchange rates.

- Level 3

Valuation uses unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities normally include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant Management judgment or estimation. This category generally includes certain corporate and bank debt securities and certain derivative contracts.

To fair value securities which have no consistent, regulatory updated, public price source, Bradesco uses models defined by the mark-to-market Commission and documented in the mark-to-mark manual for each security type. Through the use of methods and both mathematical and financial models which capture the effects and variations in the prices of marked-to-market assets, or similar instruments, Bradesco is able to ascertain in a clear and consistent manner the determination of fair value of its level 3 assets and liabilities.

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### Notes to the Consolidated Financial Statements

The tables below present the composition of the financial assets and liabilities measured at fair value, classified using the hierarchical levels:

	On December 31, 2017			R\$ thousand
	Level 1	Level 2	Level 3	Fair Value
Brazilian government securities	198,273,452	3,975,816	4	202,249,272
Corporate debt and marketable equity securities	3,716,053	8,271,295	352,442	12,339,790
Bank debt securities	1,952,015	6,396,254	-	8,348,269
Mutual funds	4,377,508	-	-	4,377,508
Foreign governments securities	528,010	-	-	528,010
Brazilian sovereign bonds	307	-	-	307
<b>Trading securities</b>	<b>208,847,345</b>	<b>18,643,365</b>	<b>352,446</b>	<b>227,843,156</b>
Derivative financial instruments (assets)	46,601	13,814,312	5,972	13,866,885
Derivative financial instruments (liabilities)	-	(14,264,124)	(10,875)	(14,274,999)
<b>Derivatives</b>	<b>46,601</b>	<b>(449,812)</b>	<b>(4,903)</b>	<b>(408,114)</b>
Brazilian government securities	103,237,635	-	44,123	103,281,758
Corporate debt securities	4,786,078	31,740,856	3,451,696	39,978,630
Bank debt securities	1,086,454	97,399	-	1,183,853
Brazilian sovereign bonds	728,127	-	-	728,127
Foreign governments securities	3,202,547	-	-	3,202,547
Marketable equity securities and other stocks	4,380,606	3,261,732	3,395,469	11,037,807
<b>Available-for-sale securities</b>	<b>117,421,447</b>	<b>35,099,987</b>	<b>6,891,288</b>	<b>159,412,722</b>
Brazilian government securities	53,841,066	-	-	53,841,066
Corporate debt securities	825,287	-	-	825,287
Bank debt securities	4,904,070	-	-	4,904,070
Brazilian sovereign bonds	713,555	-	-	713,555
<b>Financial assets pledged as collateral</b>	<b>60,283,978</b>	<b>-</b>	<b>-</b>	<b>60,283,978</b>
<b>Total</b>	<b>386,599,371</b>	<b>53,293,540</b>	<b>7,238,831</b>	<b>447,131,742</b>

	On December 31, 2016			R\$ thousand
	Level 1	Level 2	Level 3	Fair Value
Brazilian government securities	157,346,640	3,756,680	79	161,103,399
Corporate debt and marketable equity securities	3,740,235	6,356,302	287,145	10,383,682
Bank debt securities	470,676	18,129,451	-	18,600,127

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Mutual funds	4,295,403	8,378	-	4,303,781
Foreign governments securities	635,390	-	-	635,390
Brazilian sovereign bonds	1,358,025	-	-	1,358,025
<b>Trading securities</b>	<b>167,846,369</b>	<b>28,250,811</b>	<b>287,224</b>	<b>196,384,404</b>
Derivative financial instruments (assets)	26,632	16,728,802	8	16,755,442
Derivative financial instruments (liabilities)	-	(13,427,053)	(8,625)	(13,435,678)
<b>Derivatives</b>	<b>26,632</b>	<b>3,301,749</b>	<b>(8,617)</b>	<b>3,319,764</b>
Brazilian government securities	59,149,326	-	48,702	59,198,028
Corporate debt securities	2,470,652	38,431,230	1,240,826	42,142,708
Bank debt securities	1,063,157	495,886	-	1,559,043
Brazilian sovereign bonds	401,214	-	-	401,214
Marketable equity securities and other stocks	3,387,158	2,706,578	3,723,825	9,817,561
<b>Available-for-sale securities</b>	<b>66,471,507</b>	<b>41,633,694</b>	<b>5,013,353</b>	<b>113,118,554</b>
Brazilian government securities	61,812,995	-	-	61,812,995
Corporate debt securities	3,899,878	-	-	3,899,878
Bank debt securities	4,742,273	-	-	4,742,273
Brazilian sovereign bonds	102,841	-	-	102,841
<b>Financial assets pledged as collateral</b>	<b>70,557,987</b>	<b>-</b>	<b>-</b>	<b>70,557,987</b>
<b>Total</b>	<b>304,902,495</b>	<b>73,186,254</b>	<b>5,291,960</b>	<b>383,380,709</b>

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

## ***Notes to the Consolidated Financial Statements***

### **Derivative Assets and Liabilities**

The Organization's derivative positions are determined using quantitative models that require the use of multiple inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors. The majority of market inputs are observable and can be obtained, from B3 (principal source) and the secondary market. Exchange traded derivatives valued using quoted prices are classified within Level 1 of the valuation hierarchy. However, few classes of derivative contracts are listed on an exchange; those that are not are classified as Level 2 or Level 3.

The yield curves are used to determine the fair value by the method of discounted cash flow, for currency swaps and swaps based on other risk factors. The fair value of futures and forward contracts is also determined based on quoted markets prices on the exchanges for exchanges-traded derivatives or using similar methodologies to those described for swaps. The fair value of options is determined using external quoted prices or mathematical models, such as Black-Scholes, using yield curves, implied volatilities and the fair value of the underlying asset. Current market prices are used to determine the implied volatilities. The majority of these models do not contain a high level of subjectivity as the methodologies used in the models do not require significant judgment and inputs to the model are readily observable from active quoted markets. Such instruments are generally classified within Level 2 of the valuation hierarchy. The fair values of derivative assets and liabilities also include adjustments for market liquidity, counterparty credit quality and other specific factors, where appropriate.

Derivatives that are valued based on mainly unobservable market parameters and that are not actively traded are classified within Level 3 of the valuation hierarchy. Level 3 derivatives include credit default swaps which have corporate debt securities as underlyings.

The table below presents a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the years 2017 and 2016:

	<b>Derivatives</b>	<b>R\$ thousand Total</b>
3.4. Fair value of financial assets and liabilities		603

	<b>Financial assets held for trading</b>	<b>Financial assets available for sale</b>		
<b>Balance on December 31, 2015</b>	<b>209,210</b>	<b>6,085,190</b>	<b>(20,382)</b>	<b>6,274,018</b>
Included in the statement of income and other comprehensive income	13,155	(1,174,225)	-	(1,161,070)
Acquisitions	3,833	2,178,445	11,793	2,194,071
Write-offs	(7,633)	(445,173)	(28)	(452,834)
Transfer with categories	274,001	(274,001)	-	-
Transfer levels	(205,342)	(1,356,883)	-	(1,562,225)
<b>Balance on December 31, 2016</b>	<b>287,224</b>	<b>5,013,353</b>	<b>(8,617)</b>	<b>5,291,960</b>
Included in the statement of income and other comprehensive income	15,868	(735,002)	-	(719,134)
Acquisitions	74,908	4,019,844	3,714	4,098,466
Write-offs	(25,554)	(1,406,907)	-	(1,432,461)
<b>Balance on December 31, 2017</b>	<b>352,446</b>	<b>6,891,288</b>	<b>(4,903)</b>	<b>7,238,831</b>

In 2016, there was a transfer of securities from Level 3 to other levels of classification, mainly for level 2 in the amount R\$ 1,562,225 thousand. The transfer refers, basically, to Corporate debt securities, which were based on the fair value obtained from internal pricing models, mainly customer internal rating, began to be calculated based on observable market data (Anbima's credit curve).

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### **Notes to the Consolidated Financial Statements**

The tables below show the gains/(losses) due to changes in fair value, including the realized and unrealized gains and losses, recorded in the consolidated statement of income for Level 3 assets and liabilities during the years 2017, 2016 and 2015:

	Year ended December 31, 2017			R\$ thousand
	Financial assets held for trading	Financial assets available for sale	Financial assets pledged as collateral	Total
Interest and similar income	25,967	182,269	-	208,236
Net trading gains/(losses) realized and unrealized	(10,099)	(917,271)	-	(927,370)
<b>Total</b>	<b>15,868</b>	<b>(735,002)</b>	<b>-</b>	<b>(719,134)</b>

	Year ended December 31, 2016			R\$ thousand
	Financial assets held for trading	Financial assets available for sale	Financial assets pledged as collateral	Total
Interest and similar income	16,518	207,164	-	223,682
Net trading gains/(losses) realized and unrealized	(3,363)	(1,381,389)	-	(1,384,752)
<b>Total</b>	<b>13,155</b>	<b>(1,174,225)</b>	<b>-</b>	<b>(1,161,070)</b>

	Year ended December 31, 2015			R\$ thousand
	Financial assets held for trading	Financial assets available for sale	Financial assets pledged as collateral	Total
Interest and similar income	440,791	1,399,443	-	1,840,234
Net trading gains/(losses) realized and unrealized	10,496	1,094,894	-	1,105,390
<b>Total</b>	<b>451,287</b>	<b>2,494,337</b>	<b>-</b>	<b>2,945,624</b>

The tables below show the gains/(losses) due to the changes in fair value, including the realized and unrealized gains and losses, recorded in the statement of income for Level 3 assets and liabilities, which were not settled during the years 2017, 2016 and 2015:

	R\$ thousand		
	<b>Year ended December 31, 2017</b>		
	<b>Financial assets held for trading</b>	<b>Financial assets pledged as collateral</b>	<b>Total</b>
Net gains/(losses) due to changes in fair value	(10,099)	-	(10,099)
<b>Total</b>	<b>(10,099)</b>	<b>-</b>	<b>(10,099)</b>

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**Notes to the Consolidated Financial Statements**

	Year ended December 31, 2016		R\$ thousand
	Financial assets held for trading	Financial assets pledged as collateral	Total
Net gains/(losses) due to changes in fair value	(3,363)	-	(3,363)
<b>Total</b>	<b>(3,363)</b>	<b>-</b>	<b>(3,363)</b>

	Year ended December 31, 2015		R\$ thousand
	Financial assets held for trading	Financial assets pledged as collateral	Total
Net gains/(losses) due to changes in fair value	9,420	-	9,420
<b>Total</b>	<b>9,420</b>	<b>-</b>	<b>9,420</b>

**Sensitivity analysis for financial assets classified as Level 3**

	On December 31, 2017					
	Impact on income (1)			Impact on shareholders' equity (1)		
	1	2	3	1	2	3
Interest rate	(8)	(1,931)	(3,482)	(63)	(14,873)	(26,345)
Price indexes	-	-	-	(10)	(1,269)	(2,394)
Equities	(1,351)	(33,783)	(67,567)	(17,825)	(445,615)	(891,231)

(1) Values net of taxes.

R\$ thousand

**On December 31, 2016**

	Impact on income (1)			Impact on shareholders' equity (1)		
	1	2	3	1	2	3
Interest rate	(1)	(271)	(476)	(26)	(6,205)	(11,088)
Price indexes	-	-	-	(8)	(1,047)	(1,953)
Equities	-	-	-	(19,481)	(487,018)	(974,037)

(1) Values net of taxes.

The sensitivity analyses were carried out based on the scenarios prepared for the dates shown, always taking into consideration market inputs available at the time and scenarios that would adversely impact our positions, in accordance with the scenarios below:

**Scenario 1:** Based on market information (B3, Anbima, etc.), stresses were applied for 1 basis point on the interest rate and 1 base point for interest rates and 1.0% variation on prices. For example: for a Real/US dollar exchange rate of R\$ 3.14 a scenario of R\$ 3.17 was used, while for a 1-year fixed interest rate of 6.90%, a 6.91% scenario was applied;

**Scenario 2:** 25.0% stresses were determined based on market information. For example: for a Real/US dollar exchange rate of R\$ 3.14 a scenario of R\$ 3.93 was used, while for a 1-year fixed interest rate of 6.90%, a 8.62% scenario was applied. The scenarios for other risk factors also had 25.0% stresses in the respective curves or prices; and

**Scenario 3:** 50.0% stresses were determined based on market information. For example: for a Real/US dollar quote of R\$ 3.14 a scenario of R\$ 4.72 was used, while for a 1-year fixed interest rate of 6.90%, a 10.35% scenario was applied; The scenarios for other risk factors also had 50% stresses in the respective curves or prices.



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## Notes to the Consolidated Financial Statements

### Financial instruments not measured at fair value

The table below summarizes the carrying amounts and the fair values of the financial assets and liabilities that were not presented in the consolidated statements of financial position at their fair value, classified using the hierarchical levels:

	On December 31, 2017				R\$ thousand
	Fair Value				Book value
	Level 1	Level 2	Level 3	Total	
<b>Financial assets</b>					
Financial assets pledged as collateral					
· securities purchased under agreements to resell		- 123,691,195		- 123,691,195	123,691,195
Held to maturity	29,182,489	11,963,782		41,146,271	39,006,118
Loans and receivables					
· Banks (1)		- 32,247,724		- 32,247,724	32,247,724
· Customers (1)			- 346,633,592	346,633,592	346,758,099
<b>Financial liabilities</b>					
Deposits from banks			- 285,716,505	285,716,505	285,957,468
Deposits from customers			- 261,760,442	261,760,442	262,008,445
Funds from issuance of securities			- 134,890,631	134,890,631	135,174,090
Subordinated debt			- 51,012,436	51,012,436	50,179,401

	On December 31, 2016				R\$ thousand
	Fair Value				Book value
	Level 1	Level 2	Level 3	Total	
<b>Financial assets</b>					
Financial assets pledged as collateral					
· securities purchased under agreements to resell		- 84,728,590		- 84,728,590	84,728,590
Held to maturity	32,875,426	11,379,323		44,254,749	43,002,028
Loans and receivables					

· Banks (1)	-	94,838,136	-	94,838,136	94,838,136
· Customers (1)	-		-	362,156,027	367,303,034

**Financial liabilities**

Deposits from banks	-	301,497,406	301,497,406	301,662,682
Deposits from customers	-	232,224,796	232,224,796	232,747,929
Funds from issuance of securities	-	151,622,981	151,622,981	151,101,938
Subordinated debt	-	53,436,792	53,436,792	52,611,064

(1) Amounts of loans and receivables are presented net of the provision for impairment losses.

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### ***Notes to the Consolidated Financial Statements***

Below we list the methodologies used to determine the fair values presented above:

#### **Loans and receivables**

Fair values were estimated for groups of similar loans based upon type of loan, credit quality and maturity. Fair value for fixed-rate transactions was determined by discounted cash flow estimates using interest rates approximately equivalent to our rates for new transactions based on similar contracts. Where credit deterioration has occurred, estimated cash flows for fixed and floating-rate loans have been reduced to reflect estimated losses.

The fair values for performing loans are calculated by discounting scheduled principal and interest cash flows through maturity using market discount rates and yield curves that reflect the credit and interest rate risk inherent to the loan type at each reporting date. The fair values for impaired loans are based on discounting cash flows or the value of underlying collateral.

The non-performing loans were allocated into each loan category for purposes of calculating the fair-value disclosure. Assumptions regarding cash flows and discount rates are based on available market information and specific borrower information.

#### **Held to maturity**

Investments held to maturity are carried at amortized cost. Fair values are estimated according to the assumptions described on Note 2(f). See Note 22 for further details regarding the amortized cost and fair values of held-to-maturity securities.

#### **Deposits from banks and customers**

The fair value of fixed-rate deposits with stated maturities was calculated using the contractual cash flows discounted with current market rates for instruments with similar maturities and terms. For floating-rate deposits, the carrying amount was considered to approximate fair value.

### **Funds from securities issued**

The carrying values of funds from securities issued approximate the fair values of these instruments.

### **Subordinated debt**

Fair values for subordinated debts were estimated using a discounted cash flow calculation that applies interest rates available in the market for similar maturities and terms.

## **3.5. Capital management**

## Capital Management Corporate Process

The Capital Management provides the conditions required to meet the Organization's strategic goals to support the risks inherent to its activities. It includes the preparation of the capital plan, identifying the contingency actions to be considered in stress scenarios.

In line with the strategic guidelines, the Organization manages capital, involving the control and business areas, in accordance with the guidelines of the Board of Executive Officers and Board of Directors.

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### ***Notes to the Consolidated Financial Statements***

The governance structure for the capital management and the Internal Capital Adequacy Assessment Process (ICAAP) is composed by Committees and its highest level body is the Board of Directors. The most important is the Planning, Budget and Control Department, whose mission is to provide the efficient and effective management of the business through strategic management and planning, supporting the Top Management by providing analyses and projections of capital requirements and availability, identifying threats and opportunities that help plan the sufficiency and optimization of capital levels. The Department is responsible for complying with the provisions of Brazilian Central Bank regarding capital management activities.

#### **Capital Adequacy**

This process is followed up daily to ensure that the Organization maintains a solid capital base in normal situations or in extreme market conditions and complying with regulatory requirements.

The determination of the Central Bank, is that the financial institutions permanently maintain capital and additional Common Equity Tier I (Conservation, Countercyclical and Systemic) compatible with the risks from their activities. The risks are represented by Risk-Weighted Asset (RWA), which is calculated based on, at least, the sum of Credit, market and operational risk installments.

Additionally, the Organization must maintain enough capital to meet the interest rate risk from operations not included in the trading portfolio (Banking Portfolio's interest rate risk), calculated using the EVE (Economic Value Equity) method.

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## Notes to the Consolidated Financial Statements

### Analysis of Reference Equity (PR)

Following is the detailed information on the Organization's Capital, in compliance with the Prudential Conglomerate:

Calculation basis – Capital Adequacy Ratio	R\$ thousand	
	<b>Basel III</b>	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>Prudential</b>	
<b>Tier I capital</b>	<b>80,084,744</b>	<b>78,762,886</b>
Common equity	75,079,777	73,747,016
Shareholders' equity	110,457,476	100,442,413
Minority / Other	68,072	60,615
Prudential adjustments (1)	(35,445,771)	(26,756,012)
Additional Capital	5,004,967	5,015,870
<b>Tier II capital</b>	<b>24,588,090</b>	<b>22,363,950</b>
Subordinated debts (Resolution No. 4.192/13)	16,947,024	9,803,498
Subordinated debts (prior to Resolution No. 4.192/13)	7,641,066	12,560,452
<b>Reference Equity (a)</b>	<b>104,672,834</b>	<b>101,126,836</b>
- Credit risk	554,928,771	589,977,243
- Market risk	8,908,205	15,767,767
- Operational risk	47,605,162	50,443,507
<b>Risk-weighted assets – RWA (b)</b>	<b>611,442,138</b>	<b>656,188,517</b>
Banking Book's Interest Rate Risk	3,527,467	4,142,339
Margin (Capital Buffer) (2)	34,226,583	28,084,702
<b>Basel ratio (a/b)</b>	<b>17.1%</b>	<b>15.4%</b>
<b>Tier I capital</b>	<b>13.1%</b>	<b>12.0%</b>
- Principal capital	12.3%	11.2%
- Additional capital	0.8%	0.8%

(1) As per January 2017, the factor applied to prudential adjustments went from 60% to 80%, according to the timeline for application of deductions of prudential adjustments, defined in Article 11 of CMN Resolution n<sup>o</sup> 4,192/13; and



(2) Margin = Minimum (PR – PRE; PR Level I - RWA \* 6%; PR Principal - RWA \* 4.5%) - Additional Principal Capital.

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## Notes to the Consolidated Financial Statements

### Breakdown of Risk-Weighted Assets (RWA)

Below is the detailed comparison of the risk-weighted assets (RWA) of the Prudential Conglomerate, regulatory approach:

RWA	R\$ thousand	
	On December 31 2017	2016
	<b>Prudential</b>	
<b>Credit risk</b>	<b>554,928,771</b>	<b>589,977,243</b>
Risk Weight of 0%	-	-
Risk Weight of 2%	314,012	271,970
Risk Weight of 20%	2,224,147	10,725,736
Risk Weight of 35%	10,208,602	9,114,590
Risk Weight of 50%	25,635,506	32,434,787
Risk Weight of 75%	114,553,059	117,017,519
Risk Weight of 85%	105,938,759	144,006,730
Risk Weight of 100%	261,909,360	239,369,280
Risk Weight of 250%	28,139,531	27,655,131
Risk Weight of 300%	2,920,531	6,825,567
Risk Weight up to 1,250%	3,085,264	2,555,933
<b>Market Risk (1)</b>	<b>8,908,205</b>	<b>15,767,767</b>
Fixed-rate in Reais	5,696,584	10,537,134
Foreign Currency Coupon	838,259	7,028,051
Price Index Coupon	1,756,973	342,400
Interest Rate Coupon	-	13,499
Equities	637,924	67,392
Commodities	449,546	32,466
Exposure to Gold, Foreign Currencies and Exchange	3,657,957	4,194,380
<b>Operational Risk</b>	<b>47,605,162</b>	<b>50,443,507</b>
Corporate Finance	1,369,491	1,380,459
Trading and Sales	1,667,449	2,866,659
Retail	9,308,681	8,349,268
Commercial	21,518,843	20,699,277
Payment and Settlement	6,132,749	10,143,694
Financial Agent Services	3,628,257	3,465,556

Asset Management	3,827,848	3,392,327
Retail Brokerage	151,844	146,266
<b>Total Risk Weighted Assets</b>	<b>611,442,138</b>	<b>656,188,517</b>
<b>Total Capital Requirement</b>	<b>56,558,398</b>	<b>64,798,616</b>
<b>Banking Book's Interest Rate Risk</b>	<b>3,527,467</b>	<b>4,142,339</b>
<b>Adicional Common equity (ACPS) (2)</b>	<b>9,171,632</b>	<b>4,101,178</b>
ACP Conservation	7,643,027	4,101,178
ACP Systemic	1,528,605	-

(1) For purposes of calculation of the market risk, the capital requirement will be the lower between the internal model and 80% of the standard model, pursuant to Circular Letter No. 3.646/13 of Central Bank of Brazil; and

(2) In 2017, the value of ACP Conservation represents 1.25% of the amount of RWA. The Systemic ACP represents 0.25% of the amount of RWA (Systemic Relevance Factor determined according to Circular Letter No. 3.768 of the CBB - Total Exposure and GDP of the year before last in relation to the base date: R\$ 988.5 billion and R\$ 6 trillion, respectively. The contracyclical ACP represents 0% of the amount of RWA, pursuant to Communication No. 31.478 of the CBB with disclosure and effectiveness in December/17, where the RWA of the loan risk to the non-banking private sector (RWACPrNB) is R\$ 496.2 billion in Brazil.

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## ***Notes to the Consolidated Financial Statements***

### **Capital Sufficiency**

The management of capital is aligned with the strategic planning and is forward looking, anticipating any changes in the economic and commercial environment conditions in which we operate.

The Organization's capital management aims to ensure, in a permanently solid capital composition to support the development in its activities and ensure appropriate coverage of all risks involved. The Organization maintains a managerial capital margin (buffer), which is added to the minimum regulatory requirements.

The management buffer is defined according to the leading practices and regulatory requirements, observing aspects such as additional impacts generated by stress scenarios, qualitative risks and risks not captured by the regulatory model.

The Organization considers it comfortable to maintain a Tier I Capital margin of at least 25% in relation to the minimum capital requirements in the medium and long term, pursuant to the schedule established by the Brazilian Central Bank for the full adoption of Basel III guidelines.

The Organization's regulatory capital sufficiency can be seen by calculating the capital adequacy ratio which in this period was 17.1%, of which 13.1% and 12.3% was Tier I and Common Equity Tier I respectively. In terms of margin, the amount totaled R\$ 34,226,583 thousand, which would allow for an increase of up to R\$ 672,758,390 thousand in loan operations (considering the current composition of the portfolio).

Since January 2015, according to the CMN Resolution nº 4,192/13 which deals with the methodology for calculating the ratios of Common Equity Tier 1, Tier 1 and Total Capital, the regulatory scope became the Prudential Conglomerate.

## Capital Forecast

The capital management area (ICAAP) and Recovery Plan of DPOC is responsible for making simulations and projections of the Organization's capital, in accordance with the strategic guidelines, the impacts arising from variations and trends of the economic and business environment as well as regulatory changes. The results from the projections are submitted to the Top Management, pursuant to the governance established.

The projections for the next three years present adequate levels of Capital indices, considering the incorporation of net profits and the prudential adjustments due to the increase of the factors established in Article 11 of CMN Resolution 4,192/13 for subsequent periods.

## Simulation - Basel III

Based on Basel III rules published by Brazilian Central Bank in March and October 2013, which include the definition of capital and the expansion of risk scope and are being gradually implemented up to 2019, below is the simulation based in strategic assumptions for the Prudential Conglomerate, taking into consideration the full compliance with the rules on the reference date of December 2017, i.e., anticipating all the impacts expected throughout the implementation schedule, not considering later events (example: incorporation of results), according to CMN Resolution nº 4,192/13.

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(1) Published (Schedule 80%);

(2) Effect of the full impact. Including the reserve of Goodwill / Intangible paid for the purchase of HSBC Brasil, net of amortization and the reallocation of resources, through the payment of dividends by the Insurance Group (Grupo Segurador);

(3) Considers the anticipation of the multiplier of installments of market and operational risks, from 9.250% to 8%, in 2019; and

(4) Refers to the minimum required, in accordance with CMN Resolution nº 4,193/13, in addition to the additional capital installments established by Circular Nos. 3,768/15 and 3,769/15.

**3.6. Insurance risk/subscription risk**

Insurance risk is the risk related to a possible loss event that may occur in the future and for which there is uncertainty over the amount of damages that result from it. A component of insurance risk is underwriting risk, which arises from an adverse economic situation not matching the Organization's expectations at the time of drafting its underwriting policy and calculating insurance premiums. In short, it refers to the risk of the frequency or severity of loss events or benefits exceeding the Organization's estimates.

Underwriting risk is managed by our technical areas. Underwriting and risk acceptance policies are periodically evaluated by working groups. In addition, one of the main tasks of our technical areas is the calculation of regulatory capital for these businesses and certifies studies on the pricing of new products.

The management process seeks to diversify insurance operations, aiming to excel at balancing the portfolio, and is based on the grouping of risks with similar characteristics in order to reduce the impact of individual risks.

#### **Uncertainties over estimated future claim payments**

The organization must indemnify all covered events that occurred during the policy period, even if a loss is discovered after coverage ends. As a result, claims are reported over a period and a significant portion are accounted for in the provisions for incurred and but not reported claims (IBNR). The estimated cost of claims includes direct expenses to be incurred when settling them.

Giving the uncertainties inherent to the process for estimating claims provisions, the final settlement may be different than the original provision.

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## ***Notes to the Consolidated Financial Statements***

### **Asset and liability management (ALM)**

The organization periodically analyzes future cash flows on assets and liabilities held in portfolio (ALM - Asset Liability Management). The method used for ALM analysis is to observe the sufficiency or insufficiency of the present value of the stream of assets in relation to the present value of the stream of liabilities, and the duration of assets in relation to that of liabilities. The aim is to verify that the situation of the portfolio of assets and liabilities is balanced in order to honor the Organization's future commitments to its participants and insured persons.

The actuarial assumptions used to generate the flow of liabilities are in line with actuarial practices and also with the characteristics of the Organization's product portfolio.

### **Risk management by product**

Monitoring the insurance contract portfolio enables us to track and adjust premiums practiced, as well as assess the need for alterations. Other monitoring tools in use include: (i) sensitivity analysis, and (ii) algorithmic checks and corporate system notifications (underwriting, issuance and claims).

### **The main risks associated with property insurance**

- Oscillations in the incidence, frequency and severity of the claims and the indemnifications of claims in relation to the expectations;
- Unpredictable claims arising from an isolated risk;
- Inaccurate pricing or inadequate underwriting of risks;
- Inadequate reinsurance policies or risk transfer techniques; and



- Insufficient or excessive technical provisions.

Generally the property insurance underwritten is of short duration.

The underwriting strategies and goals are adjusted by management and informed through internal guidelines and practice and procedure manuals.

The risks inherent to the main property insurance business lines are summarized as follows:

- Auto insurance includes, among other things, physical damage to the vehicle, loss of the insured vehicle and third-party liability insurance for vehicles; and
- Business, home and miscellaneous insurance includes, among other things, fire risks (ex: fire, explosion and business interruption), natural disasters (earthquakes, storms and floods), engineering lines (explosion of boilers, breakdown of machinery and construction) and marine (cargo and hull) as well as liability insurance.

### **Property insurance risk management**

The Organization monitors and evaluates risk exposure and undertakes the development, implementation and revision of guidelines related to underwriting, treatment of claims, reinsurance and constitution of technical provisions. The implementation of these guidelines and the management of these risks are supported by the technical departments of each risk area.

The Technical Department has developed mechanisms, e.g. risk grouping by CPF, CNPJ and risky addresses, that identify, quantify and manage accumulated exposures in order to keep them within the limits defined in the internal guidelines.

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## ***Notes to the Consolidated Financial Statements***

### **The main risks associated with life-insurance and private-pension plans**

Life-insurance and private-pension plans are long-term in nature and, accordingly, various actuarial assumptions are used to manage and estimate the risks involved, such as: assumptions about returns on investments, mortality and persistence rates in relation to each business unit. Estimates are based on historical experience and on actuarial expectations.

The risks associated with life insurance and private pension plans include:

- Biometric risks, which includes mortality experience, adverse morbidity, longevity and disability. The mortality risk may refer to policyholders living longer than expected (longevity) or passing away before expected. This is because some products pay a lump sum if the person dies, and others pay regular amounts while the policyholder is alive;
- Policyholder's behavior risks, which includes persistence rate experience. Low persistence rates for certain products may result in less policies/private pension plan agreements remaining contracted to help cover fixed expenses and may reduce future positive cash flows of the underwritten business. A low persistence rate may affect liquidity of products which carry a redemption benefit;
- Group life-insurance risk results from exposure to mortality and morbidity rates and to operational experience worse than expected on factors such as persistence levels and administrative expenses; and
- Some Life and Pension Plan products have pre-defined yield guarantees, and thereby face risk from changes in financial markets, returns on investments and interest rates that are managed as a part of market risk.

### **Life-insurance and private-pension-plan risk management**

- The Organization monitors and assesses risk exposure and is responsible for developing, implementing and reviewing policies relating to underwriting, processing claims, and technical reserves for

insurance purposes. Implementation of these policies and management of these risks are supported by our technical areas;

- The technical areas have developed mechanisms, such as statistical reports and performance by type that identify, quantify and manage accumulated exposures to keep them within limits defined by internal policies;
- Longevity risks are carefully monitored in relation to the most recent data and to the trends in the environments in which the Organization and its subsidiaries and associated companies operate. Management monitors exposure to this risk and the capital implications of it in order to manage the possible impacts, as well as to ensure that business has the capital that it may require. The administration adopts improvement assumptions in its calculation of technical provisions in order to predict and thus be covered for possible impacts generated by the improvement in life expectancy of the insured/assisted population;
- Mortality and morbidity risks are partially mitigated through reinsurance contracts for catastrophes;
- Persistency risk is managed through frequent monitoring of the Organization's experience. Management has also defined rules on the management and monitoring of persistence and the implementation of specific initiatives to improve the renewal of policies that expire; and
- The risk of a high level of expenses is primarily monitored through the evaluation of the profitability of the business units and the frequent monitoring of expense levels.

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### **The main risks associated with health insurance**

- Variations in cause, frequency and severity of indemnities of claims compared to expectations;
- Unforeseen claims resulting from isolated risk;
- Incorrect pricing or inadequate subscription of risks; and
- Insufficient or overvalued technical provisions.

For individual health insurance, for which certain provisions are calculated based on expected future cash flows (difference between expected future claims and expected future premiums), there are a number of risks, in addition to those cited above, such as biometric risk, including mortality and longevity experience and the insured's behavioral risk, which covers persistency experience, as well as interest-rate risk that is managed as a part of market risk.

### **Management of health-insurance risk**

- The Organization monitors and evaluates risk exposure and is responsible for the development, implementation and review of policies that cover subscription, treatment of claims and technical insurance provisions. The implementation of these policies and management of risks are supported by the technical areas;
- The technical areas have developed mechanisms, such as statistical reports and performance by type that identify, quantify and manage accumulated exposure in order to keep it within the limits defined by internal policies;
- Longevity risk is carefully monitored using the most recent data and tendencies of the environment in which the Organization operates. Management monitors exposure to this risk and its capital implications in order to manage possible impacts, as well as the funding that the future business needs;

- Persistency risk is managed through the frequent management of the Organization's experience. Management has also established guidelines for the management of persistency in order to monitor and implement specific initiatives, when necessary, to improve retention of policies; and
- The risk of elevated expenses is primarily monitored through the evaluation of the profitability of business units and the frequent monitoring of expense levels.

### **Results of sensitivity analysis - Damages, life and health insurance and Life with Survival and Welfare Coverage and Individual Life Insurance**

Some test results are shown below. For each sensibility scenario the impact is shown in the income and shareholders' equity after taxes and contributions, in a reasonable and possible change in just a single factor. We emphasize that the insurance operations are not exposed to significant currency risk.

<b>Sensitivity factor</b>	<b>Description of sensitivity factor applied</b>
<b>Interest rate</b>	Effect of lowering the risk free forward yield curve rate
<b>Loss events</b>	Impact on the business of increased loss events and claims
<b>Longevity</b>	Impact of an improved survival estimates on annuity contracts
<b>Conversion to income</b>	Impact on annuity contracts of a higher rate of conversion to income

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The sensitivity test for Life Insurance with Survival, Welfare Coverage and Individual Life Insurance was made considering the same bases of the LAT test with variation in the assumptions listed below:

	R\$ thousand		
	<b>On December 31, 2017</b>		
	<b>Interest rate</b>	<b>Longevity</b>	<b>Conversion to income</b>
<b>Percentage adjustment to each assumption:</b>	<b>Variation of -5%</b>	<b>+0.2 p.p.</b>	<b>+ 5 p.p.</b>
Tradicional plans (contributing period)	(60,733)	(5,057)	(21,691)
PGBL and VGBL (contributing period)	(5,446)	(504)	(18,409)
All plans(retirement benefit period)	(112,782)	(35,507)	-
<b>Total</b>	<b>(178,961)</b>	<b>(41,068)</b>	<b>(40,100)</b>

For damages, life and health insurance, except individual life, the table below shows increase in the events/claims were to rise 1 percentage point over the 12 months from the calculation base date.

	R\$ thousand			
	<b>Gross of reinsurance</b>		<b>Net of reinsurance</b>	
	<b>On December 31</b>		<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Auto	(22,347)	(21,205)	(22,347)	(21,205)
RE (Elementary branch)	(9,940)	(10,809)	(8,893)	(9,333)
Life	(28,146)	(28,358)	(28,050)	(28,277)
Health	(97,923)	(89,907)	(97,923)	(89,907)

### **Limitations of sensitivity analysis**

Sensitivity analyses show the effect of a change in an important premise while other premises remain unchanged. In real situations, premises and other factors may be correlated. It should also be noted that these sensitivities are not linear and therefore greater or lesser impacts should not be interpolated or extrapolated from these results.

Sensitivity analyses do not take account of the fact that assets and liabilities are managed and controlled. Additionally, the Organization's financial position may vary with any movement occurring in the market. For example, the risk management strategy aims to manage exposure to fluctuations in the market. As investment markets move, management initiatives may include sales of investments, altered portfolio allocations, and other protective measures.

Other limitations of the sensitivity analyses include the use of hypothetical market movements to show the potential risk, which only represents Management's view of possible market changes in the near future, which cannot be foreseen with certainty, and they also assume that all interest rates move in the same manner.

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## **Notes to the Consolidated Financial Statements**

### **Risk concentration**

Potential exposures are monitored, analyzing certain concentrations in some type of insurance. The table below shows risk concentration by type of insurance (except health and dental), based on net premiums, net of reinsurance:

<b>Net premiums written by type of insurance, net of reinsurance</b>	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Auto	4,086,705	3,924,444
RE (Elementary branch)	1,525,848	1,593,662
Tradicional plans	1,788,420	1,499,401
Life insurance	6,904,576	6,354,034
VGBL	28,650,153	28,377,786
PGBL	3,301,623	2,386,631

### **Credit risk of insurance**

Credit risk consists of the possible incurrence of losses associated with non-performance, by the borrower or counterparty, of its financial obligations according to agreed terms, as well as the fall in value of any credit agreement as a result of deterioration in the risk classification of the borrower, and other losses related to any non-performance of financial obligations by the counterparty.

### **Reinsurance policy**

Credit risk is involved in purchasing reinsurance and insurance companies must be conservative and selective when choosing their partners. Reinsurers are registered with SUSEP, and classified as local, admitted or occasional. Reinsurers classified as admitted and occasional, headquartered abroad, must meet specific minimum requirements set forth in current legislation.



The Bradesco Organization's policy for purchasing reinsurance and approval of reinsurers are the responsibility of the executive board, observing to the minimum legal requirements and regulations, some of them aimed at minimizing the credit risk intrinsic to the operation, and considering the shareholders' equity consistent with amounts transferred.

Another important aspect of managing reinsurance operations is the fact that the Organization aims to work within its contractual capacity, thereby avoiding high credit risk.

Practically, the value of premiums transferred in reinsurance is relatively small in relation to total premiums written. However, almost all property damage portfolios, except automotive, are hedged by reinsurance which, in most cases, is a combination of proportional and non-proportional plans by risk and/or by event.

Currently, part of the reinsurance contracts (proportional and non-proportional) are transferred to IRB Brasil Resseguros S.A. Some admitted reinsurers participate with lower individual percentages, but all have minimum capital and rating higher than the minimum established by the Brazilian legislation, which, in management's judgment, reduces the credit risk.

### **Managing credit risk**

Credit-risk management in the Organization is a continuous and evolving process including the mapping, development, evaluation and diagnosis of existing models, instruments and procedures that requires a high level of discipline and control in the analysis of operations to preserve the integrity and independence of processes.

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### ***Notes to the Consolidated Financial Statements***

As noted above, credit risk is managed at the corporate level using structured, independent internal procedures based on proprietary documentation and reports, duly assessed by the risk management structures of Organization, and based on the gradual deployment of internal models for the determination, measurement and calculation of capital.

#### **Exposure to insurance credit risk**

Management believes that maximum exposure to credit risk arising from premiums to be paid by insured parties is low, since, in some cases, coverage of claims may be canceled (under Brazilian regulations), if premiums are not paid by the due date. Exposure to credit risk for premium receivables differs between risks yet to be incurred and risks incurred, since there is higher exposure on incurred-risk lines for which coverage is provided in advance of payment of the insurance premium.

The Organization is exposed to concentrations of risk with individual reinsurance companies, due to the nature of the reinsurance market and strict layer of reinsurance companies with acceptable loan ratings. The Organization manages the exposures of its reinsurance counterparties, limiting the reinsurance companies that may be used, and regularly assessing the default impact of the reinsurance companies.

## **4) Estimates and judgments**

The Organization makes estimates and judgments that can affect the reported amount of assets and liabilities within the next financial year including the assets and liabilities arising from the acquisition of HSBC Brasil. All estimates and judgments required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Such estimates and judgments are continually evaluated and based in our historical experience and a number of other factors including future event expectations, regarded as reasonable, under the current circumstances.

The estimates and judgments that have a significant risk and might have a relevant impact on the amounts of assets and liabilities within the next financial year are disclosed below. The actual results may be different from those established by these estimates and premises.

### **Fair value of financial instruments**

Financial instruments recognized at fair value in our consolidated financial statements consist primarily of financial assets held for trading, including derivatives and financial assets classified as available for sale. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participant at the management date.

These financial instruments are categorized within a hierarchy based on the lowest level of input that is significant to the fair value measurement. For instruments classified as level 3, we have to apply a significant amount of our own judgment in arriving at the fair value measurement. We base our judgment decisions on our knowledge and observations of the markets relevant to the individual assets and liabilities, and those judgments may vary based on market conditions. In applying our judgment, we look at a range of third-party prices and transaction volumes to understand and assess the extent of market benchmarks available and the judgments or modeling required in third-party processes. Based on these factors, we determine whether the fair values are observable in active markets or whether the markets are inactive.

Imprecision in estimating unobservable market inputs can impact the amount of revenue or loss recorded for a particular position. Furthermore, while we believe our valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value on the reporting date. For a detailed discussion of the determination of fair value of financial instruments, see Note 3.4.

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## ***Notes to the Consolidated Financial Statements***

### **Impairment of financial assets available for sale**

Periodically, the existence of a reduction in the recoverable value of available-for-sale financial assets is evaluated (see Note 2(f)(viii)(b)). This determination of what is significant or prolonged requires judgment. In making this judgment, the Organization evaluates, among other factors, the volatility in share price, where such variations involve equity securities.

In addition, valuations are obtained through market prices or valuation models that require the use of certain assumptions or judgments to estimate fair value.

### **Allowance for impairment on loans and advances**

Periodically, the Organization reviews its portfolio of loans and advances evaluating the estimated loss for the impairment of its operations.

The determination of the amount of the allowance for impairment, by its nature, requires judgments and uses assumptions regarding the loan portfolio, both on a portfolio basis and on an individual basis. When we review our loan portfolio as a whole, several factors can affect our estimate of the likely range of losses, including which methodology we use in measuring historical delinquency rates and what historical period we consider in making those measurements.

Additional factors that can affect our determination of the allowance for impairment include:

- General economic conditions and conditions in the relevant industry;
- 4) Estimates and judgments

- Past experience with the relevant debtor or industry, including recent loss experience;
- Credit quality trends;
- Amounts of loan collateral;
- The volume, composition and growth of our loan portfolio;
- The Brazilian government's monetary policy; and
- Any delays in the receipt of information needed to evaluate loans or to confirm existing credit deterioration.

The Organization uses models to assist analysis of the loan portfolio and in determining what impairment should be made. It applies statistical loss factors and other risk indicators to loan pools with similar risk characteristics to arrive at an estimate of incurred losses in the portfolio. Although the models are frequently revised and improved, they are by nature dependent on judgment in relation to the information and estimates. In addition, the volatility of the Brazilian economy is one of the factors that may lead to greater uncertainty in our models than would be expected in more stable macroeconomic environments. Accordingly, our allowance for impairment may not be indicative of future charge-offs.

For a sensitivity analysis, we assess the impact of an increase in the probability of default (PD) on the allowance. In this assessment an increase in 10% of the PD on December 31, 2017, would have increased the allowance for impairment by R\$ 503,667 thousand. This sensitivity analysis is hypothetical, and is only meant to illustrate the impact that the expectation of defaults have on determining the allowance for loan losses.

The process to determine the level of provision for losses from impairment requires estimates and the use of judgment; it is possible that actual losses presented in subsequent periods will differ from those

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

### ***Notes to the Consolidated Financial Statements***

calculated according to current estimates and assumptions.

#### **Impairment of goodwill**

The Organization has to consider at least annually whether the current carrying value of goodwill is impaired. The first step of the process requires the identification of independent Cash-Generating Units and the allocation of goodwill to these units. The carrying amount of the CGU, including the allocated goodwill, is compared to its recoverable amount to determine whether any impairment exists. If the value in use of a cash-generating unit is less than its carrying value, goodwill will be impaired. Detailed calculations may need to be carried out taking into consideration changes in the market in which a business operates (e.g. competitive activity, regulatory change). The value in use is based upon discounting expected pre-tax cash flows at a risk-adjusted interest rate appropriate to the operating unit, the determination of both requires one to exercise one's judgment. While forecasts are compared with actual performance and external economic data, expected cash flows naturally reflect the Organization's view of future performance.

#### **Income tax**

The determination of the amount of our income tax liability is complex, and our assessment is related to our analysis of our deferred tax assets and liabilities and income tax payable. In general, our evaluation requires that we estimate future amounts of current and deferred taxes. Our assessment of the possibility that deferred tax assets are realized is subjective and involves assessments and assumptions that are inherently uncertain in nature. The realization of deferred tax assets is subject to changes in future tax rates and developments in our strategies. The underlying support for our assessments and assumptions could change over time as a result of unforeseen events or circumstances, affecting our determination of the amount of our tax liability.

Significant judgment is required in determining whether it is more likely than not that an income tax position will be sustained upon examination, even after the outcome of any related administrative or judicial proceedings based on technical merits. Further judgment is then required to determine the amount of benefit eligible for recognition in our consolidated financial statements.

In addition, we have monitored the interpretation of tax laws by, and decisions of, the tax authorities and Courts so that we can adjust any prior judgment of accrued income taxes. These adjustments may also result from our own income tax planning or resolution of income tax controversies, and may be material to our operating results for any given period. For additional information about income tax, see Note 17.

### **Technical insurance provisions**

Insurance technical provisions (reserves) are liabilities representing estimates of the amounts that will become due at a future date, to or on behalf of our policyholders – see Note 2(o). Expectations of loss ratio, mortality, longevity, length of stay and interest rate are used. These assumptions are based on our experience and are periodically reviewed against industry standards to ensure actuarial credibility.

### **Contingent liabilities**

The Provisions are regularly reviewed and constituted, where the loss is deemed probable, based on the opinion of the legal counsel, the nature of the lawsuit, similarity to previous lawsuits, complexity and the courts standing. Contingencies classified as Probable Loss are recorded in the Consolidated Statements of Financial Position under "Other Provisions".

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***Notes to the Consolidated Financial Statements***

## **5) Operating segments**

The Organization operates mainly in the banking and insurance segments. Our banking operations include operations in the retail, middle-market and corporate sectors, lease, international bank operations, investment bank operations and as a private bank. The Organization also conducts banking segment operations through its branches located throughout the country, in branches abroad and through subsidiaries as well as by means of shareholding interests in other companies. Additionally we are engaged in insurance, supplemental pension plans and capitalization bonds through our subsidiary, Bradesco Seguros S.A. and its subsidiaries.

The following segment information was prepared based on reports made available to Management to evaluate performance and make decisions regarding to the allocation of resources for investments and other purposes. Our Management uses a variety of accounting information, which includes the proportional consolidation of affiliates and joint ventures. Accordingly, the information of the segments shown in the following tables was prepared in accordance with the specific procedures and other provisions of the Financial Institutions Accounting Plan and the total amounts, which correspond to the consolidated information, were prepared in accordance with IFRS, issued by the IASB.

The main assumptions for the segmentation of income and expenses include (i) surplus cash invested by the entities operating in insurance, supplemental pension and capitalization bonds are included in this segment, resulting in an increase in net interest income; (ii) salaries and benefits and administrative costs included in the insurance, supplemental pension and capitalization bonds segment consist only of cost directly related to these operations, and (iii) costs incurred in the banking operations segment related to the infrastructure of the branch network and other general indirect expenses have not been allocated between segments.



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### Notes to the Consolidated Financial Statements

Information by operating segment, reviewed by the Organization and corresponding to the years 2017, 2016 and 2015, is shown below:

	Year ended December 31, 2017			R\$ thousand
	Banking	Insurance, pension and capitalization bonds	Other operations (1), adjustments and eliminations	Total
<b>Net interest income</b>	<b>46,997,327</b>	<b>1,857,926</b>	<b>1,787,660</b>	<b>50,642,913</b>
<b>Net fee and commission income</b>	<b>24,143,561</b>	<b>787,014</b>	<b>(2,181,747)</b>	<b>22,748,828</b>
Net gains/(losses) on financial instruments classified as held for trading	6,011,351	3,641,626	(29,869)	9,623,108
Net gains/(losses) on financial instruments classified as available for sale	(685,560)	713,425	542,493	570,358
Net gain / (loss) on held-to-maturity investments	(54,520)	-	-	(54,520)
Net gains/(losses) on foreign currency transactions	1,422,957	-	-	1,422,957
Net income from insurance and pension plans	-	6,239,990	-	6,239,990
<b>Other operating income/(loss)</b>	<b>6,694,228</b>	<b>10,595,041</b>	<b>512,624</b>	<b>17,801,893</b>
Impairment of loans and advances	(17,895,929)	-	1,035,094	(16,860,835)
Personnel expenses	(19,261,590)	(1,589,077)	127,402	(20,723,265)
Other administrative expenses	(17,175,352)	(1,391,439)	1,684,330	(16,882,461)
Depreciation and amortization	(5,555,033)	(393,618)	1,380,083	(4,568,568)
Other operating income/(expenses)	(9,282,411)	(889,065)	38,119	(10,133,357)
<b>Other operating expense</b>	<b>(69,170,315)</b>	<b>(4,263,199)</b>	<b>4,265,028</b>	<b>(69,168,486)</b>
<b>Income before income taxes and share of profit of associates and joint ventures</b>	<b>8,664,801</b>	<b>8,976,782</b>	<b>4,383,565</b>	<b>22,025,148</b>
Share of profit of associates and joint ventures	1,497,268	217,035	4,108	1,718,411
<b>Income before income taxes</b>	<b>10,162,069</b>	<b>9,193,817</b>	<b>4,387,673</b>	<b>23,743,559</b>
Income tax and social contribution	(887,289)	(4,156,153)	(1,385,514)	(6,428,956)
<b>Net income for the year</b>	<b>9,274,780</b>	<b>5,037,664</b>	<b>3,002,159</b>	<b>17,314,603</b>
Attributable to controlling shareholders	9,272,962	4,812,425	3,003,977	17,089,364
Attributable to non-controlling interest	1,818	225,239	(1,818)	225,239
<b>Total assets</b>	<b>988,063,541</b>	<b>295,699,951</b>	<b>(59,410,052)</b>	<b>1,224,353,440</b>
<b>Investments in associates and joint ventures</b>	<b>6,364,246</b>	<b>1,847,099</b>	<b>46,039</b>	<b>8,257,384</b>

**Total liabilities**

**875,887,257 257,329,282 (26,556,803) 1,106,659,736**

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

	Year ended December 31, 2016			R\$ thousand
	Banking	Insurance, pension and capitalization bonds	Other operations (1), adjustments and eliminations	Total
<b>Net interest income</b>	<b>49,156,109</b>	<b>5,374,229</b>	<b>2,132,651</b>	<b>56,662,989</b>
<b>Net fee and commission income</b>	<b>20,696,785</b>	<b>651,482</b>	<b>(1,007,216)</b>	<b>20,341,051</b>
Net gains/(losses) on financial instruments classified as held for trading	14,918,934	1,250,639	233,197	16,402,770
Net gains/(losses) on financial instruments classified as available for sale	(1,417,647)	805,051	(728,804)	(1,341,400)
Net gains/(losses) on foreign currency transactions	150,757	-	-	150,757
Net income from insurance and pension plans	-	4,155,763	-	4,155,763
<b>Other operating income/(loss)</b>	<b>13,652,044</b>	<b>6,211,453</b>	<b>(495,607)</b>	<b>19,367,890</b>
Impairment of loans and advances	(18,829,460)	-	3,479,182	(15,350,278)
Personnel expenses	(15,733,611)	(1,387,935)	117,763	(17,003,783)
Other administrative expenses	(14,979,689)	(1,331,349)	161,475	(16,149,563)
Depreciation and amortization	(3,786,599)	(365,656)	493,842	(3,658,413)
Other operating income/(expenses)	(14,421,152)	243,631	173,359	(14,004,162)
<b>Other operating expense</b>	<b>(67,750,511)</b>	<b>(2,841,309)</b>	<b>4,425,621</b>	<b>(66,166,199)</b>
<b>Income before income taxes and Share of profit of associates and joint ventures</b>	<b>15,754,427</b>	<b>9,395,855</b>	<b>5,055,449</b>	<b>30,205,731</b>
Share of profit of associates and joint ventures	1,538,058	168,691	(7,024)	1,699,725
<b>Income before income taxes</b>	<b>17,292,485</b>	<b>9,564,546</b>	<b>5,048,425</b>	<b>31,905,456</b>
Income tax and social contribution	(7,995,420)	(3,915,822)	(2,001,488)	(13,912,730)
<b>Net income for the year</b>	<b>9,297,065</b>	<b>5,648,724</b>	<b>3,046,937</b>	<b>17,992,726</b>
Attributable to controlling shareholders	9,293,766	5,550,662	3,049,821	17,894,249
Attributable to non-controlling interest	3,299	98,062	(2,884)	98,477
<b>Total assets</b>	<b>921,916,290</b>	<b>266,642,197</b>	<b>3,471,169</b>	<b>1,192,029,656</b>
<b>Investments in associates and joint ventures</b>	<b>5,512,372</b>	<b>1,416,617</b>	<b>73,789</b>	<b>7,002,778</b>
<b>Total liabilities</b>	<b>821,182,152</b>	<b>266,143,979</b>	<b>(775,682)</b>	<b>1,086,550,449</b>

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

	Year ended December 31, 2015			R\$ thousand
	Banking	Insurance, pension and capitalization bonds	Other operations (1), adjustments and eliminations	Total
<b>Net interest income</b>	<b>46,934,849</b>	<b>5,973,694</b>	<b>2,727,499</b>	<b>55,636,042</b>
<b>Net fee and commission income</b>	<b>19,195,003</b>	<b>1,497,890</b>	<b>(2,872,223)</b>	<b>17,820,670</b>
Net gains/(losses) on financial instruments classified as held for trading	(7,199,397)	(627,343)	(425,315)	(8,252,055)
Net gains/(losses) on financial instruments classified as available for sale	(370,947)	(353,679)	52,816	(671,810)
Net gains/(losses) on foreign currency transactions	(3,523,095)	-	-	(3,523,095)
Net income from insurance and pension plans	-	5,496,147	1,358	5,497,505
<b>Other operating income/(loss)</b>	<b>(11,093,439)</b>	<b>4,515,125</b>	<b>(371,141)</b>	<b>(6,949,455)</b>
Impairment of loans and advances	(16,479,985)	-	1,758,833	(14,721,152)
Personnel expenses	(13,103,515)	(1,217,211)	262,679	(14,058,047)
Other administrative expenses	(13,076,913)	(1,137,706)	492,649	(13,721,970)
Depreciation and amortization	(2,752,946)	(321,462)	132,405	(2,942,003)
Other operating income/(expenses)	(11,726,387)	(963,525)	(298,641)	(12,988,553)
<b>Other operating expense</b>	<b>(57,139,746)</b>	<b>(3,639,904)</b>	<b>2,347,925</b>	<b>(58,431,725)</b>
<b>Income before income taxes and Share of profit of associates and joint ventures</b>	<b>(2,103,333)</b>	<b>8,346,805</b>	<b>1,832,060</b>	<b>8,075,532</b>
Share of profit of associates and joint ventures	1,358,047	166,865	3,139	1,528,051
<b>Income before income taxes</b>	<b>(745,286)</b>	<b>8,513,670</b>	<b>1,835,199</b>	<b>9,603,583</b>
Income tax and social contribution	12,621,169	(3,192,918)	(793,929)	8,634,322
<b>Net income for the year</b>	<b>11,875,883</b>	<b>5,320,752</b>	<b>1,041,270</b>	<b>18,237,905</b>
Attributable to controlling shareholders	11,874,609	5,215,765	1,042,532	18,132,906
Attributable to non-controlling interest	1,274	104,987	(1,262)	104,999
<b>Total assets</b>	<b>894,579,942</b>	<b>209,789,872</b>	<b>(77,666,292)</b>	<b>1,026,703,522</b>
<b>Investments in associates and joint ventures</b>	<b>4,479,642</b>	<b>1,255,326</b>	<b>80,357</b>	<b>5,815,325</b>
<b>Total liabilities</b>	<b>804,576,173</b>	<b>188,809,573</b>	<b>(57,596,986)</b>	<b>935,788,760</b>

(1) Other operation represents less than 1% of total assets/liabilities and the net income for the year. The main adjustments from the information disclosed in segments columns are related to the difference between the IFRS and the Segment Report Information as impairment for loans and advance and effective

interest rate.

Our operations are substantially conducted in Brazil. Additionally, as of December 31, 2017, we have a branch in New York, one branch in Grand Cayman, and one branch in London, mainly to complement our banking services and assist in import and export operations for Brazilian customers. Moreover we also have subsidiaries abroad, namely: Banco Bradesco Argentina S.A. (Buenos Aires), Banco Bradesco Europe S.A. (Luxembourg), Bradesco North America LLC (New York), Bradesco Securities, Inc. (New York), Bradesco Securities UK Limited (London), Cidade Capital Markets Ltd. (Grand Cayman), Bradesco Securities Hong Kong Limited (Hong Kong), Bradesco Trade Services Limited (Hong Kong) and Bradescard Mexico, Sociedad de Responsabilidad Limitada (Mexico).

No income from transactions with a single customer or counterparty abroad represented 10% of the Organization's income in the period of 2017, 2016 and 2015.

All transactions between operating segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in "Other operations, adjustments and eliminations". Income and expenses directly associated with each segment are included in determining business-segment performance.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 6) Net interest income

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
<b>Interest and similar income</b>			
Loans and advances to banks	5,073,435	8,689,348	8,349,194
Loans and advances to customers:			
- Loans	64,767,081	69,530,396	62,472,012
- Leasing transactions	254,009	343,626	444,502
Financial assets:			
- For trading	13,684,574	23,576,526	13,982,927
- Available for sale	11,351,320	11,572,618	11,629,493
- Held to maturity	4,883,103	6,514,933	5,253,616
Pledged as collateral	21,268,934	21,739,202	20,270,191
Compulsory deposits with the Central Bank	4,881,319	5,667,516	4,587,412
Other financial interest income	68,553	66,210	58,905
<b>Total</b>	<b>126,232,328</b>	<b>147,700,375</b>	<b>127,048,252</b>
<b>Interest and similar expenses</b>			
Deposits from banks:			
- Interbank deposits	(152,550)	(127,617)	(74,814)
- Funding in the open market	(22,564,515)	(26,767,039)	(23,509,785)
- Borrowings and onlending	(3,068,552)	(3,865,411)	(3,092,184)
Deposits from customers:			
- Savings accounts	(5,730,457)	(6,712,509)	(6,450,258)
- Time deposits	(7,536,161)	(8,746,203)	(5,942,386)
Funds from issuance of securities	(13,262,613)	(17,124,502)	(11,570,606)
Subordinated debt	(5,100,017)	(6,298,555)	(4,669,830)
Insurance technical provisions and pension plans	(18,174,550)	(21,395,550)	(16,102,347)
<b>Total</b>	<b>(75,589,415)</b>	<b>(91,037,386)</b>	<b>(71,412,210)</b>
<b>Net interest income</b>	<b>50,642,913</b>	<b>56,662,989</b>	<b>55,636,042</b>



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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 7) Net fee and commission income

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
<b>Fee and commission income</b>			
Credit cards	6,848,855	6,251,963	5,875,029
Current accounts	6,652,711	6,030,640	4,941,947
Collections	1,965,601	1,777,515	1,573,818
Guarantees	1,570,522	1,438,409	1,265,356
Asset management	1,463,469	1,079,653	1,054,424
Consortium management	1,526,660	1,278,753	1,040,109
Custody and brokerage services	754,966	618,750	556,701
<i>Underwriting</i>	801,219	733,530	540,879
Payments	409,267	373,639	382,427
Other	755,558	758,235	626,183
<b>Total</b>	<b>22,748,828</b>	<b>20,341,087</b>	<b>17,856,873</b>
<b>Fee and commission expenses</b>			
Financial system services	-	(36)	(36,203)
<b>Total</b>	<b>-</b>	<b>(36)</b>	<b>(36,203)</b>
<b>Net fee and commission income</b>	<b>22,748,828</b>	<b>20,341,051</b>	<b>17,820,670</b>

## 8) Net gains/(losses) on financial instruments classified as held for trading

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
Fixed income securities	9,862,617	4,654,959	(5,174,739)

Derivative financial instruments	(1,426,160)	10,887,800	(4,267,748)
Equity securities	1,186,651	860,011	1,190,432
<b>Total</b>	<b>9,623,108</b>	<b>16,402,770</b>	<b>(8,252,055)</b>

## 9) Net gains/(losses) on financial instruments classified as available for sale

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
Fixed income securities (1)	49,963	(1,918,595)	(346,032)
Equity securities (1)	437,054	459,223	(577,401)
Dividends received	83,341	117,972	251,623
<b>Total</b>	<b>570,358</b>	<b>(1,341,400)</b>	<b>(671,810)</b>

(1) Includes impairment losses of R\$ 1,729,039 thousand (2016 - R\$ 2,106,107 thousand and 2015 - R\$ 424,552 thousand).

## 10) Net gains/(losses) on foreign currency transactions

Net gains and losses on foreign currency transactions primarily consists of gains or losses from currency trading and translation of monetary items from a foreign currency into the functional currency.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 11) Net income from insurance and pension plans

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
Written premiums	65,864,591	62,470,571	55,920,681
Supplemental pension plan contributions	5,090,043	3,679,922	3,795,219
Granted coinsurance premiums	(49,715)	(70,862)	(88,612)
Refunded premiums	(667,196)	(746,244)	(522,309)
<b>Net written premiums earned</b>	<b>70,237,723</b>	<b>65,333,387</b>	<b>59,104,979</b>
Reinsurance premiums paid	(191,088)	(306,265)	(344,199)
<b>Premiums retained from insurance and pension plans</b>	<b>70,046,635</b>	<b>65,027,122</b>	<b>58,760,780</b>
Changes in the provision for insurance	(30,435,868)	(29,729,884)	(25,528,076)
Changes in the provision for private pension plans	(4,369,903)	(3,052,034)	(2,757,963)
<b>Changes in the technical provisions for insurance and pension plans</b>	<b>(34,805,771)</b>	<b>(32,781,918)</b>	<b>(28,286,039)</b>
Reported indemnities	(25,924,687)	(24,877,804)	(21,658,594)
Claims expenses	(36,068)	(119,201)	(69,599)
Recovery of ceded coinsurance	35,332	65,285	87,053
Recovery of reinsurance	116,913	141,711	407,195
Salvage recoveries	488,057	451,930	402,718
Changes in the IBNR provision	(274,509)	(204,354)	(892,816)
<b>Retained claims</b>	<b>(25,594,962)</b>	<b>(24,542,433)</b>	<b>(21,724,043)</b>
Commissions on premiums	(2,700,131)	(2,696,002)	(1,985,426)
Recovery of commissions	19,334	29,927	21,700
Fees	(403,835)	(489,279)	(1,201,216)
Brokerage expenses - private pension plans	(153,552)	(167,654)	(188,037)
Changes in deferred commissions	(167,728)	(224,000)	99,786
<b>Selling expenses for insurance and pension plans</b>	<b>(3,405,912)</b>	<b>(3,547,008)</b>	<b>(3,253,193)</b>
<b>Net income from insurance and pension plans</b>	<b>6,239,990</b>	<b>4,155,763</b>	<b>5,497,505</b>

## 12) Impairment of loans and advances

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
<b>Loans and receivables:</b>			
Impairment losses	(25,780,383)	(22,357,042)	(19,527,976)
Recovery of credits charged-off as losses	7,034,857	5,507,507	4,144,879
Reversal of impairment	1,884,691	1,499,257	661,945
<b>Total</b>	<b>(16,860,835)</b>	<b>(15,350,278)</b>	<b>(14,721,152)</b>

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 13) Personnel expenses

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
Salaries	(9,170,556)	(8,236,617)	(6,369,727)
Benefits	(5,385,133)	(3,625,796)	(2,994,155)
Social security charges	(3,505,290)	(2,862,067)	(2,402,112)
Employee profit sharing	(1,572,472)	(1,451,310)	(1,304,958)
Provision for labor claims	(927,136)	(663,124)	(853,660)
Training	(162,678)	(164,869)	(133,435)
<b>Total (1)</b>	<b>(20,723,265)</b>	<b>(17,003,783)</b>	<b>(14,058,047)</b>

(1) Includes the effects of the Special Voluntary Termination Plan (Note 43).

## 14) Other administrative expenses

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
Outsourced services	(4,748,308)	(4,871,194)	(4,139,058)
Communication	(1,684,153)	(1,653,055)	(1,427,685)
Data processing	(2,117,085)	(1,612,454)	(1,222,433)
Advertising and marketing	(942,851)	(1,124,659)	(963,308)
Asset maintenance	(1,158,840)	(1,060,856)	(926,001)
Financial system	(1,033,017)	(1,047,618)	(830,199)
Rental	(1,142,166)	(1,027,561)	(887,412)
Security and surveillance	(818,221)	(736,547)	(606,292)
Transport	(782,444)	(719,842)	(631,085)
Water, electricity and gas	(405,515)	(384,069)	(339,267)
Advances to FGC (Deposit Guarantee Association)	(418,670)	(355,540)	(303,094)
Supplies	(263,527)	(321,509)	(315,135)
Travel	(261,911)	(174,772)	(157,723)

Other	(1,105,753)	(1,059,887)	(973,278)
<b>Total</b>	<b>(16,882,461)</b>	<b>(16,149,563)</b>	<b>(13,721,970)</b>

## 15) Depreciation and amortization

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
Amortization expenses	(3,331,240)	(2,516,777)	(1,884,281)
Depreciation expenses	(1,237,328)	(1,141,636)	(1,057,722)
<b>Total</b>	<b>(4,568,568)</b>	<b>(3,658,413)</b>	<b>(2,942,003)</b>

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**Notes to the Consolidated Financial Statements**

## 16) Other operating income/(expenses)

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
Tax expenses	(5,960,618)	(6,331,651)	(4,791,754)
Legal provision	(1,238,057)	(2,927,734)	(1,439,460)
Variation in monetary liabilities	31,710	(699,719)	(597,240)
Income from sales of non-current assets, investments, and property and equipment, net	(412,957)	(467,042)	(277,232)
Other (1)	(2,553,435)	(3,578,016)	(5,882,867)
<b>Total</b>	<b>(10,133,357)</b>	<b>(14,004,162)</b>	<b>(12,988,553)</b>

(1) Includes: (i) the effect of the (additions)/reversal of provision for tax contingency in 2017 – R\$ 487,269 thousand (2016 - R\$ (484,227) thousand and 2015 – R\$ 570,835 thousand); (ii) impairment losses in the amount of 2017 – R\$ 185,188 thousand (2016 – R\$ 31,256 thousand and 2015 – R\$ 207,880 thousand); and (iii) operating expense related of insurance operation in 2017 – R\$ 1,354,719 thousand (2016 - R\$ 1,388,645 thousand and 2015 – R\$ 1,281,381 thousand).

## 17) Income tax and social contribution

**a) Calculation of income tax and social contribution charges**

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
<b>Income before income tax and social contribution</b>	<b>23,743,559</b>	<b>31,905,456</b>	<b>9,603,583</b>
<b>Total burden of income tax and social contribution at the current rates (1)</b>	<b>(10,684,602)</b>	<b>(14,357,455)</b>	<b>(4,321,612)</b>
<b>Effect of additions and exclusions in the tax calculation:</b>			



Earnings (losses) of associates and joint ventures	773,285	764,876	687,623
Interest on shareholders' equity (paid and payable)	3,241,955	3,139,102	2,305,695
Net tax credit of deferred liabilities (2)			2,341,220
Other amounts (3)	240,406	(3,459,253)	7,621,396
<b>Income tax and social contribution for the period</b>	<b>(6,428,956)</b>	<b>(13,912,730)</b>	<b>8,634,322</b>
Effective rate	27.1%	43.6%	-89.9%

(1) Current rates: (i) 25% for income tax; (ii) of 15% for the social contribution to financial and equated companies, and of the insurance industry, and of 20%, from September 2015 to December 2018, in accordance with Law n° 13,169/15; and (iii) of 9% for the other companies (Note 2w);

(2) In 2015, refers to, constitution of deferred tax assets, net of deferred liabilities, related to the increase in the social contribution tax rate, according to Law n° 13,169/15; and

(3) Basically, includes, (i) the exchange rate variation of assets and liabilities, derived from investments abroad; (ii) the equalization of the effective rate of social contribution in relation to the rate of 45% shown; and (iii) the deduction incentives.

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**Notes to the Consolidated Financial Statements**

**b) Composition of income tax and social contribution in the consolidated statement of income**

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
<b>Current taxes:</b>			
<b>Income tax and social contribution payable</b>	(8,788,060)	(8,852,947)	(6,075,948)
<b>Deferred taxes:</b>			
Net Addition/(realization) of temporary differences	2,950,961	(4,106,008)	11,424,595
<b>Use of opening balances of:</b>			
Social contribution loss	(430,584)	(647,282)	(127,214)
Income tax loss	(331,512)	(879,276)	(65,224)
<b>Addition on:</b>			
Social contribution loss	150,371	234,730	272,793
Income tax loss	19,868	338,053	731,419
<b>Activation of the tax credit – Law No. 13,169/15:</b>			
Social contribution loss	-	-	422,853
Temporary additions	-	-	2,051,048
<b>Total deferred tax expense</b>	<b>2,359,104</b>	<b>(5,059,783)</b>	<b>14,710,270</b>
<b>Income tax and social contribution</b>	<b>(6,428,956)</b>	<b>(13,912,730)</b>	<b>8,634,322</b>

**c) Deferred income tax and social contribution presented in the consolidated statement of financial position**

	R\$ thousand			
	Balance on December 31, 2016	Amount recorded	Realized / Decrease (4)	Balance on December 31, 2017
Provisions of impairment of loans and advances	23,011,653	12,264,028	8,771,818	26,503,863
Provision for contingencies	7,351,234	1,782,500	1,907,251	7,226,483
Adjustment to market value of securities	5,488,482	1,724,016	3,268,623	3,943,875
Other	4,681,457	4,773,082	3,644,973	5,809,566
<b>Total tax assets on temporary differences (3)</b>	<b>40,532,826</b>	<b>20,543,626</b>	<b>17,592,665</b>	<b>43,483,787</b>
Income tax and social contribution losses in Brazil and abroad (3)	5,595,729	170,239	762,096	5,003,872

Adjustment to market value of available for sale (3)	493,168	576,732	1,069,900	-
<b>Total deferred tax assets (2)</b>	<b>46,621,723</b>	<b>21,290,597</b>	<b>19,424,661</b>	<b>48,487,659</b>
Deferred tax liabilities (2)	3,267,808	3,557,618	817,831	6,007,595
<b>Net deferred taxes (2)</b>	<b>43,353,915</b>	<b>17,732,979</b>	<b>18,606,830</b>	<b>42,480,064</b>

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**Notes to the Consolidated Financial Statements**

	R\$ thousand				
	Balance on December 31, 2015	Balance originating from an acquired institution (1)	Amount recorded	Realized / Decrease	Balance on December 31, 2016
Provisions of impairment of loans and advances	22,617,097	3,938,976	12,948,736	16,493,156	23,011,653
Provision for contingencies	5,720,598	1,209,685	2,498,218	2,077,267	7,351,234
Adjustment to market value of securities	7,090,939	109,501	282,741	1,994,699	5,488,482
Other	3,511,581	440,457	3,135,635	2,406,216	4,681,457
<b>Total tax assets on temporary differences (3)</b>	<b>38,940,215</b>	<b>5,698,619</b>	<b>18,865,330</b>	<b>22,971,338</b>	<b>40,532,826</b>
Income tax and social contribution losses in Brazil and abroad (3)	5,761,626	787,878	572,783	1,526,558	5,595,729
Adjustment to market value of available for sale (3)	2,704,484	32,120	393,369	2,636,805	493,168
Social contribution - MP 2,158-35 (change in tax law)	113,783	-	-	113,783	-
<b>Total deferred tax assets (2)</b>	<b>47,520,108</b>	<b>6,518,617</b>	<b>19,831,482</b>	<b>27,248,484</b>	<b>46,621,723</b>
Deferred tax liabilities (2)	2,894,367	3,592	1,920,479	1,550,630	3,267,808
<b>Net deferred taxes (2)</b>	<b>44,625,741</b>	<b>6,515,025</b>	<b>17,911,003</b>	<b>25,697,854</b>	<b>43,353,915</b>

(1) HSBC Brasil (Note 2a);

(2) Deferred income and social contribution tax assets and liabilities are offset in the balance sheet by taxable entity, and were R\$ 4,755,748 thousand in 2017 and R\$ 1,504,860 thousand in 2016;

(3) Deferred tax assets of financial and similar companies and insurance industry were established considering the increase of the social contribution rate, determined by Law 11.727/08 and Law 13.169/15 (Note 2 x); and

(4) Includes a write-off of tax credits, in the amount of R\$ 150,040 thousand.

**d) Expected realization of deferred tax assets on temporary differences, tax loss and negative basis of social contribution**

					R\$ thousand
	Temporary differences		Income tax and social contribution losses		Total
	Income tax	Social contribution	Income tax	Social contribution	
2018	6,189,592	4,778,522	157,668	303,794	11,429,576
2019	6,106,611	3,500,573	143,705	80,058	9,830,947
2020	5,444,841	3,163,487	139,825	78,361	8,826,514
2021	4,408,140	2,609,808	620,279	367,041	8,005,268
2022	2,534,237	1,470,379	732,490	478,318	5,215,424
After 2022	2,100,881	1,176,716	824,042	1,078,291	5,179,930
<b>Total</b>	<b>26,784,302</b>	<b>16,699,485</b>	<b>2,618,009</b>	<b>2,385,863</b>	<b>48,487,659</b>

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**Notes to the Consolidated Financial Statements**

**e) Deferred tax liabilities**

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Timing differences of depreciation – finance leasing	283,232	381,119
Adjustment to market value of securities	1,215,588	213,404
Judicial deposit and others	4,508,775	2,673,285
<b>Total</b>	<b>6,007,595</b>	<b>3,267,808</b>

The deferred tax liabilities of companies in the financial and insurance sectors were established considering the increased social contribution rate, established by Law nº 11,727/08 and Law nº 13,169/15 (Note 2x).

**f) Income tax and social contribution on adjustments recognized directly in equity**

	On December 31, 2017			On December 31, 2016			On December 31, 2015		
	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax	Before tax	Tax (expense)/ benefit	Net of tax
Financial assets recorded as available for sale									
Exchange differences on translations of foreign operations	23,010	5,992	29,002	(194,566)	87,555	(107,011)	118,485	(57,788)	60,697
<b>Total</b>	<b>3,441,577</b>	<b>(1,225,210)</b>	<b>2,216,367</b>	<b>6,103,537</b>	<b>(2,499,521)</b>	<b>3,604,016</b>	<b>(5,559,417)</b>	<b>2,216,194</b>	<b>(3,343,223)</b>

**g) Taxes to be offset**

Refers basically to amount of income tax and social contribution to be offset.

**18) Earnings per share****1. Basic earnings per share**

The calculation of basic earnings per share was calculated based on the weighted average number of common and preferred shares outstanding, as shown in the calculations below:

	<b>Years ended December 31</b>		
	<b>2017</b>	<b>2016 (1)</b>	<b>2015 (1)</b>
<b>Net earnings attributable to the Organization's common shareholders (R\$ thousand)</b>	<b>8,157,920</b>	<b>8,542,147</b>	<b>8,652,905</b>
<b>Net earnings attributable to the Organization's preferred shareholders (R\$ thousand)</b>	<b>8,931,444</b>	<b>9,352,102</b>	<b>9,480,001</b>
Weighted average number of common shares outstanding (thousands)	3,049,991	3,049,991	3,050,156
Weighted average number of preferred shares outstanding (thousands)	3,035,625	3,035,625	3,037,917
Basic earnings per share attributable to common shareholders of the Organization (in Reais)	2.67	2.80	2.84
Basic earnings per share attributable to preferred shareholders of the Organization (in Reais)	2.94	3.08	3.12

(1) All share amounts presented for prior periods have been adjusted to reflect the stock split approved at the Board of Directors' Meeting of March 10, 2017, in the proportion of one new share for every 10 shares held.

**2. Diluted earnings per share**

Diluted earnings per share are the same as basic earnings per share since there are no potentially dilutive instruments.

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**Notes to the Consolidated Financial Statements**

## 19) Cash and cash equivalents

### a) Cash and balances with banks

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash and due from banks in domestic currency	12,939,852	12,432,290
Cash and due from banks in foreign currency	2,088,498	2,085,650
Compulsory deposits with the Central Bank (1)	66,714,226	58,036,531
Other	375	180
<b>Total</b>	<b>81,742,951</b>	<b>72,554,651</b>

(1) Compulsory deposits with the Brazilian Central Bank refer to a minimum balance that financial institutions must maintain at the Brazilian Central Bank based on a percentage of deposits received from third parties.

### b) Cash and cash equivalents

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Cash and due from banks in domestic currency	12,939,852	12,432,290
Cash and due from banks in foreign currency	2,088,498	2,085,650
Interbank investments (1)	141,025,717	166,712,307
Other	375	180
<b>Total</b>	<b>156,054,442</b>	<b>181,230,427</b>

(1) Refers to operations with maturity date on the effective date of investment equal to or less than 90 days and insignificant risk of change in the fair value. Of this amount, R\$ 123,691,195 thousand (2016 – R\$ 84,728,590 thousand) refers to reverse repurchase agreements registered as Financial assets pledged as

collateral (Note 23) and R\$ 17,334,522 thousand (2016 – R\$ 81,983,717 thousand) as Loans and advances to banks.

## 20) Financial assets and liabilities held for trading

### a) Financial assets held for trading

	R\$ thousand	
	On December 31	
	2017	2016
<b>Financial assets</b>		
Brazilian government securities	202,249,272	161,103,399
Bank debt securities	8,348,269	18,600,127
Corporate debt and marketable equity securities	12,339,790	10,383,682
Mutual funds	4,377,508	4,303,781
Brazilian sovereign bonds	307	1,358,025
Foreign governments securities	528,010	635,390
Derivative financial instruments	13,866,885	16,755,442
<b>Total</b>	<b>241,710,041</b>	<b>213,139,846</b>

### Maturity

	R\$ thousand	
	On December 31	
	2017	2016
Maturity of up to one year	31,617,538	35,002,911
Maturity of one to five years	146,527,365	134,589,655
Maturity of five to 10 years	53,763,561	29,299,698
Maturity of over 10 years	2,409,723	6,537,358
Maturity not stated	7,391,854	7,710,224
<b>Total</b>	<b>241,710,041</b>	<b>213,139,846</b>

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### **Notes to the Consolidated Financial Statements**

Financial instruments provided as collateral and classified as "held for trading", totaled R\$ 801,182 thousand and R\$ 6,282,141 thousand in 2017 and December 2016, respectively, as disclosed in Note 23 "Financial assets pledged as collateral".

The total assets held for trading pledged as a guarantee of liabilities was R\$ 5,874,620 thousand (December 2016 – R\$ 5,846,093 thousand).

Unrealized gains/(losses) on securities and trading securities totaled R\$ (4,745,888) thousand in 2017 (2016 – R\$ (9,404,052) thousand and 2015 – R\$ R\$ 7,425,562 thousand). Net variation in unrealized gains/(losses) from securities and trading securities totaled R\$ (4,658,164) thousand in 2017 (2016 - R\$ (1,978,490) thousand and 2015 - R\$ (8,303,360) thousand).

#### **b) Financial liabilities held for trading**

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Derivative financial instruments	14,274,999	13,435,678
<b>Total</b>	<b>14,274,999</b>	<b>13,435,678</b>

#### **c) Derivative financial instruments**

The Organization enters into transactions involving derivative financial instruments with a number of customers for the purpose of mitigating their overall risk exposure as well as managing risk exposure. The derivative financial instruments most often used are highly-liquid instruments traded on the futures market (B3).

**(i) Swap contracts**

Foreign currency and interest rate swaps are agreements to exchange one set of cash flows for another and result in an economic exchange of foreign currencies or interest rates (for example fixed or variable) or in combinations (i.e. foreign currency and interest rate swaps). There is no exchange of the principal except in certain foreign currency swaps. The Organization's foreign currency risk reflects the potential cost of replacing swap contracts and whether the counterparties fail to comply with their obligations. This risk is continually monitored in relation to the current fair value, the proportion of the notional value of the contracts and the market liquidity. The Organization, to control the level of credit risk assumed, evaluates the counterparties of the contracts using the same techniques used in its loan operations.

**(ii) Foreign exchange options**

Foreign exchange options are contracts according to which the seller (option issuer) gives to the buyer (option holder) the right, but not the obligation, to buy (call option) or sell (put option) on a certain date or during a certain period, a specific value in foreign currency. The seller receives from the buyer a premium for assuming the exchange or interest-rate risk. The options can be arranged between the Organization and a customer. The Organization is exposed to credit risk only on purchased options and only for the carrying amount, which is the fair market value.

**(iii) Foreign currency and interest rate futures**

Foreign currency and interest rate futures are contractual obligations for the payment or receipt of a net amount based on changes in foreign exchange and interest rates or the purchase or sale of a financial instrument on a future date at a specific price, established by an organized financial market. The credit risk is minimal, since the future contracts are guaranteed in cash or securities and changes in the value of the contracts are settled on a daily basis. Contracts with a forward rate are interest-rate futures operations traded individually which require settlement of the difference between the contracted rate and the current market rate over the value of the principal to be paid in cash at a future date.

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**(iv) Forward transactions**

A forward operation is a contract of purchase or sale, at a fixed price, for settlement on a certain date. Because it is a futures market, in which the purchase of the share will only be made on the date of maturity, a margin deposit is necessary to guarantee the contract. This margin can be in cash or in securities. The value of the margin varies during the contract according to the variation of the share involved in the operation, to the changes of volatility and liquidity, besides the possible additional margins that the broker could request.

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### **Notes to the Consolidated Financial Statements**

The breakdown of the notional and/or contractual values and the fair value of derivatives held for trading by the Organization is as follows:

	Notional amounts		R\$ thousand Asset/(liability)	
	On December 31		On December 31	
	2017	2016	2017	2016
<b>Futures contracts</b>				
• Interest rate futures				
Purchases	96,081,180	111,026,397	3,586	9,022
Sales	132,837,699	94,677,587	(154,188)	(19,163)
• In foreign currency				
Purchases	48,376,597	27,399,904	1,243	-
Sales	67,238,635	58,690,018	(1,003)	-
• Other				
Purchases	163,224	48,291	162	-
Sales	113,772	967	(114)	-
<b>Options</b>				
• Interest rates				
Purchases	10,663,668	5,467,042	101,214	260,565
Sales	9,616,129	4,755,788	(535,748)	(193,768)
• In foreign currency				
Purchases	7,335,027	7,567,515	605,028	57,533
Sales	10,274,094	2,836,294	(409,587)	(62,356)
• Other				
Purchases	443,443	27,500	34,013	2,708
Sales	228,141	-	(20,188)	(6,533)
<b>Forward operations</b>				
• In foreign currency				
Purchases	10,372,477	16,633,033	218,019	1,599,401
Sales	14,947,271	18,036,706	(358,995)	(1,088,041)
• Other				
Purchases	114,020	48,911	497,987	1,586,061
Sales	635,522	1,588,245	(147,138)	(1,581,169)

### **Swap contracts**

• Asset position				
<i>Interest rate swaps</i>	56,636,856	72,297,999	11,065,095	9,799,949
<i>Currency swaps</i>	6,161,641	7,276,143	1,340,538	3,645,707
• Liability position				
<i>Interest rate swaps</i>	31,454,647	36,746,464	(11,030,003)	(3,718,282)
<i>Currency swaps</i>	14,288,568	14,201,872	(1,618,035)	(6,766,366)

Swaps are contracts of interest rates, foreign currency and cross currency and interest rates in which payments of interest or the principal or in one or two different currencies are exchanged for a contractual period. The risks of swap contracts refer to the potential inability or unwillingness of the counterparties to comply with the contractual terms and the risk associated with changes in market conditions due to changes in the interest rates and the currency exchange rates.

The interest rate and currency futures and the forward contracts of interest rates call for subsequent delivery of an instrument at a specific price or specific profitability. The reference values constitute a nominal value of the respective instrument whose variations in price are settled daily. The credit risk

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associated with futures contracts is minimized due to these daily settlements. Futures contracts are also subject to risk of changes in interest rates or in the value of the respective instruments.

The Organization has the following economic hedging transactions:

#### **Fair-value hedge of interest-rate risk**

The Organization uses interest-rate swaps to protect its exposure to changes in the fair value of its fixed income issuances and certain loans and advances. The interest rate swaps are matched with specific issuances or fixed-income loans.

#### **Cash-flow hedge of debt securities issued in foreign currency**

The Organization uses interest-rate swaps in foreign currencies to protect itself against exchange and interest-rate risks arising from the issuance of floating rate debt securities denominated in foreign currencies. The cash flows of foreign-currency interest-rate swaps are compatible with the cash flows of the floating rate debt securities.

#### **Market risk hedge**

The gains and losses, realized or not, of the financial instruments classified in this category, are recorded in the Statement of Income.

#### **Hedge of net foreign investments**

20) Financial assets and liabilities held for trading



The Organization uses a combination of forward exchange contracts and foreign currency denominated debt to mitigate the exchange-rate risk of its net investments in subsidiaries abroad.

The fair value of forward contracts used to protect the net investments in foreign subsidiaries is shown in the previous table. Foreign currency denominated debts used to protect net investments of the Organization in subsidiaries abroad act as a natural hedge of the foreign currency risk and are included in funds from securities issuances (Note 33).

### **Other derivatives designated as hedges**

The Organization uses this category of instruments to manage its exposure to currency, interest rate, equity market and credit risks. Instruments used include interest-rate swaps, interest-rate swaps in foreign currency, forward contracts, futures, options, credit swaps and stock swaps. The fair value of these derivatives are presented in the previous table.

### **Unobservable gains on initial recognition**

When the valuation depends on unobservable data any initial gain or loss on financial instruments is deferred over the life of the contract or until the instrument is redeemed, transferred, sold or the fair value becomes observable. All derivatives which are part of the hedge relationships are valued on the basis of observable market data.

The nominal values do not reflect the actual risk assumed by the Organization, since the net position of these financial instruments arises from compensation and/or combination thereof. The net position is used by the Organization especially to protect interest rates, the price of

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the underlying assets or exchange risk. The result of these financial instruments are recognized in “Net gains and losses of financial assets held for trading”, in the consolidated statement of income.

## 21) Financial assets available for sale

	R\$ thousand			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Brazilian government securities	101,822,760	1,881,077	(422,079)	103,281,758
Corporate debt securities	40,875,928	836,715	(1,734,013)	39,978,630
Bank debt securities	1,251,066	169,142	(236,355)	1,183,853
Brazilian sovereign bonds	719,494	27,326	(18,693)	728,127
Foreign governments securities	3,210,554	175	(8,182)	3,202,547
Marketable equity securities and other stocks	11,302,834	620,896	(885,923)	11,037,807
<b>Balance on December 31, 2017</b>	<b>159,182,636</b>	<b>3,535,331</b>	<b>(3,305,245)</b>	<b>159,412,722</b>
Brazilian government securities	58,484,065	1,323,156	(609,193)	59,198,028
Corporate debt securities	43,821,686	1,011,275	(2,690,253)	42,142,708
Bank debt securities	1,626,211	121,745	(188,913)	1,559,043
Brazilian sovereign bonds	395,626	7,319	(1,731)	401,214
Marketable equity securities and other stocks	9,966,872	389,291	(538,602)	9,817,561
<b>Balance on December 31, 2016</b>	<b>114,294,460</b>	<b>2,852,786</b>	<b>(4,028,692)</b>	<b>113,118,554</b>

### Maturity

	R\$ thousand			
	On December 31, 2017		On December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
Due within one year	31,635,369	31,167,067	12,690,168	11,905,872
From 1 to 5 years	83,579,399	83,816,085	60,071,806	60,251,675

From 5 to 10 years	16,004,079	16,363,350	19,677,065	18,994,970
Over 10 years	16,660,955	17,028,413	11,888,549	12,148,476
No stated maturity	11,302,834	11,037,807	9,966,872	9,817,561
<b>Total</b>	<b>159,182,636</b>	<b>159,412,722</b>	<b>114,294,460</b>	<b>113,118,554</b>

Financial instruments pledged as collateral and classified as available for sale, totaled R\$ 59,482,796 thousand and R\$ 64,275,415 thousand in 2017 and 2016, respectively, as disclosed in Note 23 "Financial Assets Pledged as Collateral".

In 2017, the Organization maintained a total of R\$ 4,391,259 thousand (2016 – R\$ 5,517,516 thousand) financial assets available for sale pledged as a guarantee for liabilities.

We have applied our policy for impairment testing described in Note 2(f)(viii)(b) and in 2017 there was objective evidence of loss registered in financial assets available for sale in the amount of R\$ 1,729,039 thousand in 2017 (2016 - R\$ 2,106,107 thousand and 2015 - R\$ 424,522 thousand), included in Note 9.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 22) Investments held to maturity

	R\$ thousand			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
<b>Securities:</b>				
Brazilian government securities	26,738,940	2,442,844	(6,489)	29,175,295
Corporate debt securities	12,259,564	126,092	(421,874)	11,963,782
Brazilian sovereign bonds	7,614	-	(420)	7,194
<b>Balance on December 31, 2017</b>	<b>39,006,118</b>	<b>2,568,936</b>	<b>(428,783)</b>	<b>41,146,271</b>
<b>Securities:</b>				
Brazilian government securities	30,241,947	2,918,273	(306,566)	32,853,654
Corporate debt securities	12,739,187	28,750	(1,388,614)	11,379,323
Brazilian sovereign bonds	20,894	878	-	21,772
<b>Balance on December 31, 2016</b>	<b>43,002,028</b>	<b>2,947,901</b>	<b>(1,695,180)</b>	<b>44,254,749</b>

### Maturity

	R\$ thousand			
	On December 31, 2017		On December 31, 2016	
	Amortized cost	Fair value	Amortized cost	Fair value
Due within one year	29,412	28,998	-	-
From 1 to 5 years	10,284,940	11,070,179	12,932,440	13,133,746
From 5 to 10 years	1,933,866	1,840,428	3,068,980	2,905,497
Over 10 years	26,757,900	28,206,666	27,000,608	28,215,506
<b>Total</b>	<b>39,006,118</b>	<b>41,146,271</b>	<b>43,002,028</b>	<b>44,254,749</b>

Financial instruments pledged as collateral and classified as held to maturity, totaled R\$ 431 thousand in 2016, as disclosed in Note 23 - "Assets Pledged as Collateral".

In 2017, the Organization maintained a total of R\$ 2,005 thousand (R\$1,825 thousand in 2016) as investments held to maturity pledged as a guarantee for liabilities.

We applied our Impairment policy, described in Note 2(f)(viii)(b), and in 2017 there was objective evidence of loss in our investments held to maturity in the amount of R\$ 54,520 thousand.

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**Notes to the Consolidated Financial Statements**

## 23) Financial assets pledged as collateral

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Held for trading</b>	<b>801,182</b>	<b>6,282,141</b>
Brazilian government securities	801,182	6,282,141
<b>Available for sale (1)</b>	<b>59,482,796</b>	<b>64,275,415</b>
Brazilian government securities	53,039,884	55,530,423
Corporate debt securities	825,287	3,899,878
Bank debt securities	4,904,070	4,742,273
Brazilian sovereign bonds	713,555	102,841
<b>Held to maturity</b>	<b>-</b>	<b>431</b>
Brazilian government securities	-	431
<b>Loans and advances to banks</b>	<b>123,691,195</b>	<b>84,728,590</b>
Interbank investments (2)	123,691,195	84,728,590
<b>Total</b>	<b>183,975,173</b>	<b>155,286,577</b>

(1) In 2017, includes unrealized gains of R\$ 3,246,351 thousand (2016 - R\$ 2,052,366 thousand) and unrealized losses of R\$ 557,974 thousand (2016 - R\$ 1,443,642 thousand); and

(2) Refers to reverse repurchase agreements in which the underlying security has subsequently been sold in a separate repurchase agreement.

Collateral is a conditional commitment to ensure that the contractual clauses of a repurchase agreements are complied with. In these agreements, the amount of R\$ 178,964,158 thousand (2016 – R\$ 147,673,043 thousand) may be repledged and R\$ 5,011,015 thousand (2016 – R\$ 7,613,534 thousand), sold or repledged.

## 24) Loans and advances to banks

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Repurchase agreements	21,045,591	85,178,146
Loans to financial institutions	11,207,614	9,667,388
Impairment of loans and advances	(5,481)	(7,398)
<b>Total</b>	<b>32,247,724</b>	<b>94,838,136</b>

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 25) Loans and advances to customers

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Working capital	52,700,584	60,390,890
Personal credit (1)	60,570,146	56,255,740
Housing loans	59,963,375	60,458,038
Financing and export	38,272,982	41,983,307
Onlending BNDES/Finame	30,655,666	35,816,560
Credit card	37,568,984	37,407,733
Vehicle loans	24,741,298	23,699,948
Rural loans	13,642,478	14,422,799
Import	5,318,042	7,140,346
Overdraft for corporates	6,587,239	8,583,285
Receivable insurance premiums	4,301,472	5,517,932
Overdraft for individuals	3,582,020	4,209,637
<i>Leasing</i>	2,249,859	2,738,611
Other	33,659,520	33,459,047
<b>Total portfolio</b>	<b>373,813,665</b>	<b>392,083,873</b>
Impairment of loans and advances	(27,055,566)	(24,780,839)
<b>Total of net loans and advances to customers</b>	<b>346,758,099</b>	<b>367,303,034</b>

(1) Includes in 2017 R\$ 43,968,511 thousand related to payroll loans (2016 – R\$ 38,804,196 thousand).

### Allowance for loans and advances to customers

	R\$ thousand	
	<b>2017</b>	<b>2016</b>
<b>At the beginning of the year</b>	<b>24,780,839</b>	<b>25,455,204</b>
Impairment of loans and advances	16,860,835	15,350,278
Recovery of credits charged-off as losses	7,034,857	5,507,507
Write-offs	(21,620,965)	(21,532,150)
<b>At the end of the year</b>	<b>27,055,566</b>	<b>24,780,839</b>



**Finance lease receivables**

Loans and advances to customers include the following finance lease receivables.

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Gross investments in financial leases receivable:		
Up to one year	1,118,286	1,418,546
From one to five years	1,082,149	1,279,347
Over five years	49,424	40,718
Impairment loss on finance leases	(146,812)	(186,594)
<b>Net investment</b>	<b>2,103,047</b>	<b>2,552,017</b>
Net investments in finance leases:		
Up to one year	1,034,188	1,300,659
From one to five years	1,021,089	1,212,322
Over five years	47,770	39,036
<b>Total</b>	<b>2,103,047</b>	<b>2,552,017</b>

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 26) Non-current assets held for sale

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Assets not for own use</b>		
Real estate	1,250,380	1,262,126
Vehicles and similar	262,774	308,357
Machinery and equipment	2,037	5,529
Other	5,782	2,954
<b>Total</b>	<b>1,520,973</b>	<b>1,578,966</b>

The properties or other non-current assets received in total or partial settlement of the payment obligations of debtors are considered as non-operating assets held for sale in auctions, which normally occur in up to one year. Therefore, non-current assets held for sale include the book value of the items the Organization intends to sell, which in their current condition is highly probable and expected to occur within a year.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 27) Investments in associates and joint ventures

### a. Breakdown of investments in associates and joint ventures

Companies	Equity interest	Shareholding interest with voting rights	Investment with book value	Equity net income (loss)	Associates and joint ventures current assets	Associates and joint ventures non-current assets	Associates and joint ventures current liabilities	Associates and joint ventures non-current liabilities	Revenue (1)
Cielo S.A. (2)	30.06%	30.06%	4,832,660	1,219,202	76,403,596	13,151,540	71,020,292	6,833,491	2,56
IRB - Brasil Resseguros S.A. (3) (4)	15.23%	15.23%	543,025	182,432	8,512,491	6,124,173	10,138,711	947,514	3,55
Fleury S.A. (3) (6)	16.28%	16.28%	692,380	46,791	1,389,026	2,224,500	615,510	1,263,331	2,60
Aquarius Participações S.A. (7)	49.00%	49.00%	263,630	116,070	242,617	532,707	237,305	-	-
Haitong Banco de Investimento do Brasil S.A. Cia. Brasileira de Gestão e Serviços S.A. NCR Brasil Indústria de Equipamentos para Automação S.A. (3) (9)	20.00%	20.00%	105,649	(22,637)	3,588,848	1,283,453	3,565,394	726,468	5,43
Tecnologia Bancária S.A.	41.85%	41.85%	118,781	16,530	285,871	118,394	33,305	8,320	6
	49.00%	49.00%	46,039	4,108	221,809	28,788	141,520	-	-
	24.32%	24.32%	108,752	10,209	242,480	75,702	590,872	496,090	2,53

(3) Swiss Re Corporate Solutions Brasil (Nota 43-5) (3)	40.00%	40.00%	463,400	(26,437)	2,178,209	1,511,924	2,411,600	437,278	49
Gestora de Inteligência de Crédito S.A. (Nota 43-1) (3)	20.00%	20.00%	29,513	(4,642)	118,961	43,253	18,594	-	-
Other (3)	-	-	7,129	2,361	-	-	-	-	-
<b>Total investments in associates</b>			<b>7,210,958</b>	<b>1,543,987</b>	<b>93,183,908</b>	<b>25,094,434</b>	<b>88,773,103</b>	<b>10,712,492</b>	<b>17,24</b>
Elo Participações S.A. (10)	50.01%	50.01%	978,195	162,070	420,804	1,776,837	96,763	3,967	1
Crediare S.A. – Crédito, Financiamento e Investimento MPO - Processadora de Pagamentos Móveis S.A.	50.00%	50.00%	68,231	12,393	339,236	119,406	324,764	-	16
	50.00%	50.00%	-	(39)	2,198	1,612	2	3,881	
<b>Total investments in joint ventures Total on December 31, 2017</b>			<b>1,046,426</b>	<b>174,424</b>	<b>762,238</b>	<b>1,897,855</b>	<b>421,529</b>	<b>7,848</b>	<b>18</b>
			<b>8,257,384</b>	<b>1,718,411</b>	<b>93,946,146</b>	<b>26,992,289</b>	<b>89,194,631</b>	<b>10,720,340</b>	<b>17,42</b>

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**Notes to the Consolidated Financial Statements**

<b>Companies</b>	<b>Equity interest</b>	<b>Shareholding interest with voting rights</b>	<b>Investment with book value</b>	<b>Equity in Associates net income (loss)</b>	<b>Associates and joint ventures current assets</b>	<b>Associates and joint ventures non-current assets</b>	<b>Associates and joint ventures current liabilities</b>	<b>Associates and joint ventures non-current liabilities</b>	<b>Reve (1)</b>
Cielo S.A.	30.06%	30.06%	4,108,743	1,204,520	13,699,378	10,654,621	15,004,712	-	392
IRB - Brasil Resseguros S.A. (3) (4)	20.51%	20.51%	662,460	132,668	8,484,793	5,828,133	10,238,221	844,876	3
Fleury S.A. (3) (6)	16.39%	16.39%	651,906	17,506	1,343,162	2,021,981	429,411	1,166,607	2,045
Aquarius Participações S.A. (7)	49.00%	49.00%	263,632	73,640	150,233	538,267	150,474	-	-
Haitong Banco de Investimento do Brasil S.A.	20.00%	20.00%	127,922	1,596	8,187,596	493,325	8,041,309	-	4,243
Cia. Brasileira de Gestão e Serviços S.A. Tecnologia Bancária S.A. (3)	41.85%	41.85%	102,251	18,517	247,475	109,390	44,890	-	22
NCR Brasil Indústria de Equipamentos para Automação S.A. (3)	24.32%	24.32%	98,543	71,232	193,546	1,117,398	499,341	406,459	686
Empresa Brasileira de Solda Elétrica S.A. (3) (9)	49.00%	49.00%	73,789	(7,024)	171,823	27,780	111,755	-	330
	-	-	-	3,168	-	-	-	-	-
<b>Total investments</b>			<b>6,089,246</b>	<b>1,515,823</b>	<b>32,478,006</b>	<b>20,790,895</b>	<b>34,520,113</b>	<b>2,417,942</b>	<b>27,725</b>

27) Investments in associates and joint ventures

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**in associates**

Elo Participações S.A.	50.01%	50.01%	849,355	198,457	352,179	1,596,527	107,627	-	18
Crediare S.A. – Crédito, Financiamento e Investimento MPO - Processadora de Pagamentos Móveis S.A. Leader S.A. Adm. de Cartões de Crédito (3) (8)	50.00%	50.00%	64,174	8,721	443,978	3,883	317,298	-	164
	50.00%	50.00%	3	(49)	3,538	-	3,532	-	
	-	-	-	(23,227)	-	-	-	-	
<b>Total investments in joint ventures</b>			<b>913,532</b>	<b>183,902</b>	<b>799,695</b>	<b>1,600,410</b>	<b>428,457</b>	<b>-</b>	<b>183</b>
<b>Total on December 31, 2016</b>			<b>7,002,778</b>	<b>1,699,725</b>	<b>33,277,701</b>	<b>22,391,305</b>	<b>34,948,570</b>	<b>2,417,942</b>	<b>7,908</b>

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**Notes to the Consolidated Financial Statements**

<b>Companies</b>	<b>Equity interest</b>	<b>Shareholding interest with voting rights</b>	<b>Investment with book value</b>	<b>Equity net income (loss)</b>	<b>Associates and joint ventures current assets</b>	<b>Associates and joint ventures non-current assets</b>	<b>Associates and joint ventures current liabilities</b>	<b>Associates and joint ventures non-current liabilities</b>	<b>Revenue</b>
Cielo S.A.	30.06%	30.06%	3,302,071	1,043,743	13,755,540	10,806,140	8,199,287	9,696,767	23
IRB - Brasil Resseguros S.A. (3) (4)	20.51%	20.51%	658,949	138,165	8,922	5,768	10,639	785	
Fleury S.A. (6)	16.39%	16.39%	512,642	6,262	1,124,788	268,829	299,033	1,408,157	
Fidelity Processadora S.A. (7)	49.00%	49.00%	254,785	68,312	450,267	402,702	332,997	-	1
Haitong Banco de Investimento do Brasil S.A. Cia. Brasileira de Gestão e Serviços S.A.	20.00%	20.00%	130,248	(5,377)	7,227,947	563,950	7,140,656	-	13,83
NCR Brasil S.A. (3)	41.85%	41.85%	83,735	17,660	203,030	93,487	35,986	1,590	1
Empresa Brasileira de Solda Elétrica S.A. (3)	49.00%	49.00%	80,357	7,101	206,315	27,146	134,533	-	7
Integritas Participações S.A. (3) (5)	49.00%	49.00%	33,954	(5,769)	101,151	48,161	47,519	32,499	11
<b>Total investments in associates</b>			<b>5,056,741</b>	<b>1,274,875</b>	<b>23,088,607</b>	<b>12,957,986</b>	<b>16,203,184</b>	<b>11,143,864</b>	<b>14,29</b>
Elo Participações S.A.	50.01%	50.01%	686,951	243,073	223,332	1,438,988	144,169	15	1

27) Investments in associates and joint ventures

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Crediare S.A. – Crédito, Financiamento e Investimento MPO - Processadora de Pagamentos Móveis S.A. Leader S.A. Adm. de Cartões de Crédito (3) (8)	50.00%	50.00%	65,030	10,400	439,594	4,301	312,036	-	15
	50.00%	50.00%	6,551	716	380,801	11,362	379,061	-	31
	50.00%	50.00%	52	(1,013)	2,920	278	3,095	-	
<b>Total investments in joint ventures Total on December 31, 2015</b>			<b>758,584</b>	<b>253,176</b>	<b>1,046,647</b>	<b>1,454,929</b>	<b>838,361</b>		<b>15 48</b>
			<b>5,815,325</b>	<b>1,528,051</b>	<b>24,135,254</b>	<b>14,412,915</b>	<b>17,041,545</b>	<b>11,143,879</b>	<b>14,78</b>

(1) Revenues from financial intermediation or services;

(2) Brazilian company, services provider related to credit and debit cards and other means of payment. In 2017, the Organization received R\$ 582,483 thousand of dividends and interest on capital of this investment. In financial statements, Cielo S.A. presented R\$ 8,814 thousand of other comprehensive income;

(3) Companies for which the equity accounting adjustments are calculated using statements of financial position and statements of income with lag in relation to the reporting date of these consolidated financial statements;

(4) Bradesco has a board member at IRB-Brasil with voting rights, which results in significant influence;

(5) Partial spin-off in October, 2015;

(6) Participation in Fleury S.A. (i) due to the partial spin-off of Integritas Participações S.A. and, (ii) recorded using equity method as Bradesco has significant influence due its participation on the Board of the Directors and other committes;

(7) In January 2016, Aquarius Participações S.A. was endowed with the contribution of the investment of Fidelity Processadora e Serviços S.A.;

(8) In April 2016, it was consolidated after acquisition of 50% of the company;

(9) In 2017, impairment losses were recognized in associates and joint control companies, in the amount of R\$ 31,868 thousand, on the investment in NCR Brasil S.A. (In 2016, R\$ 37,122 on the investment in EBSE – Empresa Brasileira de Solda Elétrica S.A.); and



(10) Brazilian company, holding company that consolidates joint business related to electronic means of payment. In 2017, the Organization received R\$ 46,820 thousand of dividends from this investment. In its financial statements, Elo Participações S.A. presented R\$ 8,109 thousand of other comprehensive income.

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### **Notes to the Consolidated Financial Statements**

In 2017, with the exception of Cielo S.A., IRB – Brasil Resseguros S.A. (IRB) and Fleury S.A, the other investments mentioned in the table above were not traded regularly on any stock exchange. The market value of investments totaled R\$22,340,660 thousand (2016 - R\$ 18,980,026 thousand). The Organization does not have any contingent liability for investments in Associates, in which it is responsible for, in part or in full.

#### **b. Changes in associates**

	2017	R\$ thousand 2016
<b>Initial balances</b>	<b>7,002,778</b>	<b>5,815,325</b>
Acquisitions (1)	524,155	376,434
Spin-off of associates (2)	(170,006)	-
Transfer (3)	5,953	(166,294)
Equity in net income of associates	1,718,411	1,699,725
Dividends/Interest on capital	(802,662)	(655,920)
<i>Impairment (4)</i>	(31,868)	(37,122)
Other	10,623	(29,370)
<b>At the end of the year</b>	<b>8,257,384</b>	<b>7,002,778</b>

(1) In 2017, it includes the acquisition of interest in (i) Swiss Re Corporate Solutions Brasil; and in (ii) GIC - Gestora de Inteligência de Crédito (In 2016, there was capital increase in Cia. Leader S.A. Administradora de Cartões de Crédito);

(2) Disposal partial sale of the IRB (Note 43-6);

(3) In 2016, the investment of Cia. Leader S.A. Administradora de Cartões de Crédito began to be consolidated after acquisition of 50% of the company; and

(4) In 2017, there were losses on impairment in affiliates and joint ventures, in the amount of R\$ 31,868 thousand (R\$ 37,122 thousand - 2016).

## 28) Property and equipment

### a) Composition of property and equipment by class

			R\$ thousand	
	Annual rate	Cost	Accumulated depreciation	Net
Buildings	4%	2,153,407	(483,266)	1,670,141
Land	-	982,720	-	982,720
Installations, properties and equipment for use	10%	5,450,939	(2,667,455)	2,783,484
Security and communication systems	10%	349,228	(213,879)	135,349
Data processing systems	20%	3,950,625	(2,329,028)	1,621,597
Transportation systems	20%	86,705	(48,246)	38,459
Financial leasing of data processing systems	20%	3,431,868	(2,231,143)	1,200,725
<b>Balance on December 31, 2017</b>		<b>16,405,492</b>	<b>(7,973,017)</b>	<b>8,432,475</b>
Buildings	4%	2,153,351	(454,426)	1,698,925
Land	-	1,027,535	-	1,027,535
Installations, properties and equipment for use	10%	5,187,160	(2,314,715)	2,872,445
Security and communication systems	10%	325,835	(192,974)	132,861
Data processing systems	20%	3,504,229	(2,067,981)	1,436,248
Transportation systems	20%	86,639	(40,034)	46,605
Financial leasing of data processing systems	20%	3,229,513	(2,047,016)	1,182,497
<b>Balance on December 31, 2016</b>		<b>15,514,262</b>	<b>(7,117,146)</b>	<b>8,397,116</b>

Depreciation charges in 2017 amounted to R\$ 1,237,328 thousand (2016 - R\$ 1,141,636 thousand).

We enter into finance lease agreements as a lessee for data processing equipment, which are recorded as leased equipment in property and equipment. According to this accounting method, both the asset and the obligation are recognized in the consolidated financial statements and the depreciation of the asset is calculated based on the same depreciation policy as for similar assets. See Note 38 for disclosure of the obligation.

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**Notes to the Consolidated Financial Statements**

**b) Change in property and equipment by class**

R\$ thousand

	Buildings	Land	Installations, properties and equipment for use	Security and communications systems	Data processing systems (1)	Transportation systems	Total
<b>Balance on December 31, 2016</b>	<b>1,698,925</b>	<b>1,027,535</b>	<b>2,872,445</b>	<b>132,861</b>	<b>2,618,745</b>	<b>46,605</b>	<b>8,397,116</b>
Additions	117,888	41,777	754,606	31,134	947,314	4,926	1,897,645
Write-offs	(53,151)	(86,592)	(323,217)	(2,540)	(86,469)	(100)	(552,069)
Impairment	(73,568)	-	(502)	(1,836)	(3,288)	-	(79,194)
Depreciation	(28,840)	-	(521,663)	(24,270)	(649,583)	(12,972)	(1,237,328)
Transfer	8,887	-	1,815	-	(4,397)	-	6,305
<b>Balance on December 31, 2017</b>	<b>1,670,141</b>	<b>982,720</b>	<b>2,783,484</b>	<b>135,349</b>	<b>2,822,322</b>	<b>38,459</b>	<b>8,432,475</b>
<b>Balance on December 31, 2015</b>	<b>582,602</b>	<b>448,020</b>	<b>2,788,330</b>	<b>59,086</b>	<b>1,556,160</b>	<b>70,237</b>	<b>5,504,435</b>
Balance originating from an acquired institution (2)	752,619	586,971	320,949	77,196	60,065	-	1,797,800
Additions	81,809	897	974,089	22,721	1,696,318	3,487	2,779,321
Write-offs	(30,341)	(8,353)	(402,316)	(4,804)	(62,386)	(1,627)	(509,827)
Impairment	-	-	-	-	(20,543)	(12,434)	(32,977)
Depreciation	(30,179)	-	(466,192)	(21,338)	(610,869)	(13,058)	(1,141,636)
Transfer	342,415	-	(342,415)	-	-	-	-
<b>Balance on December 31, 2016</b>	<b>1,698,925</b>	<b>1,027,535</b>	<b>2,872,445</b>	<b>132,861</b>	<b>2,618,745</b>	<b>46,605</b>	<b>8,397,116</b>

(1) Includes financial lease of data processing systems; and

(2) HSBC Brasil.

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**Notes to the Consolidated Financial Statements**

## 29) Intangible assets and goodwill

### a) Change in intangible assets and goodwill by class

	Intangible Assets					R\$ thousand
	Goodwill	Acquisition of financial service rights (1)	Software (1)	Customer portfolio (1)	Other (1)	Total
<b>Balance on December 31, 2016</b>	<b>4,945,313</b>	<b>2,503,457</b>	<b>3,945,244</b>	<b>4,358,923</b>	<b>44,589</b>	<b>15,797,526</b>
Additions/(reductions)	-	2,549,335	1,203,313	-	(8,944)	<b>3,743,704</b>
Impairment (3)	-	-	(30,683)	-	-	<b>(30,683)</b>
Amortization	-	(1,000,894)	(1,327,456)	(1,000,234)	(2,656)	<b>(3,331,240)</b>
<b>Balance on December 31, 2017</b>	<b>4,945,313</b>	<b>4,051,898</b>	<b>3,790,418</b>	<b>3,358,689</b>	<b>32,989</b>	<b>16,179,307</b>
<b>Balance on December 31, 2015</b>	<b>723,526</b>	<b>2,260,033</b>	<b>3,639,825</b>	<b>709,463</b>	<b>76,788</b>	<b>7,409,635</b>
Balance originating from an acquired institution (2)	4,221,787	264,349	288,826	3,993,743	4,840	8,773,545
Additions/(reductions)	-	930,190	1,284,041	-	129,266	<b>2,343,497</b>
Impairment (3)	-	-	(212,374)	-	-	<b>(212,374)</b>
Amortization	-	(951,115)	(1,055,074)	(344,283)	(166,305)	<b>(2,516,777)</b>
<b>Balance on December 31, 2016</b>	<b>4,945,313</b>	<b>2,503,457</b>	<b>3,945,244</b>	<b>4,358,923</b>	<b>44,589</b>	<b>15,797,526</b>

(1) Rate of amortization: acquisition of banking rights - in accordance with contract agreement; software – 20%; Customer portfolio – up to 20%; and others – 20%;

(2) HSBC Brasil; and

(3) Impairment losses were recognized in the consolidated statement of income, within “Other operating income/(expenses)”.

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**Notes to the Consolidated Financial Statements**

## b) Composition of goodwill by segment

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Banking	4,651,347	4,651,347
Insurance, pension and capitalization bonds	293,966	293,966
<b>Total</b>	<b>4,945,313</b>	<b>4,945,313</b>

The Cash Generation Units allocated to the banking segment and the insurance, pension and capitalization bonds segment are tested annually for impairment of goodwill. We did not incur any goodwill impairment losses in 2017, 2016 and 2015.

The recoverable amount from the Banking Segment has been determined based on a value-in-use calculation. The calculation uses cash-flow predictions based on financial budgets approved by management, with a terminal growth rate of 7.1% p.a. (7.6% p.a. in 2016). The forecast cash flows have been discounted at a rate of 13.6% p.a. (12.9% p.a. in 2016).

The key assumptions described above may change as economic and market conditions change. The Organization estimates that reasonably possible changes in these assumptions within the current economic environment are not expected to cause the recoverable amount of either unit to decline below the carrying amount.

## 30) Other assets

	R\$ thousand
	<b>On December 31</b>
30) Other assets	696



	<b>2017</b>	<b>2016</b>
Foreign exchange transactions (1)(4)	17,279,327	17,455,821
Debtors for guarantee deposits (2)(4)	17,840,698	16,372,044
Negotiation and intermediation of securities (4)	1,741,524	1,954,484
Trade and credit receivables (4)	3,016,225	1,813,144
Deferred acquisition cost (insurance) – Note 35f	1,070,108	1,750,244
Other debtors	3,736,743	2,781,206
Prepaid expenses	1,244,602	1,324,362
Income receivable (4)	1,841,709	1,575,698
Interbank and interdepartmental accounts	1,480,291	949,730
Other (3)	1,602,760	1,193,637
<b>Total</b>	<b>50,853,987</b>	<b>47,170,370</b>

(1) Mainly refers to purchases in foreign currency made by the institution on behalf of customers and rights in the institution's domestic currency, resulting from exchange sale operations;

(2) Refers to deposits resulting from legal or contractual requirements, including guarantees provided in cash, such as those made for the filing of appeals in departments or courts and those made to guarantee services of any nature;

(3) Includes basically trade and credit receivables, material supplies, other advances and payments to be reimbursed; and

(4) Financial assets are recorded at amortized cost.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

## 31) Deposits from banks

Financial liabilities called “Deposits from banks” are initially measured at fair value and, subsequently, at amortized cost, using the effective interest rate method.

**Composition by nature**

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Demand deposits	1,030,292	898,877
Interbank deposits	2,168,625	588,872
Securities sold under agreements to repurchase	233,467,544	241,978,931
Borrowings	18,521,713	22,165,415
Onlending	30,769,294	36,030,587
<b>Total</b>	<b>285,957,468</b>	<b>301,662,682</b>

## 32) Deposits from customers

Financial liabilities called “Deposits from customers” are initially measured at fair value and subsequently at amortized cost, using the effective interest rate method.

**Composition by nature**

	R\$ thousand
32) Deposits from customers	698

	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Demand deposits	33,058,324	32,521,234
Savings deposits	103,332,697	97,088,828
Time deposits	125,617,424	103,137,867
<b>Total</b>	<b>262,008,445</b>	<b>232,747,929</b>

### 33) Funds from securities issued

#### a) Composition by type of security issued and location

	<b>On December 31</b>		R\$ thousand
	<b>2017</b>	<b>2016</b>	
<b>Instruments Issued – Brazil:</b>			
Real estate credit notes	27,020,911	26,955,574	
Agribusiness notes	10,973,682	9,116,292	
Financial bills	93,570,141	108,512,908	
<b>Subtotal</b>	<b>131,564,734</b>	<b>144,584,774</b>	
<b>Securities – Overseas:</b>			
<i>Euronotes (1)</i>	634,549	2,785,654	
Securities issued through securitization – (item (b))	2,606,322	3,286,342	
<b>Subtotal</b>	<b>3,240,871</b>	<b>6,071,996</b>	
<b>Structured Operations Certificates</b>	<b>368,485</b>	<b>445,168</b>	
<b>Total</b>	<b>135,174,090</b>	<b>151,101,938</b>	

(1) Issuance of securities in the foreign market to fund customers' foreign exchange operations, export pre-financing, import financing and working capital financing, substantially in the medium and long terms.

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## **Notes to the Consolidated Financial Statements**

### **b) Securities issued through securitization**

Since 2003, the Organization uses certain arrangements to optimize its activities of funding and liquidity management by means of an Specific Purpose Entity (SPE). This SPE, which is called International Diversified Payment Rights Company, is financed with long-term bonds which are settled with the future cash flow of the corresponding assets, basically comprising current and future flow of payment orders sent by individuals and legal entities abroad to beneficiaries in Brazil for whom Bradesco acts as payor.

The long-term instruments issued by the SPE and sold to investors will be settled with funds from the payment orders flows. The Organization is required to redeem the instruments in specific cases of default or upon closing of the operations of the SPE.

The funds deriving from the sale of current and future payment orders flows, received by the SPE, must be maintained in a specific bank account until they reach a given minimum level.

We show below the amounts of the securities issued by the SPE, which appear in the "Funding from issuance of securities" line item:

	<b>Date of Issue</b>	<b>Nominal amount</b>	<b>Maturity</b>	<b>R\$ thousand</b>	
				<b>On December 31 2017</b>	<b>2016</b>
	06,3,2008	836,000	22,5,2017	-	87,183
	19,12,2008	1,168,500	20,2,2019	348,524	698,551
	17,12,2009	89,115	20,2,2020	49,594	74,487
	20,8,2010	307,948	21,8,2017	-	60,938
	29,9,2010	170,530	21,8,2017	-	34,810
Securitization of the future flow of payment orders received from abroad	16,11,2011	88,860	20,11,2018	26,068	60,989
	16,11,2011	133,290	22,11,2021	139,678	177,095
	23,12,2015	390,480	21,11,2022	330,311	348,110
	23,12,2015	390,480	20,11,2020	318,934	348,662

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	02,2,2016	889,725	22,2,2021	871,260	872,710
	30,3,2016	533,835	22,2,2021	521,953	522,807
<b>Total</b>		<b>4,998,763</b>		<b>2,606,322</b>	<b>3,286,342</b>

(1) Prepaid.

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**Notes to the Consolidated Financial Statements**

## 34) Subordinated debt

### a) Composition of subordinated debt

		On December 31 - R\$ thousand		
	Original term in years	Nominal amount	2017	2016
<b>In Brazil:</b>				
<b>Subordinated CDB:</b>				
2019	10	20,000	62,303	56,200
<b>Financial bills:</b>				
2017 (1)	6	8,630,999	-	11,075,463
2018	6	8,262,799	10,130,108	9,875,551
2019	6	21,858	36,139	33,402
2017 (1)	7	40,100	-	95,872
2018	7	141,050	316,757	293,357
2019	7	3,172,835	3,436,734	3,423,463
2020	7	1,700	2,801	2,612
2022	7	4,305,011	5,597,559	5,050,633
2023	7	1,359,452	1,699,872	1,522,243
2024 (2)	7	67,450	73,861	-
2018	8	50,000	119,417	112,038
2019	8	12,735	28,184	25,212
2020	8	28,556	54,383	49,498
2021	8	1,236	2,027	1,896
2023	8	1,706,846	2,265,488	2,015,625
2024	8	136,695	159,205	143,415
2025 (2)	8	6,193,653	6,624,611	-
2021	9	7,000	13,125	11,813
2024	9	4,924	6,611	5,806
2025	9	400,944	457,679	417,641
2021	10	19,200	40,429	37,191
2022	10	54,143	99,338	91,314
2023	10	688,064	1,070,085	1,011,423

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2025	10	284,137	392,376	342,886
2026	10	361,196	438,776	392,886
2027 (2)	10	258,743	273,498	-
2026	11	3,400	4,271	4,001
2027	11	47,046	53,996	48,566
2028 (2)	11	74,764	77,079	-
Perpetual	-	5,000,000	5,004,967	5,015,870
<b>Subtotal in Brazil</b>			<b>38,541,679</b>	<b>41,155,877</b>
<b>Overseas:</b>				
2019	10	1,333,575	2,520,963	2,482,631
2022	10	1,886,720	3,697,115	5,333,373
2021	11	2,766,650	5,419,644	3,639,183
<b>Subtotal overseas</b>			<b>11,637,722</b>	<b>11,455,187</b>
<b>Total (3)</b>			<b>50,179,401</b>	<b>52,611,064</b>

(1) Subordinated debt transactions that matured in 2017; and

(2) New issuances of financial bills in 2017, referring to subordinated debt.

**b) Net movement of subordinated debt**

	<b>2017</b>	<b>2016</b>
<b>Initial balances</b>	<b>52,611,064</b>	<b>50,282,936</b>
Balance originating from an acquired institution	-	1,401,348
Issuances	6,594,610	3,787,207
Interest	5,100,017	6,298,555
Payments and other	(14,126,290)	(9,158,982)
<b>At the end of the year</b>	<b>50,179,401</b>	<b>52,611,064</b>

R\$ thousand

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**Notes to the Consolidated Financial Statements**

## 35) Insurance technical provisions and pension plans

### a) Technical provisions by account

	Insurance (1)		Life and Pension (2)(3)		R\$ thousand Total	
	On December 31 2017	2016	On December 31 2017	2016	On December 31 2017	2016
<b>Current and long-term liabilities</b>						
Mathematical reserve for unvested benefits	1,051,507	912,764	207,818	859,184	208,870	366,185
Mathematical reserve for vested benefits	265,727	210,855	9,367,712	8,989,482	9,633,439	9,200,337
Reserve for claims incurred but not reported (IBNR)	3,159,967	2,770,507	1,030,107	1,264,115	4,190,074	4,034,622
Unearned premium reserve	4,068,716	4,265,155	567,369	574,544	4,636,085	4,839,699
Reserve for unsettled claims	4,291,432	4,645,468	1,588,489	1,682,147	5,879,921	6,327,615
Reserve for financial surplus	-	-	514,199	554,505	514,199	554,505
Other technical provisions	1,996,206	2,048,355	3,369,300	3,328,048	5,365,506	5,376,403
<b>Total reserves</b>	<b>14,833,555</b>	<b>14,853,104</b>	<b>224,256,035</b>	<b>200,986,896</b>	<b>239,089,590</b>	<b>215,840,000</b>

(1) "Other technical provisions" - Insurance basically refers to the technical provisions of the "personal health" portfolio;

(2) Includes personal insurance and pension plans; and

(3) "Other technical provisions" - Life and Pension Plan mainly includes the "Reserve for redemption and other amounts to be settled", "Reserve for related expenses".



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### **Notes to the Consolidated Financial Statements**

#### **b) Technical provisions by product**

	R\$ thousand					
	<b>Insurance</b>		<b>Life and Pension (1)</b>		<b>Total</b>	
	<b>On December 31</b>		<b>On December 31</b>		<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Health	9,754,024	8,559,137	-	-	<b>9,754,024</b>	<b>8,559,137</b>
Auto / Liability Insurance	3,156,847	3,126,232	-	-	<b>3,156,847</b>	<b>3,126,232</b>
DPVAT (Personal Injury Caused by Automotive Vehicles)	506,161	471,288	3,100	2,944	<b>509,261</b>	<b>474,232</b>
Life	-	-	10,018,884	9,336,759	<b>10,018,884</b>	<b>9,336,759</b>
RE (Elementary branch)	1,416,523	2,696,447	-	-	<b>1,416,523</b>	<b>2,696,447</b>
Free Benefits Generating Plan - PGBL	-	-	35,087,618	32,605,459	<b>35,087,618</b>	<b>32,605,459</b>
Free Benefits Generating Life - VGBL	-	-	158,746,205	138,670,739	<b>158,746,205</b>	<b>138,670,739</b>
Tradicional plans	-	-	20,400,228	20,370,995	<b>20,400,228</b>	<b>20,370,995</b>
<b>Total technical provisions</b>	<b>14,833,555</b>	<b>14,853,104</b>	<b>224,256,035</b>	<b>200,986,896</b>	<b>239,089,590</b>	<b>215,840,000</b>

(1) Includes personal and pension insurance operations.

#### **c) Technical provisions by aggregated products**

	R\$ thousand	
	<b>On December 31</b>	<b>On December 31</b>
	<b>2017</b>	<b>2016</b>
Insurance – Vehicle, Elementary Lines, Life and Health	24,855,539	24,192,807
Insurance – Life with Survival Coverage (VGBL)	158,746,205	138,670,739
Pensions – PGBL and Traditional Plans	47,623,322	45,557,528
Pensions – Risk Traditional Plans	7,864,524	7,418,926
<b>Total</b>	<b>239,089,590</b>	<b>215,840,000</b>

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**Notes to the Consolidated Financial Statements**

**d) Changes in the insurance and pension technical provisions**

**(i) Insurance – Vehicle, General, Life, Health and Pension (Risk on Traditional Plans)**

	R\$ thousand	
	<b>Years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>At the beginning of the year</b>	<b>31,611,733</b>	<b>27,844,231</b>
(-) DPVAT insurance	(473,579)	(333,699)
<b>Subtotal at beginning of the year</b>	<b>31,138,154</b>	<b>27,510,532</b>
Additions, net of reversals	28,542,623	28,700,765
Payment of claims, benefits and redemptions	(27,156,197)	(26,449,844)
Adjustment for inflation and interest	648,898	1,376,701
Partial spin-off of large risk portfolio	(961,513)	-
<b>Subtotal at end of the period</b>	<b>32,211,965</b>	<b>31,138,154</b>
(+) DPVAT insurance	508,098	473,579
<b>At the end of the year</b>	<b>32,720,063</b>	<b>31,611,733</b>

**(ii) Insurance – Life with Survival Coverage (VGBL)**

	R\$ thousand	
	<b>Years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>At the beginning of the year</b>	<b>138,670,739</b>	<b>106,248,597</b>
Receipt of premiums net of fees	28,577,437	35,824,651
Payment of benefits	(28,758)	(47,379)
Payment of redemptions	(18,985,242)	(16,674,828)
Adjustment for inflation and interest	13,468,401	14,660,738
Others	(2,956,372)	(1,341,040)
<b>At the end of the year</b>	<b>158,746,205</b>	<b>138,670,739</b>

**(iii) Pensions – PGBL and Traditional Plans**

	R\$ thousand	
	<b>Years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>At the beginning of the year</b>	<b>45,557,528</b>	<b>36,848,112</b>
Receipt of premiums net of fees	3,446,148	7,412,759
Payment of benefits	(759,949)	(696,056)
Payment of redemptions	(2,962,505)	(2,438,351)
Adjustment for inflation and interest	3,656,452	4,808,394
Others	(1,314,352)	(377,330)
<b>At the end of the year</b>	<b>47,623,322</b>	<b>45,557,528</b>

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### Notes to the Consolidated Financial Statements

#### e) Guarantees for the technical provisions

	R\$ thousand					
	Insurance		Life and pension plans		Total	
	On December 31 2017	2016	On December 31 2017	2016	On December 31 2017	2016
<b>Total technical provisions</b>	<b>14,833,555</b>	<b>14,853,104</b>	<b>224,256,035</b>	<b>200,986,896</b>	<b>239,089,590</b>	<b>215,840,000</b>
(-) Deferred acquisition cost PPNG reducers	(138,780)	(237,104)	-	-	(138,780)	(237,104)
(-) Portion corresponding to contracted reinsurance	(153,137)	(947,159)	(14,123)	(41,191)	(167,260)	(988,350)
(-) Deposits retained at IRB and court deposits	-	(16)	-	-	-	(16)
(-) Receivables	(925,999)	(1,068,329)	-	-	(925,999)	(1,068,329)
(-) Unearned premium reserve – Health and dental insurance (1)	(1,268,243)	(1,182,152)	-	-	(1,268,243)	(1,182,152)
(-) Reserves from DPVAT agreements	(502,491)	(465,568)	-	-	(502,491)	(465,568)
<b>To be insured</b>	<b>11,844,905</b>	<b>10,952,776</b>	<b>224,241,912</b>	<b>200,945,705</b>	<b>236,086,817</b>	<b>211,898,481</b>
Investment fund quotas (VGBL and PGBL) (2)	-	-	190,639,798	168,337,785	190,639,798	168,337,785
Investment fund quotas (excluding VGBL and PGBL)	5,076,006	7,164,637	21,639,087	23,273,027	26,715,093	30,437,664
Government securities	9,011,657	5,882,012	18,608,194	14,187,009	27,619,851	20,069,021
Private securities	18,203	93,287	164,338	169,440	182,541	262,727
Shares	3,227	2,325	1,716,401	1,728,856	1,719,628	1,731,181
<b>Total technical provision guarantees</b>	<b>14,109,093</b>	<b>13,142,261</b>	<b>232,767,818</b>	<b>207,696,117</b>	<b>246,876,911</b>	<b>220,838,378</b>

(1) Deduction provided for in article 4 of Normative Resolution ANS no. 392/15; and

(2) The investment funds "VGBL" and "PGBL" were consolidated in the financial statements.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

### **Notes to the Consolidated Financial Statements**

#### **f) Changes in deferred acquisition cost (insurance assets)**

	R\$ thousand	
	<b>Years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>At the beginning of the year</b>	<b>1,750,244</b>	<b>1,945,238</b>
Additions	1,586,888	1,940,226
Reversals	(2,250,844)	(2,135,220)
<b>At the end of the year</b>	<b>1,070,108</b>	<b>1,750,244</b>

#### **g) Changes in reinsurance assets**

	R\$ thousand	
	<b>Years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>At the beginning of the year</b>	<b>1,186,194</b>	<b>1,144,506</b>
Additions	186,867	667,908
Reversals	(139,641)	(485,724)
Recovered insurance losses	(259,433)	(173,908)
Adjustment for inflation and interest	(411)	43,790
Partial spin-off of large risk portfolio	(721,428)	-
Other (1)	(754,362)	(10,378)
<b>At the end of the year</b>	<b>219,214</b>	<b>1,186,194</b>

(1) Includes the transfer of part of the operation of the large risk portfolio (Note 43).

#### **h) Claim information**

The purpose of the table below is to show the inherent insurance risk, comparing the insurance claims paid with their provisions. Starting from the year in which the claim was reported, the upper part of the table



shows the changes in the provision over the years. The provision varies as more precise information concerning the frequency and severity of the claims is obtained. The lower part of the table shows the reconciliation of the amounts with the amounts presented in the financial statements.

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**Notes to the Consolidated Financial Statements**

**Insurance, Vehicle/RCF and Elementary Lines – Claims, gross reinsurance<sup>(d)</sup>**

	Year claims were notified								
	Up to 2007	2008	2009	2010	2011	2012	2013	2014	2015
Amount estimated for the claims:									
· In the year after notification	4,482,979	1,152,371	2,058,559	2,414,674	2,647,298	3,134,409	3,020,829	3,708,479	4,160,000
· One year after notification	4,679,108	1,108,270	2,037,365	2,394,609	2,626,356	3,035,716	2,848,361	3,456,642	4,028,000
· Two years after notification	4,711,861	1,088,069	2,018,329	2,387,075	2,604,738	3,021,698	2,809,942	3,464,389	3,989,000
· Three years after notification	4,783,290	1,094,795	2,015,921	2,403,020	2,604,061	3,041,626	2,839,210	3,436,234	-
· Four years after notification	4,845,834	1,102,364	2,046,000	2,418,649	2,600,194	3,071,989	2,813,496	-	-
· Five years after notification	4,902,275	1,102,595	2,044,644	2,428,252	2,625,442	2,888,296	-	-	-
· Six years after notification	4,956,618	1,127,609	2,056,612	2,431,363	2,621,044	-	-	-	-
· Seven years after notification	4,982,993	1,140,708	2,072,169	2,419,614	-	-	-	-	-
· Eight years after notification	5,028,742	1,158,436	2,057,911	-	-	-	-	-	-
· Nine years after notification	5,074,360	1,149,106	-	-	-	-	-	-	-

· Ten years after notification	5,086,824	-	-	-	-	-	-	-	-
<b>Estimate of claims on the reporting date (2017)</b>	<b>5,086,824</b>	<b>1,149,106</b>	<b>2,057,911</b>	<b>2,419,614</b>	<b>2,621,044</b>	<b>2,888,296</b>	<b>2,813,496</b>	<b>3,436,234</b>	<b>3,989,100</b>
Payments of claims	(5,064,293)	(1,022,199)	(2,042,673)	(2,390,739)	(2,586,371)	(2,835,738)	(2,753,035)	(3,355,681)	(3,879,100)
<b>Outstanding Claims</b>	<b>22,531</b>	<b>126,907</b>	<b>15,238</b>	<b>28,875</b>	<b>34,673</b>	<b>52,558</b>	<b>60,461</b>	<b>80,553</b>	<b>110,000</b>

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

**Insurance, Vehicle/RCF and Elementary Lines – Claims, net reinsurance<sup>(4)</sup>**

	Year claims were notified								
	Up to 2007	2008	2009	2010	2011	2012	2013	2014	2015
Amount estimated for net claims for reinsurance:									
· In the year after notification	4,049,408	859,651	1,791,249	2,260,194	2,440,426	2,804,706	2,815,311	3,523,133	3,805,2
· One year after notification	4,107,420	846,124	1,773,092	2,235,404	2,417,095	2,695,513	2,648,135	3,306,665	3,695,7
· Two years after notification	4,157,532	835,214	1,766,152	2,232,926	2,401,407	2,696,091	2,622,005	3,317,745	3,671,2
· Three years after notification	4,225,589	844,636	1,769,942	2,251,003	2,418,057	2,705,326	2,658,925	3,323,339	
· Four years after notification	4,285,309	850,115	1,791,739	2,268,293	2,425,973	2,729,230	2,659,375		-
· Five years after notification	4,338,449	857,121	1,797,090	2,281,206	2,452,938	2,746,804			-
· Six years after notification	4,390,840	868,958	1,810,770	2,291,650	2,459,251				-
· Seven years after notification	4,426,256	873,978	1,822,466	2,292,651					-
· Eight years after notification	4,466,917	884,796	1,824,085						-
· Nine years after notification	4,510,383	890,132							-

notification · Ten years after	4,527,764	-	-	-	-	-	-	-	-
<b>Estimate of claims on the reporting date (2017)</b>	<b>4,527,764</b>	<b>890,132</b>	<b>1,824,085</b>	<b>2,292,651</b>	<b>2,459,251</b>	<b>2,746,804</b>	<b>2,659,375</b>	<b>3,323,339</b>	<b>3,671,2</b>
Payments of claims	(4,505,614)	(880,207)	(1,809,102)	(2,265,943)	(2,424,679)	(2,694,553)	(2,599,885)	(3,243,342)	(3,563,2
<b>Liquid outstanding claims for reinsurance</b>	<b>22,150</b>	<b>9,925</b>	<b>14,983</b>	<b>26,708</b>	<b>34,572</b>	<b>52,251</b>	<b>59,490</b>	<b>79,997</b>	<b>107,9</b>

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**Notes to the Consolidated Financial Statements**

**Life – Insurance claims, gross reinsurance<sup>(d)</sup>**

	Up 2007	2008	2009	2010	2011	Year claims were notified				2014	2015	
						2012	2013	2014	2015			
Amount estimated for net claims for reinsurance:												
· In the year after notification	1,987,288	987,998	1,062,753	1,185,750	1,403,227	1,448,969	1,509,781	1,536,697	1,653,000			
· One year after notification	2,004,988	1,000,730	1,082,779	1,183,274	1,386,518	1,431,243	1,491,911	1,568,941	1,648,000			
· Two years after notification	2,038,732	1,020,530	1,105,401	1,195,472	1,393,915	1,447,741	1,525,941	1,570,227	1,644,000			
· Three years after notification	2,075,972	1,018,008	1,100,970	1,185,871	1,406,376	1,450,511	1,514,898	1,495,266				
· Four years after notification	2,079,897	1,017,316	1,109,079	1,198,856	1,406,472	1,454,750	1,516,747					
· Five years after notification	2,081,301	1,015,902	1,119,669	1,198,607	1,416,009	1,459,181						
· Six years after notification	2,086,778	1,017,807	1,118,181	1,197,508	1,417,352							
· Seven years after notification	2,068,574	1,021,908	1,112,583	1,189,843								
· Eight years after notification	2,076,228	1,024,349	1,115,707									
· Nine years after notification	2,094,047	1,020,756										
	2,140,849											

· Ten years after notification  
**Estimate of claims on the reporting date (2017)**

Payments of claims

**Liquid outstanding claims for reinsurance**

2,140,849	1,020,756	1,115,707	1,189,843	1,417,352	1,459,181	1,516,747	1,495,266	1,644,000
(2,074,102)	(1,003,673)	(1,098,409)	(1,151,732)	(1,361,271)	(1,398,760)	(1,428,669)	(1,307,155)	(1,337,000)
66,747	17,083	17,298	38,111	56,081	60,421	88,078	188,111	306,999

(1) The claims table does not include the products Health and Dental insurance – R\$ 2,906,361 thousand, DPVAT insurance – R\$ 86,592 thousand, Retrocession – R\$ 1,722 thousand and salvage and reimbursement estimates - R\$ (163,923) thousand.

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***Notes to the Consolidated Financial Statements***

## **36) Supplemental pension plans**

Bradesco and its subsidiaries sponsor a private defined contribution pension for employees and directors, that allows financial resources to be accumulated by participants throughout their careers by means of employee and employer contributions and invested in an Exclusive Investment Fund (FIE). The Plan is managed by Bradesco Vida e Previdência S.A. and BRAM – Bradesco Asset Management S.A. DTVM is responsible for the financial management of the FIEs funds.

The Supplementary Pension Plan counts on contributions from employees and directors of Bradesco and its subsidiaries equivalent to at least 4% of their salary and, from the company, 5% of the salary, plus the percentage allocated to covers of risk benefits (invalidity and death). Actuarial obligations of the defined contribution plan are fully covered by the plan assets of the corresponding FIE. In addition to the plan, in 2001, participants who chose to migrate from the defined benefit plan are guaranteed a proportional deferred benefit, corresponding to their accumulated rights in that plan. For the active participants, retirees and pensioners of the defined benefit plan, now closed to new members, in run-off, the present value of the actuarial obligations of the plan is completely covered by collateral assets.

Banco Alvorada S.A. (successor from the spin-off of Banco Baneb S.A.) maintains defined contribution and defined benefit retirement plans, to the former employees of Baneb, through Fundação Baneb de Seguridade Social – Bases.

Bradesco sponsors both defined benefit and defined contribution retirement plans, through Caixa de Assistência e Aposentadoria dos Funcionários do Banco do Estado do Maranhão (Capof), to employees originating from Banco BEM S.A.

Bradesco sponsors a defined benefit plan through Caixa de Previdência Privada Bec – Cabec, for former employees of Banco do Estado do Ceará S.A.



With the acquisition of HSBC Bank Brasil S.A. (current Kirton Bank S.A. – Banco Múltiplo), the open pension plan, which was offered to employees of that institution, in the modality of defined contribution, has been discontinued. From October 2016, the employees transferred can adhere to the Supplementary Pension Plan offered to the employees of Bradesco.

Kirton Bank S.A. – Banco Múltiplo, Kirton Capitalização S.A., Kirton Corretora de Seguros S.A., Bradesco Kirton Corretora de Títulos e Valores Mobiliários S.A. and Kirton Seguros S.A. sponsor a defined benefit plan called APABA to employees originating from Banco Bamerindus do Brasil S.A., and Kirton Administração de Serviços para Fundos de Pensão Ltda. sponsors to its employees the Kirton Prev Benefits Plan (*Plano de Benefícios Kirton Prev*), both managed by MultiBRA – Pension Fund.

Banco Losango S.A., Kirton Bank S.A. – Banco Múltiplo and Credival – Participações, Administração e Assessoria Ltda. sponsor three pension plans for its employees, which are Losango I Benefits Plan – Basic Part (modality of defined contribution), Losango I – Supplementary Part and PREVMAIS Losango Plan (modality of variable contribution), all managed by MultiBRA – Settlor – Multiple Fund.

Bradesco took on the obligations of Kirton Bank S.A. – Banco Múltiplo with regard to Life Insurance, Health Insurance Plans, and Retirement Compensation for employees coming from Banco Bamerindus do Brasil S.A.

Bradesco, in its overseas facilities, provides for its employees and administrators a pension plan, according to the norms established by the local authorities, that allows to accumulate financial resources throughout the professional career of the participant.

Expenses related to contributions made in the year ending December 31, 2017, totaled R\$ 988,905 thousand (2016 - R\$ 584,438 thousand).

In addition to this benefit, Bradesco and its subsidiaries offer other benefits to their employees and administrators, including health insurance, dental care, life and personal accident insurance, and professional training. These expenses, including the aforementioned contributions, totaled the amount of R\$ 5,594,368 thousand in the year ending December 31, 2017 (2016 - R\$ 3,826,715 thousand).



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**Notes to the Consolidated Financial Statements**

	R\$ thousand	
	Years ended December 31	
	2017	2016
<b>(i) Projected benefit obligations:</b>		
<b>At the beginning of the year</b>	<b>2,141,393</b>	<b>1,162,005</b>
Balance from an acquired institution	-	761,119
Cost of current service	186	(1,077)
Interest cost	227,980	181,595
Participant's contribution	1,197	2,831
Actuarial gain/(loss)	144,624	182,762
Benefit paid	(192,042)	(147,842)
<b>At the end of the year</b>	<b>2,323,338</b>	<b>2,141,393</b>
<b>(ii) Plan assets comprise:</b>		
<b>At the beginning of the year</b>	<b>2,127,872</b>	<b>1,047,782</b>
Balance from an acquired institution	-	883,858
Expected earnings	423,546	307,728
Contributions received:		
Employer	14,957	33,515
Employees	1,197	2,831
Benefit paid	(192,043)	(147,842)
<b>At the end of the year</b>	<b>2,375,529</b>	<b>2,127,872</b>
<b>(iii) Financial position:</b>		
Plans in deficit	(149,571)	(130,293)
Plans in surplus	201,762	116,772
<b>Net balance</b>	<b>52,191</b>	<b>(13,521)</b>

The net cost/(benefit) of the pension plans recognized in the consolidated statement of income includes the following components:

	R\$ thousand		
	Years ended December 31		
	2017	2016	2015
<b>Projected benefit obligations:</b>			

Cost of service	186	(1,077)	(579)
Cost of interest on actuarial obligations	227,980	181,595	133,385
Expected earnings from the assets of the plan	(227,360)	(174,937)	(120,960)
<b>Net cost/(benefit) of the pension plans</b>	<b>806</b>	<b>5,581</b>	<b>11,846</b>

The accumulated obligations of the pension plans are included in "Other Liabilities", in our consolidated statement of financial position.

Benefit obligations and net periodic benefit cost for the years 2017 and 2016 for our subsidiaries, were determined using the following assumptions:

	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Discount rate (1)	8.5% - 10% p.a.	11.1% p.a.
Expected long-term rate of return on the assets	8.5% - 10% p.a.	11.1% p.a.
Increase in salary levels	4.3% p.a.	4.8% p.a.

(1) In 2017, considering an inflation rate of 4.3% p.a. and a real discount rate of 4.0% - 5.5% p.a. (2016 – 4.8% and 6.0% p.a., respectively).

The long-term rate of return on plan assets is based on the following:

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### Notes to the Consolidated Financial Statements

- Medium- to long-term expectations of the asset managers; and
- Public and private securities, with short to long-term maturities which represent a significant portion of the investment portfolios of our subsidiaries, the return on which is higher than inflation plus interest.

The assets of pension plans are invested in compliance with the applicable legislation (government securities and private securities, listed company shares and real estate properties) and the weighted-average allocation of the pension plan's assets by category is as follows:

Asset categories	Assets of the Alvorada Plan On December 31		Assets of the Bradesco Plan On December 31		Assets of the Kirton Plan On December 31		Assets of the Losango Plan On December 31	
	2017	2016	2017	2016	2017	2016	2017	2016
Equities	-	-	4.7%	3.9%	-	-	17.3%	18.8%
Fixed income	92.7%	93.1%	90.6%	91.3%	100.0%	100.0%	82.7%	81.2%
Real estate	5.7%	5.3%	2.6%	2.7%	-	-	-	-
Other	1.6%	1.6%	2.1%	2.1%	-	-	-	-
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Below is the sensitivity analysis of the benefit plan obligations, showing the impact on the actuarial exposure (8.5 – 10.0% p.a.) assuming a 1 b.p. change in the discount rate:

Discount rate	Sensitivity Analysis	Effect on actuarial liabilities	Effect on the present value of the obligations
9.5% - 11.0% p.a.	Increase of 1 p.p.	reduction	(256,532)
7.5% - 9.0% p.a.	Decrease of 1 b.p.	increase	303,154

## **37) Provisions, contingent liabilities and contingent assets**

### **a) Contingent assets**

Contingent assets are not recognized in the financial statements. However, there are ongoing proceedings where the chance of success is considered probable, but of immaterial values, such as: a) Social Integration Program (PIS), Bradesco has made a claim to offset PIS against Gross Operating Income, paid under Decree-Laws nº 2,445/88 and nº 2,449/88, regarding the payment that exceeded the amount due under Supplementary Law nº 07/70 (PIS Repique); and b) other taxes, the legality and/or constitutionality of which is being challenged, where the decision may lead to reimbursement of amounts paid.

### **b) Contingent liabilities and tax and social security obligations**

The Organization is a party to a number of labor, civil and tax lawsuits, arising from the normal course of business.

Management recorded provisions based on their opinion and that of their legal counsel, the nature of the lawsuit, similarity to previous lawsuits, complexity and the courts standing, where the loss is deemed probable.

Management considers that the provision is sufficient to cover losses generated by the respective lawsuits.

Liability related to litigation is held until the conclusion to the lawsuit, represented by judicial decisions, with no further appeals or due to the statute of limitation.

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## ***Notes to the Consolidated Financial Statements***

### **I - Labor claims**

These are claims brought by former employees and outsourced employees seeking indemnifications, most significantly for unpaid "overtime", pursuant to Article 224 of the Consolidation of Labor Laws (CLT). In proceedings in which a judicial deposit is used to guarantee the execution of the judgment, the labor provision is made considering the estimated loss of these deposits. For proceedings with similar characteristics and for which there has been no official court decision, the provision is recorded based on the average calculated value of payments made for labor complaints settled in the past 12 months and for proceedings originating from acquired banks, with unique characteristics, the calculation and assessment of the required balance is conducted periodically, based on the updated recent loss history.

Overtime is monitored by using electronic time cards and paid regularly during the employment contract and, accordingly, the claims filed by former employees do not represent significant amounts.

### **II - Civil proceedings**

These are claims for pain and suffering and property damages, mainly relating to protests, returned checks, the inclusion of information about debtors in the credit restriction registry and the replacement of inflation adjustments excluded as a result of government economic plans. These lawsuits are individually controlled using a computer-based system and provisioned whenever the loss is deemed as probable, considering the opinion of Management and their legal counsel, the nature of the lawsuits, similarity with previous lawsuits, complexity and positioning of the courts.

Most of these lawsuits are brought to the Special Civil Court (JEC), in which the claims are limited to 40 times the minimum wage and do not have a significant impact on the Organization's financial position.

There are a significant number of legal claims pleading alleged differences in adjustment for inflation on savings account balances due to the implementation of economic plans that were part of the federal government's economic policy to reduce inflation in the '80s and '90s.

Although Bradesco complied with the law and regulation in force at the time, these lawsuits have been recorded in provisions, taking into consideration the claims where the Bradesco is the defendant and the perspective of loss, which is considered after the analysis of each demand, based on the current decision of the Superior Court of Justice (STJ).

In December 2017, with the mediation of the Attorney's General Office (AGU), the entities representing the bank and the savings accounts, entered into an agreement related to litigation of economic plans, with the purpose of closing these claims, in which conditions and schedule were established for savings accounts holders may to accede the agreement. This agreement was approved by the Federal Supreme Court (STF) on March 1, 2018, pending final decision of the approval decision. As this is a voluntary agreement, Bradesco is unable to predict how many savings account holders will choose to accept the settlement offer.

Note that, regarding disputes relating to economic plans, the Federal Supreme Court (STF) suspended the prosecution of all lawsuits on cognizance stage, until the Court issues a final decision on the right under litigation.

**c) Tax and social security obligations**

The Organization is disputing the legality and constitutionality of certain taxes and contributions in court, for which provisions have been recorded in full, although there is good chance of a favorable outcome, based on the opinion of Management and their legal counsel. The processing of these legal obligations and the provisions for cases for which the risk of loss is deemed as probable is regularly monitored in the legal court. During or after the conclusion of

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### **Notes to the Consolidated Financial Statements**

each case, a favorable outcome may arise for the Organization, resulting in the reversal of the related provisions.

The main cases are:

- PIS and COFINS – R\$ 2,489,247 thousand (R\$ 2,320,261 thousand in 2016): a request for authorization to calculate and pay PIS and COFINS based on effective billing, as set forth in Article 2 of Supplementary Law nº 70/91, removing from the calculation base the unconstitutional inclusion of other revenues other than those billed;
- IRPJ/CSLL on losses of credits – R\$ 1,614,663 thousand (R\$ 1,913,208 thousand in 2016): we are requesting to deduct from income tax and social contributions payable (IRPJ and CSLL, respectively) amounts of actual and definite loan losses related to unconditional discounts granted during collections, regardless of compliance with the terms and conditions provided for in Articles 9 to 14 of Law nº 9,430/96 that only apply to temporary losses;
- Pension Contributions – R\$ 1,466,469 thousand (R\$ 1,385,456 thousand in 2016): official notifications related to the pension contributions on financial contributions in private pension plans, considered by the authorities to be compensatory sums subject to the incidence of pension contributions and to an isolated fine for not withholding IRRF on the financial contributions;
- INSS Autonomous Brokers – R\$ 643,655 thousand (R\$ 901,171 thousand in 2016): The Bradesco Organization is questioning the charging of social security contribution on remunerations paid to third-party service providers, established by Supplementary Law No. 84/96 and subsequent regulations/amendments, at 20.0% with an additional 2.5%, on the grounds that services are not provided to insurance companies but to policyholders, thus being outside the scope of such a contribution as provided for in item I, Article 22 of Law nº 8,212/91, as new wording in Law nº 9,876/99;
- INSS – Contribution to SAT – R\$ 401,018 thousand (R\$ 374,620 thousand in 2016): thousand: in an ordinary lawsuit filed by the Brazilian Federation of Banks – Febraban, since April 2007, on behalf of its

members, is questioning the classification of banks at the highest level of risk, with respect to Work Accident Risk – RAT, which eventually raised the rate of the respective contribution from 1% to 3%, in accordance with Decree nº 6,042/07; and

In general, the provisions relating to lawsuits are classified as non-current, due to the unpredictability of the duration of the proceedings in the Brazilian justice system. For this reason, the estimate has not been disclosed with relation to the specific year in which these lawsuits will be closed.

In 2017, the Organization adhered to the Special Tax Regularization Program (PERT), established by Provisional Measure (MP) No. 783/17, which provides for the settlement by means of payment and installment payment of its tax and social security obligations with the Brazilian Federal Revenue Service and the National Treasury Attorney-General's Office (PGFN) of debts due up to April 30, 2017, resulting in a negative net effect of R\$241,141 thousand in the Consolidated statement of income. On October 24, 2017, the MP No. 783/17 was converted into Law No. 1396/17 and was amended; however, no relevant impacts on the Organization.

In addition to this, Bradesco also adhered to the Incentivized Installment Payment Program (PPI-SP), Law No. 16,680/17 in order to promote the settlement of debts regarding such law as to taxable events occurred up to December 31, 2016, resulting in the net negative effect of R\$61,814 thousand.

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**Notes to the Consolidated Financial Statements**

**d) Changes in other provision**

			R\$ thousand
	<b>Labor</b>	<b>Civil</b>	<b>Tax and Social Security (1) (2)</b>
<b>Balance on December 31, 2016</b>	<b>5,101,732</b>	<b>5,003,440</b>	<b>8,187,237</b>
Indexation charges	637,263	484,447	500,719
Additions, net of reversals	1,002,559	830,642	(984,342)
Payments	(1,186,758)	(971,966)	(114,246)
<b>Balance on December 31, 2017</b>	<b>5,554,796</b>	<b>5,346,563</b>	<b>7,589,368</b>
<b>Balance on December 31, 2015</b>	<b>3,048,442</b>	<b>4,202,950</b>	<b>8,112,925</b>
Indexation charges	454,045	409,236	705,036
Additions, net of reversals	876,816	1,310,333	(1,236,705)
Balance originating from an acquired institution <sup>(3)</sup>	1,684,370	544,997	703,967
Payments	(961,941)	(1,464,076)	(97,986)
<b>Balance on December 31, 2016</b>	<b>5,101,732</b>	<b>5,003,440</b>	<b>8,187,237</b>

(1) Mainly include legal liabilities;

(2) In 2017, there were reversals of provisions related to: (i) the PIS process, related to the remuneration of amounts unduly paid, in the amount of R\$ 268,729 thousand; (ii) IRPJ / CSLL on credit losses, in the amount of R\$ 408,730 thousand; and (iii) Favorable decision in the process of social security contribution on the remuneration paid to accredited dentists (INSS of Self-employed), in the amount of R\$ 348,820 thousand and in 2016, there were reversals of a provisions relating to: i) the process of INSS of the self-employed of the Bradesco Saúde subsidiary, in the amount of R\$ 1,081,528 thousand; ii) to the Pis process – EC 17, in the amount of R\$ 242,242 thousand; and iii) offset by the provision for social security contributions on transfers to private pension plans, in the amount of R\$ 215,668 thousand; and

(3) HSBC Brasil.

**e) Contingent liabilities classified as possible losses**

The Organization maintains a system to monitor all administrative and judicial proceedings in which the institution is plaintiff or defendant and, based on the opinion of legal counsel, classifies the lawsuits according to the expectation of loss. Case law trends are periodically analyzed and, if necessary, the related risk is reclassified. In this respect, contingent lawsuits deemed to have a possible risk of loss are not recorded as a liability in the financial statements. The main proceedings in this category are the following: a) 2006 to 2013 income tax and social contribution, relating to goodwill amortization being disallowed on the acquisition of investments, for the amount of R\$ 6,264,741 thousand (R\$ 5,894,504 thousand in 2016); b) Fines and disallowances of Cofins loan compensations, released after a favorable decision in a judicial proceeding, where the unconstitutionality of the expansion of the intended calculation base was discussed for revenues other than those from billing (Law n<sup>o</sup> 9,718/98), in the amount of R\$ 4,902,151 thousand (R\$ 3,999,185 thousand in 2016); c) Leases companies' Tax on Services of any Nature (ISSQN), total lawsuits correspond to R\$ 2,394,087 thousand (R\$ 2,398,185 thousand in 2016) which relates to the municipal tax demands from municipalities other than those in which the company is located and where, under law, tax is collected; d) IRPJ and CSLL deficiency note relating to disallowance of exclusions of revenues from the mark-to-market of securities from 2007 to 2013, differences in depreciation expenses, insufficient depreciation expenses, expenses with depreciation of leased assets, operating expenses and income and disallowance of tax loss compensation, in the amount of R\$ 2,431,844 thousand (R\$ 1,653,942 thousand in 2016); e) Notifications and disallowances of compensations of PIS and Cofins related to the unconstitutional extension of the basis of calculation intended for other income other than the billing (Law n<sup>o</sup> 9,718/98), from acquired companies, amounting to R\$ 1,399,506 thousand (R\$ 1,317,238 thousand in 2016); f) IRPJ and

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### **Notes to the Consolidated Financial Statements**

CSLL deficiency notice relating to the disallowance of loan loss deductions, for the amount of R\$ 969,713 thousand (R\$ 760,436 thousand in 2016); and g) IRPJ and CSLL deficiency note, amounting to R\$ 489,687 thousand (R\$ 459,962 thousand in 2016) relating to profit of subsidiaries based overseas, for the calendar years of 2008 and 2009.

## **38) Other liabilities**

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Financial liabilities</b>		
Credit card transactions (1)	26,163,066	23,717,936
Foreign exchange transactions (2)	17,085,029	17,975,291
Loan assignment obligations	8,454,076	8,761,827
Capitalization bonds	7,562,974	7,502,158
Securities trading	2,317,155	2,569,881
Liabilities for acquisition of assets – financial leasing (Note 38 a)	857,212	1,063,649
<b>Other liabilities</b>		
Third party funds in transit (3)	7,211,038	7,068,452
Provision for payments	8,743,428	6,997,168
Sundry creditors	3,205,800	8,843,035
Social and statutory	4,524,457	4,631,237
Other taxes payable	1,466,306	1,528,980
Liabilities for acquisition of assets and rights	1,480,777	1,452,568
Other	8,745,506	4,853,333
<b>Total</b>	<b>97,816,824</b>	<b>96,965,515</b>

(1) Refers to amounts payable to merchants;

(2) Mainly refers to the institution's sales in foreign currency to customers and its right's in domestic currency, resulting from exchange sale operations; and

(3) Mainly refers to payment orders issued domestically and the amount of payment orders in foreign currency coming from overseas.

a) **Composition by maturity of financial leases and details of operating leases**

	R\$ thousand	
	<b>On December 31</b>	
	<b>2017</b>	<b>2016</b>
Due within one year	564,337	578,965
From 1 to 2 years	256,327	375,073
From 2 to 3 years	36,548	109,611
<b>Total</b>	<b>857,212</b>	<b>1,063,649</b>

Total non-cancellable minimum future payments due on operating leases in 2017 are R\$ 7,923,649 thousand, of which R\$ 832,991 thousand is due within 1 year, R\$ 3,325,401 thousand between 1-5 years and R\$ 3,765,257 thousand with more than 5 years.

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**Notes to the Consolidated Financial Statements**

## 39) Equity

### a) Capital and shareholders' rights

#### i. Composition of share capital in number of shares

The share capital, which is fully subscribed and paid, is divided into registered shares with no par value.

	<b>On December 31</b>	
	<b>2017</b>	<b>2016 (1)</b>
Common	3,054,481,112	3,054,481,112
Preferred	3,054,480,793	3,054,480,793
<b>Subtotal</b>	<b>6,108,961,905</b>	<b>6,108,961,905</b>
Treasury (common shares)	(5,032,549)	(5,032,549)
Treasury (preferred shares)	(18,855,746)	(18,855,746)
<b>Total outstanding shares</b>	<b>6,085,073,610</b>	<b>6,085,073,610</b>

#### ii. Changes in capital stock, in number of shares

	<b>Common</b>	<b>Preferred</b>	<b>Total</b>
<b>Number of shares outstanding on December 31, 2015 (1)</b>	<b>3,050,040,493</b>	<b>3,035,625,047</b>	<b>6,085,665,540</b>
Shares acquired and not canceled	(591,930)		(591,930)
<b>Number of shares outstanding on December 31, 2016 (1)</b>	<b>3,049,448,563</b>	<b>3,035,625,047</b>	<b>6,085,073,610</b>
<b>Number of shares outstanding on December 31, 2017</b>	<b>3,049,448,563</b>	<b>3,035,625,047</b>	<b>6,085,073,610</b>

(1) All share amounts presented for prior periods have been adjusted to reflect the stock split approved at the Board of Directors' Meeting of March 10, 2017 in proportion of one new share for every 10 shares held.

In the Extraordinary General Meeting of March 10, 2016, the approval was proposed by the Board of Directors to increase the capital stock by R\$ 8,000,000 thousand, increasing it from R\$ 43,100,000 thousand to R\$ 51,100,000 thousand, with a bonus in shares, through the capitalization of part of the balance of the account "Profit Reserves - Statutory Reserve", in compliance with the provisions in Article 169 of Law n° 6,404/76, by issuing 504,872,885 new nominative-book entry shares, with no nominal value, whereby 252,436,456 are common and 252,436,429 are preferred shares, attributed free-of-charge to the shareholders as bonus, to the ratio of 1 new share for every 10 shares of the same type that they own on the base date.

In the Extraordinary General Meeting of March 10, 2017, the approval was proposed by the Board of Directors to increase the capital stock by R\$8,000,000 thousand, increasing it from R\$51,100,000 thousand to R\$59,100,000 thousand, with a bonus in shares, through the capitalization of part of the balance of the account "Profit Reserves - Statutory Reserve", in compliance with the provisions in Article 169 of Law No. 6,404/76, by issuing 555,360,173 new nominative-book entry shares, with no nominal value, whereby 277,680,101 are common and 277,680,072 are preferred shares, attributed free-of-charge to the shareholders as bonus, to the ratio of 1 new share for every 10 shares of the same type that they own on the base date, and was approved by the Bacen on April 18, 2017.

All of the shareholders are entitled to receive, in total, a mandatory dividend of at least 30% of Bradesco's annual net income, as shown in the statutory accounting records, adjusted by transfers to reserves. The Organization has no obligation that is exchangeable for or convertible into shares of capital. As a result, its diluted earnings per share is the same as the basic earnings per share.

In occurring any operation that changes the number of shares, simultaneously with the transaction in the Brazilian Market, and with the same timeframes, an identical procedure is adopted in the International Market, for the ADRs/GDRs traded in New York, USA, and Madrid, Spain.

Treasury shares are recorded at cost, which is approximately equivalent to the market prices on the date they are acquired. Cancellation of treasury shares is recorded as a reduction of unappropriated retained earnings. Treasury shares are acquired for subsequent sale or cancellation.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

## ***Notes to the Consolidated Financial Statements***

### **b) Reserves**

#### **Capital reserve**

The capital reserve consists mainly of premiums paid by the shareholders upon subscription of shares. The capital reserve is used for (i) absorption of any losses in excess of accumulated losses and revenue reserves, (ii) redemption, reimbursement of purchase of shares, (iii) redemption of founders' shares, (iv) transfer to share capital, and (v) payment of dividends to preferred shares, when this privilege is granted to them.

#### **Revenue reserves**

In accordance with Corporate Legislation, Bradesco and its Brazilian subsidiaries must allocate 5% of their annual statutory net income, after absorption of accumulated losses, to a legal reserve, the distribution of which is subject to certain limitations. The reserve can be used to increase capital or to absorb losses, but cannot be distributed in the form of dividends.

The Statutory Reserve aims to maintain an operating margin that is compatible with the development of the Organization's active operations and may be formed by up to 100% of net income remaining after statutory allocations if proposed by the Board of Executive Officers, approved by the Board of Directors and ratified at the Shareholders' Meeting, with the accumulated value limited to 95% of the Organization's paid-in capital share amount.

### **c) Interest on shareholders' equity / Dividends**

Interest on shareholders' equity are calculated on the net income as determined in the financial statements prepared in accordance with Brazilian generally accepted accounting principles (BR GAAP) applicable to financial institutions authorized to operate by the Central Bank of Brazil. The dividends are paid in *Reais* and can be converted into US dollars and remitted to shareholders abroad, provided that the equity participation of the non-resident shareholder is registered with the Central Bank of Brazil, Brazilian companies may pay interest on equity to shareholders based on the net equity and treat these payments as deductible expenses in the Brazilian income tax and social contribution calculations. The interest cost is treated for accounting purposes as a deduction from equity in a manner similar to dividends. Withholding income tax is levied and paid at the time that the interest on equity is paid to the shareholders.

In 2017 the Organization distributed interest on shareholders' equity of R\$ 7,204,344 thousand, being attributed to the shareholders, the gross amount per share of R\$ 1.13 for common shares and R\$ 1.25 for preferred shares (2016 - R\$ 6,975,782 thousand, R\$ 1.09 for common shares and R\$ 1.20 for preferred shares).

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**Notes to the Consolidated Financial Statements**

## 40) Transactions with related parties

Related party transactions are carried out under conditions and at rates consistent with those entered into with third parties, when applicable, and effective on the dates of the operations.

The main transactions with related parties are presented as follows:

	Controllers (1)		Associates and Jointly controlled companies (2)		Key Management Personnel (3)		Total	
	On December 31							
	2017	2016	2017	2016	2017	2016	2017	2016
<b>Assets</b>								
Loans and advances to banks	-	-	724,369	1,033,479	-	-	724,369	1,033,479
Other assets	-	-	3,572	6,128	-	-	3,572	6,128
<b>Liabilities</b>								
Deposits from customers	931,141	1,374,940	103,734	62,928	87,213	86,594	1,122,088	1,524,462
Funds from issuance of securities	6,632,932	5,755,615	244,082	398,549	1,405,203	823,527	8,282,217	6,977,691
Social and statutory	2,275,419	1,770,149	-	-	-	-	2,275,419	1,770,149
Other liabilities	-	-	8,827,877	13,704	-	-	8,827,877	13,704

	Controllers (1)			Associates and Jointly controlled companies (2)			Key Management Personnel (3)			Total
	Years ended December 31									
	2017	2016	2015	2017	2016	2015	2017	2016	2015	
<b>Revenues and expenses</b>										

Net interest income	(887,059)	(1,129,931)	(78,813)	40,671	(41,814)	(426)	(84,818)	(108,333)	(88,344)	(931,206)	(1,280,000)
Other revenues	-	-	-	441,381	360,286	337,070	-	-	-	441,381	360,286
Other expenses	(2,652)	(2,391)	(2,160)	(289,100)	(224,444)	(246,504)	-	-	-	(291,752)	(226,760)

(1) Cidade de Deus Cia. Cial. de Participações, Fundação Bradesco, NCF Participações S.A., Titanium Holdings S.A., BBD Participações S.A. and Nova Cidade de Deus Participações S.A.;

(2) Companies listed in Note 2; and

(3) Members of the Board of Directors and the Board of Executive Officers.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

**Notes to the Consolidated Financial Statements**

**a) Remuneration of key management personnel**

The following is established each year at the Annual Shareholders' Meeting:

- The annual grand total amount of management compensation, set forth at the Board of Directors Meetings, to be paid to board members and members of the Board of Executive Officers, as determined by the Company's Bylaws; and
- The amount allocated to finance Management pension plans, within the Employee and Management pension plan of the Bradesco.

For 2017, the maximum amount of R\$ 468,700 thousand was set for Management compensation and R\$ 487,700 thousand to finance defined contribution pension plans.

The current policy on Management compensation sets forth that 50% of net variable compensation, if any, must be allocated to the acquisition of PNB issued by BBD Participações S.A. and / or issued PN shares of Bradesco Bank S.A., which vest in three equal, annual and successive installments, the first of which is in the year following the payment date. This procedure complies with Resolution nº 3921/10, which sets forth a management compensation policy for financial institutions.

**Short-term benefits for management**

	R\$ thousand		
	<b>Years ended December 31</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Salaries	456,262	441,592	309,864
40) Transactions with related parties			741

<b>Total</b>	<b>456,262</b>	<b>441,592</b>	<b>309,864</b>
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**Post-employment benefits**

	<b>Years ended December 31</b>		R\$ thousand
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Defined contribution supplementary pension plans	473,663	251,250	311,670
<b>Total</b>	<b>473,663</b>	<b>251,250</b>	<b>311,670</b>

The Organization has no long-term benefits for the termination of employment contracts or for remuneration based on shares for its key management personnel.

**Other information****a) Under current law, financial institutions are not allowed to grant loans or advances to:**

(i) Officers and members of the advisory, administrative, fiscal or similar councils, as well as to their respective spouses and family members up to the second degree;

(ii) Individuals or corporations that own more than 10% of their capital; and

(iii) Corporations in which the financial institution itself, any officers or administrators of the institution, as well as their spouses and respective family members up to the second degree own more than 10% of equity.



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### **Notes to the Consolidated Financial Statements**

Therefore, no loans or advances are granted by the financial institutions to any subsidiary, members of the Board of Directors or Board of Executive Officers and their relatives.

#### **b) Equity participation**

Together directly, members of the Board of Directors and Board of the Executive Officers had the following shareholding in Bradesco:

	<b>On December 31</b>		
	<b>2017</b>		<b>2016</b>
Common shares		0.5%	0.7%
Preferred shares		1.0%	1.1%
<b>Total shares (1)</b>		<b>0.8%</b>	<b>0.9%</b>

(1) In December 31, 2017, direct and indirect shareholding of the members of Board of Directors and Board of Executive Officers in Bradesco totaled 2.3% of common shares, 1.1% of preferred shares and 1.7% of all shares (2016 – 2.8% of common shares, 1.2% of preferred shares and 2.0% of all shares).

## **41) Off-balance sheet commitments**

The table below summarizes the total risk represented by off-balance sheet commitments:

	<b>On December 31</b>		R\$ thousand
	<b>2017</b>	<b>2016</b>	
Commitments to extend credit (1)	203,927,816	237,019,535	
Financial guarantees (2)	78,867,348	78,949,483	
Letters of credit for imports	294,229	329,015	

41) Off-balance sheet commitments

744



<b>Total</b>	283,089,393	316,298,033
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(1) Includes available lines of credit, limits for credit cards, personal loans, housing loans and overdrafts; and

(2) Refers to guarantees mostly provided for Corporate customers.

Financial guarantees are conditional commitments for loans issued to ensure the performance of a customer in an obligation to a third party. There is usually the right of recourse against the customer to recover any amount paid under these guarantees. Moreover, we can retain cash or other highly-liquid funds to counter-guarantee these commitments.

The contracts are subject to the same credit evaluations as other loans and advances. Standby letters of credit are issued mainly to endorse public and private debt issue agreements including commercial paper, securities financing and similar transactions. The standby letters of credit are subject to customer credit evaluation by the management.

We issue letters of credit in connection with foreign trade transactions to guarantee the performance of a customer with a third party. These instruments are short-term commitments to pay the third-party beneficiary under certain contractual terms for the shipment of products. The contracts are subject to the same credit evaluation as other loans and advances.

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**Notes to the Consolidated Financial Statements**

## **42) New standards and amendments and interpretations of existing standards**

### **Standards, amendments and interpretations of existing standards in future periods**

- IFRS 9 replaces the guidance in IAS 39 - Financial Instruments: Recognition and Measurement. IFRS 9 is applied for financial instruments and will be adopted retrospectively on the effective date of the standard on January 1, 2018. IFRS 9 includes: (i) new models for the classification and measurement of financial instruments; (ii) measurement of expected credit losses for financial assets; and (iii) new requirements on hedge accounting. The new standard maintains the principal existing guidance on the recognition and derecognition of financial instruments in IAS 39.

Pursuant to analysis made by the Organization, the estimated impacts from the adoption of IFRS 9 will represent, according to the best estimates, a reduction of approximately 2% (R\$ 2,2 billion) of shareholders' equity, net of tax effects.

#### **(i) Classification - Financial assets**

IFRS 9 contains a new approach of classification and measurement of financial assets, where the entity considers not only the business model for the management of financial assets but also the features of contractual cash flow of the financial asset.

IFRS 9 eliminates the categories existing in IAS 39 and classifies the financial assets into three categories: (i) measured at amortized cost; (ii) measured at fair value through other comprehensive income (FVTOCI); and (iii) measured at fair value through profit or loss (FVTPL).

Pursuant to IFRS 9, derivatives embedded in agreements where the host asset is in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification and usually classified as FVTPL.

Based on the evaluation, the Organization does not believe that the new classification requirements, when applied from January 1, 2018, will have material impact on the recording of accounts receivable, loans and advances, investments in debt securities and investments in equity securities measured at fair value.

On December 31, 2017, the Organization had equity investments classified as available for sale with fair value of R\$ 11,038 millions which are held for long-term strategic purposes. Pursuant to IFRS 9, the Organization, on current best estimates, could designate these instruments as VJORA. Thus, all fair value gains and losses should be recorded in other comprehensive income, with no impairment losses recognized in the income (loss) and no gain or loss is recycled to the income (loss) upon realization.

#### **(ii) Impairment –Financial instruments**

IFRS 9 replaces the model of “incurred losses” of IAS 39 with a prospective model of “expected losses”. This will require relevant judgment as to how changes in economic factors affect expected credit losses, which will be determined based on weighted probabilities.

The new model of expected losses will apply to the financial instruments measured at amortized cost or VJORA (except for investments in equity instruments).

Pursuant to IFRS 9, the provisions for expected losses will be measured on one of the following bases:

- Expected loan losses for 12 months, that is, loan losses resulting from all possible events of default within 12 months from the report date; and
- Expected loan losses for the entire life, that is, loan losses resulting from all possible events of default over the expected life of a financial instrument.

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### **Notes to the Consolidated Financial Statements**

The measurement of expected losses for the entire life is applied when the credit risk of a financial asset, on the report date, has significantly increased since its first recognition, and the measurement of loan loss for 12 months is applied when the loan risk has not significantly increased since its first recognition. An entity may determine that the loan risk of a financial asset did not significantly increase when the asset has low credit risk on the date of the report.

The Organization believes that impairment losses will increase and become more volatile than the current ones, for the assets assessed in the model of IFRS 9. Based on the methodology of allowance for loan losses adopted, the Organization estimated, on current best estimates, that the application of the impairment requirements of IFRS 9 on January 1, 2018 would result in additional allowance for loan losses, as described in the table below:

	R\$ millions
	<b>Provision for additional estimated credit losses on January 1, 2018</b>
Credit portfolio (1)	3,829
Securities	842
<b>Total gross additional provisions</b>	<b>4,671</b>
(1) includes commitments and financial guarantees provided	

The following analysis provides additional details on the methodology adopted and on the impact estimated on January 1, 2018.

### **Impairment of financial instruments**

Expected loan losses were calculated based on experience of actual loan losses in the past years. The Organization calculated the rates of expected loan losses based on the features of each portfolio, that is, it

used quantitative models for loans assessed in a group and a combination of quantitative and qualitative models for large companies.

The experience of actual loan losses was adjusted to reflect the differences between economic conditions during the period in which the historical data were collected, current conditions and the Organization's view of future economic conditions.

The table below, on current best estimates, provides information on the estimated exposure to loan risk and expected loan losses and advances, commitments, financial collaterals provided and Private Debt Securities, on January 1, 2018.

	<b>Estimated Exposure to Credit Risk</b>	<b>Expected Loss</b>	R\$ millions <b>Expected Loss on Estimated Exposure to Credit Risk</b>
Stage 1	432,416	7,688	2%
Stage 2	51,853	7,581	15%
Stage 3	37,277	17,779	48%
<b>Total</b>	<b>521,546</b>	<b>33,048</b>	<b>6%</b>

Stage 1: Financial instruments that do not present significant deterioration in credit quality;

Stage 2: Financial instruments that present significant deterioration in credit quality; and

Stage 3: Financial instruments that indicate that the obligation will not be fully honored.

With respect to Government Bonds, the Organization internally developed a study for loan risk evaluation of these bonds, which is not expected to be lost for the next 12 months, that is, there is no need of allowance for loan losses.

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Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

### ***Notes to the Consolidated Financial Statements***

#### **(iii) Classification – Financial liabilities**

IFRS 9 maintains most part of the requirements of IAS 39 regarding the classification of financial liabilities.

But, pursuant to IAS 39, the fair value variations of liabilities designated as FVTPL are recognized in the income (loss), whereas pursuant to IFRS 9, these changes of fair value should be presented as follows:

- the fair value variation that is attributable to changes in the loan risk of financial liabilities should be presented in Other comprehensive income (OCI); and
- the remaining value of the fair value variation should be presented in the income (loss).

The Organization does not intend, in its best current estimates, to assign financial liabilities to the VJR. The evaluation conducted by the Organization did not indicate any material impact if the requirements of IFRS 9, regarding the classification of financial liabilities, were applied on January 1, 2018.

#### **(iv) Hedge Accounting**

Upon the first adoption the Organization opted to continue to apply the requirements of IAS 39 for hedge accounting, as permitted by IFRS 9 until the conclusion by the IASB of the macro-hedge project and the finalization of the hedge accounting section.

IFRS 9 requires that the Organization ensures that the hedge accounting relations are aligned with its risk management purposes and strategies and that the Organization adopt a more qualitative and prospective approach to assess hedge effectiveness. IFRS 9 also introduces new requirements for re-balance of hedge relations and prohibits the voluntary discontinuance of the hedge accounting if inconsistent with the risk management strategies of the entity.

**(v) Disclosures**

IFRS 9 will demand new disclosures, mainly related to expected loan losses, credit risk and hedge accounting. The Organization's evaluation includes an analysis to identify the disclosure detail levels of the deficiencies in relation to the information required and current processes, and also implementations and improvements of controls in order to meet the new requirements.

**(vi) Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 will be applied retrospectively on the date of initial application.

– The Organization opted for the exemption under the Standard of not restating comparative information from prior periods derived from changes in the classification and measurement of financial instruments (including expected loan). The differences in the accounting balances of financial assets and liabilities resulting from the adoption of IFRS 9 will be recognized in Retained Earnings on January 1, 2018.

– Based on the facts and circumstances existing on the date of first adoption the Organization is performing the following evaluations:

- determination of the business model in which a financial asset is held.
- designation and cancellation of prior designations of certain financial assets and liabilities measured at VJR; and



- designation of certain investments in equity instruments not held for trading as VJORA.
  
- IFRS 15 – Revenue from Contracts with Customers – requires that revenue is recognized so as to reflect the transfer of goods or services to the client for an amount that represents the

IFRS – International Financial Reporting Standards – 2017

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company's expectation of having rights to these goods or services by way of consideration. IFRS 15 replaces IAS 18, IAS 11, and related interpretations (IFRICs 13, 15 and 18), and shall be applicable from January, 2018. We conducted a study on the recognition of revenue from customer contracts and concluded that there would be no significant impact on the Organization.

- IFRS 16 – Leases. The main changes in relation to IAS 17 for lessees are: (i) there is no longer classification in operating and financial leases; and (ii) all leasing operations are accounted in liabilities, and interest and liabilities must be recognized in depreciation / amortization, using the current financial lease procedure. There are optional exemptions for short-term leases and leases of low-value items. Lessor accounting remains similar to the current standard, as lessors continue to classify leases as finance or operating leases. IFRS16 replaces IAS17 and will be applicable as of January 1, 2019 and the possible impacts arising from the adoption of this amendment are being evaluated, and will be concluded by the date of entry into force of the standard.
- IFRS 17 - Insurance Contracts. Establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The purpose of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information provides a basis for accounting firm users to evaluate the effect that insurance contracts have on the Company's financial position, financial performance and cash flows. IFRS 17 is effective for annual periods beginning on or after January 1, 2021.
- IFRIC 23 - Applies to any situation where there is uncertainty as to whether an income tax treatment is acceptable under tax law. The scope of the Interpretation includes all taxes covered by IAS 12, that is, both current and deferred tax. However, it does not apply to uncertainty regarding taxes covered by other standards. IFRIC 23 becomes operative for financial periods beginning on or after January 1, 2019. The possible impacts arising from the adoption of this amendment are being evaluated and will be concluded by the date of entry into force of the standard.

## **43) Other information**

1. In June, 2017, Bradesco has signed definitive documents with Banco do Brasil S.A., Banco Santander (Brasil) S.A., Caixa Econômica Federal and Itaú Unibanco S.A., in order to create a holding company of credit intelligence ("GIC"), which will develop a database with the goal of adding, reconciling and handling database and credit-related information, of individuals and legal entities, which expressly authorize their inclusion in the database, as required by the applicable rules. The control of the company will be shared, with each party holding 20% of its capital. The necessary capital contribution occurred in July 2017.

2. Unconsolidated structured entities are unconsolidated entities that the Organization does not control, but which have a contractual and non-contractual involvement, and provide variability of returns arising from the performance. The organization has an involvement with structured entities through management of investment funds and portfolios making management fees and consortium management.

The main unconsolidated structured entities are, (i) the investment funds managed by Organization, whose nature and involvement, generating management fees and investment in units for funds, the assets of managed funds and non consolidated in 2017 were R\$ 338,846,142 thousand (2016 - R\$ 426,390,575 thousand) and revenues earned in 2017 were R\$ 1,463,469 thousand (2016 - R\$ 1,079,653 thousand) and (ii) the consortium which nature and involvement is related to generation management fees of consortium quotas, represented by groups of quotaholders formed to acquire specific goods, whose assets in 2017 were R\$ 74,323,031 thousand (2016 – R\$ 71,075,119 thousand) and the revenues were in 2017 R\$ 1,526,660 thousand (2016 – R\$ 1,278,753 thousand).

3. In May, 2016, occurred the indictment of three members of its Bradesco's Executive Board of Directors by the Federal Police, in the scope of the so-called "Operation Zealots". On July, 2016, the Federal Public Prosecution filed an accusation against all three members of the Board of Executive Officers and a former member of its Board of Directors, which was received by the Judge of the 10th Federal Court of Judicial Section of the Federal District. The Management conducted a thorough internal evaluation of the records and documents related to the indictment and found no evidence of

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any illegality committed by its representatives. The executives of Bradesco have already submitted their respective answers to the prosecution, pointing out the facts and evidence demonstrating their innocence. The process has already had its investigation phase closed, now await the final allegations and sentence of the first degree trial.

In parallel to his defense, the Chairman of the Board of Executive Officers of Bradesco, Mr. Luiz Carlos Trabuco Cappi, presented a petition for habeas corpus to the Regional Federal Court (Tribunal Federal Regional) – 1st Region. After processing the motion for habeas corpus, the 4th Panel of the aforementioned Court, by unanimous decision, excluded him from criminal proceedings, due to lack of just cause. This procedure is under appeal to STJ (Superior Court of Justice). The same habeas corpus was extended to the former member of the Board of Directors, previously indicted.

Bradesco provided all the information requested to the competent regulatory bodies, in Brazil and abroad. Moreover, Bradesco was summoned by the General's Office of the Ministry of Finance on the filing of an Administrative Proceeding ("PAR"). This process, which is in the pre-trial phase, may entail the possibility of application of a fine and/or mention on public lists, which may eventually lead to restrictions on business with public agencies.

On account of the news published in the media, on the indictment in the "Operation Zealots", a class action was filed in the District Court of New York, on June 3, 2016. On September 1, 2016, Bradesco spontaneously attended the proceedings of the Class Action and agreed with the plaintiff a term for the submission of the revocation of the suit until December 23, 2016. On October 21, 2016, the Plaintiff Leader presented the addendum of the Initial Petition, appointing as defendants Bradesco and three members of its Board of Executive Officers. According to the demand, investors who purchased preferred American Depositary Shares ("ADS") of Bradesco between April 30, 2012 and July 27, 2016 would have suffered losses provoked by Bradesco due to a supposed violation regarding the American law of capital markets, according to communication to the Market on May 31, June 8 and July 28, 2016. On December 23, 2016, Bradesco filed a motion to dismiss the process, which – following a reply from the Lead Plaintiff and a rejoinder from Bradesco, and on September 29, 2017, the Judge decided the following: (i) the Court partially upheld and rejected the termination request, limiting the proposed class to investors who purchased American Depositary Shares ("ADS") Bradesco between August 8, 2014 and July 27, 2016; and (ii) the Court granted to the Lead Plaintiff a 30-day term to present an addendum to the initial request. After said term, on October 30, 2017, the Lead Plaintiff informed the Judge that it will not present any amendments. Thus, the demand will lead to the discovery phase, so the limitation of the aforementioned

class would be maintained. Given the current phase of the demand, it is not possible to perform a risk analysis and, besides, there are no elements to support the assessment of the amount of said risk.

**4.** The wholly-owned subsidiaries of Bradesco, BEM - Distribuidora de Títulos e Valores Mobiliários Ltda. and BRAM - Bradesco Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários, as well as two of its Managers, were mentioned in the scope of the so-called "Greenfield operation" of the Federal Police, because they were responsible for the administration and management of the Fund in Equity - FIP (Equity Investment Fund), respectively. Besides providing the documents, the Federal Court has ruled, in the course of this Operation, the blocking of these companies' values. As a result of this, a Commitment was signed, approved by the 10th Federal Court of the Federal District, to release the values through the provision of guarantees of up to R\$104 million, without the recognition of any civil or criminal liability on the part of companies or administrators of the Organization. In the scope of this commitment, managers and officers of the Organization committed to provide any clarifications to the authorities responsible for conducting this investigation, regardless of a formal subpoena.

**5.** In July 2017, Bradesco Seguros SA ("Bradesco Seguros") and Swiss Re Corporate Solutions Ltd. ("Swiss Re Corso") concluded the transaction, by means of a shareholder agreement, whereby: (i) Swiss Re Corporate Solutions Brasil Seguros S/A ("Swiss Re Corporate Solutions Brazil") took over part of the P&C (Property and Casualty) insurance operations, such as, Aeronautical, Marine, Civil

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Liability and shipments from Bradesco Seguros ("Large Risks Insurance"), with exclusive access to Bradesco customers to explore the commercialization of Large Risks Insurance; and (ii) Bradesco Seguros held a 40% interest in Swiss Re Corporate Solutions Brasil represented by a total of 172,560,054 book entry shares, common and nominative in the amount of R\$363,103 thousand, and 60% remained with Swiss Re Corso. The transaction was approved by the Private Insurance Superintendence (Susep), the Administrative Council for Economic Defense (Cade) and the Central Bank (Bacen). The association includes exclusive access to the distribution network of Bradesco Seguros, comprised of more than 140 branches, more than 4,700 branches of Banco Bradesco and approximately 40,000 registered brokers and insurance agents. As part of the transaction, approximately 120 large risk experts from Bradesco Seguros, in São Paulo and Rio de Janeiro, joined Swiss Re Corporate Solutions Brasil Seguros S/A. The investment totals R\$490,000 thousand, recorded by Bradesco Seguros S.A., includes goodwill on the acquisition of shares in the amount of R\$126,897 thousand.

**6.** In May 2017, Bradesco – as an indirect holder of equity interest in IRB - announced to shareholders that had authorized IRB to submit: (i) application for registration as a publicly-held company and for authorization of initial public offering of IRB, pursuant to CVM Instructions 400/03 and 480/09; and (ii) application for registration of secondary public distribution of common shares issued by IRB, pursuant to CVM Instruction 400/03. In July 2017, Bradesco announced that the documents were filed in compliance with the requirements formulated by CVM in the context of the Secondary Public Offering of IRB's common shares and the closing of the bookbuilding procedure of the Offering, which defined the price per share at R\$27.24. 14,040,000 shares were sold in the Base Offering and then the entire supplementary lot totaling 16,206,387 shares. Bradesco indirectly holds 47,520,213 shares and a 15.23% interest in the capital stock of IRB.

**7.** In July 2017, Bradesco launched a Special Voluntary Severance Program Scheme (PDVE), in which the Organization's employees who fulfilled the requirements established in the regulations of the respective plan may join. The deadline for joining the plan ended in late August 2017, with the adhesion of 7.4 thousand employees, and a total cost of R\$2.3 billion. The estimated annual effect on personnel expenses is a reduction of R\$1.5 billion.

## 44) Subsequent events

1. In January 2018, Bradesco carried out credit assigned loans, already written off to loss, without retention of risks and benefits, with a face value of R\$ 5,323,120 thousand, whose sale value was R\$ 110,189 thousand.

Bradesco \_\_\_\_\_

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