

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,	2017	R\$, except for number of shares		
		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

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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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**4.A. History and Development of the Company**  
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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, midsized 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,	<b>Banking - R\$ in thousands</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<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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**4.B. Business Overview**

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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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**4.B. Business Overview**  
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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):

2017	R\$ in thousands
<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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**4.B. Business Overview**

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

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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:

<b>Total Risk Amount</b>	<b>R\$ in thousands</b>	
	<b>Loan with no collateral</b>	<b>Loan with collateral</b>
<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:

<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

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 2017	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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<b>As of December 31,</b>	<b>R\$ in thousands</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<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>-</b>	<b>146,527,366</b>	<b>-</b>	<b>53,763,561</b>	<b>-</b>	<b>2,409,723</b>	<b>-</b>	<b>7,422,203</b>	<b>-</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	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,	R\$ in thousands, except %					
	2017		2016		2015	
Loans and advances portfolio	% 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>	(10,390,738)	(6,489,564)	(6,624,258)	(7,026,270)
<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>

<sup>(1)</sup> 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

Debtentures	-	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,	R\$ in thousands, except %				
	2017		2016		
	Average balance	Average rate	Average balance	Average rate	Average balance
<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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<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>
<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>	

<b>Segment</b>	<b>R\$ in thousands, except %</b>					
	<b>Banking</b>			<b>Insurance, Pension Plans and Capitalization Bonds</b>		
	<b>2017</b>	<b>2016</b>	<b>% Change</b>	<b>2017</b>	<b>2016</b>	<b>% Change</b>
<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,		R\$ in thousands, except % 2017	2016	% Change
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%

<b>Total</b>	<b>(133,244,457)</b>	<b>(124,578,746)</b>	<b>7.0%</b>
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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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	<b>R\$ in thousands, except %</b>		
	<b>2016</b>	<b>2015</b>	<b>% Change</b>
<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:

	<b>R\$ in thousands</b>		
	<b>Consolidated</b>	<b>Banking</b>	<b>Insurance, Pension Plans and Capitalization Bonds</b>
	<b>2016/2015 Increase/(decrease)</b>		
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
	2016/2015 Increase/(reduction)		
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 increa