

BANK BRADESCO
Form 6-K
February 27, 2017

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE
SECURITIES EXCHANGE ACT OF 1934**

**For the month of February, 2017
Commission File Number 1-15250**

BANCO BRADESCO S.A.
(Exact name of registrant as specified in its charter)

BANK BRADESCO
(Translation of Registrant's name into English)

**Cidade de Deus, s/n, Vila Yara
06029-900 - Osasco - SP
Federative Republic of Brazil**
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20-F Form 40-F

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby
furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of
1934.

Yes No

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Statement of Financial Position of the Prudential Conglomerate on December 31 *-In thousands of Reais*

| Assets | 2016 | 2015 |
|---|--------------------|--------------------|
| Current assets | 551,240,263 | 513,656,652 |
| Cash and due from banks (Note 5) | 14,580,321 | 17,313,901 |
| Interbank investments (Notes 3d and 6) | 176,787,528 | 139,829,814 |
| Securities purchased under agreements to resell | 170,080,622 | 130,323,808 |
| Interbank investments | 6,706,906 | 9,540,841 |
| Allowance for losses | - | (34,835) |
| Securities and derivative financial instruments (Notes 3e, 3f and 7) | 72,204,319 | 86,253,666 |
| Own portfolio | 32,352,198 | 47,453,009 |
| Subject to unrestricted repurchase agreements | 14,899,855 | 10,760,409 |
| Derivative financial instruments (Notes 3f and 7d II) | 16,828,484 | 18,905,320 |
| Given in guarantee | 174,207 | 22,065 |
| Given in guarantee to the Brazilian Central Bank | 6,065,771 | 4,647,161 |
| Subject to unrestricted repurchase agreements | 1,883,804 | 4,465,702 |
| Interbank accounts | 58,080,711 | 54,873,041 |
| Unsettled payments and receipts | 22,015 | 73,764 |
| Reserve requirement (Note 8): | | |
| - Reserve requirement - Brazilian Central Bank | 58,036,531 | 54,791,894 |
| - SFH | 14,388 | 5,357 |
| Correspondent banks | 7,777 | 2,026 |
| Interdepartmental accounts | 157,089 | 248,484 |
| Internal transfer of funds | 157,089 | 248,484 |
| Loans (Notes 3g and 9) | 145,616,491 | 141,203,667 |
| Loans: | | |
| - Public sector | 424,233 | 2,426,506 |
| - Private sector | 167,534,650 | 157,407,596 |
| Loans transferred under an assignment with recourse | 806,649 | 120,130 |
| Allowance for loan losses (Notes 3g, 9f, 9g and 9h) | (23,149,041) | (18,750,565) |
| Leasing (Notes 3g and 9) | (67,777) | (17,102) |
| Lease receivable operations: | | |
| - Private sector | 1,295,198 | 1,431,756 |
| Unearned income from leasing | (1,245,088) | (1,333,300) |
| Allowance for leasing losses (Notes 3g, 9f, 9g and 9h) | (117,887) | (115,558) |
| Other receivables | 81,085,235 | 71,043,526 |
| Receivables on sureties and guarantees honored (Note 9a-3) | 1,377,161 | 104,099 |
| Foreign exchange portfolio (Note 10a) | 17,620,910 | 14,369,499 |
| Receivables | 7,610,112 | 12,456,712 |
| Securities trading | 1,468,620 | 1,798,391 |
| Specific receivables | 13,339 | 7,251 |
| Sundry (Note 10b) | 56,134,599 | 43,557,389 |

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| | | |
|---|--------------------|--------------------|
| Allowance for other loan losses (Notes 3g, 9f, 9g and 9h) | (3,139,506) | (1,249,815) |
| Other assets (Note 11) | 2,796,346 | 2,907,655 |
| Other assets | 2,739,048 | 2,053,188 |
| Provision for losses | (1,246,403) | (860,237) |
| Prepaid expenses (Notes 3i and 11b) | 1,303,701 | 1,714,704 |
| Long-term receivables | 369,508,163 | 321,529,209 |
| Interbank investments (Notes 3d and 6) | 780,394 | 515,131 |
| Interbank investments | 780,394 | 515,131 |
| Securities and derivative financial instruments (Notes 3e, 3f and 7) | 146,937,312 | 103,070,305 |
| Own portfolio | 86,796,721 | 68,608,356 |
| Subject to unrestricted repurchase agreements | 48,123,720 | 30,830,304 |
| Derivative financial instruments (Notes 3f and 7d II) | 112,912 | 137,324 |
| Privatization rights | 48,706 | 52,473 |
| Given in guarantee | 6,125,523 | 2,863,821 |
| Subject to unrestricted repurchase agreements | 5,729,730 | 578,027 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Statement of Financial Position of the Prudential Conglomerate on December 31 *-In thousands of Reais*

| Assets | 2016 | 2015 |
|--|--------------------|--------------------|
| Interbank accounts | 778,254 | 680,860 |
| Reserve requirement (Note 8): | | |
| - SFH | 778,254 | 680,860 |
| Loans (Notes 3g and 9) | 164,779,473 | 162,168,357 |
| Loans: | | |
| - Public sector | 3,000,000 | 3,000,000 |
| - Private sector | 164,983,790 | 160,436,775 |
| Loans transferred under an assignment with recourse | 7,955,849 | 7,390,609 |
| Allowance for loan losses (Notes 3g, 9f, 9g and 9h) | (11,160,166) | (8,659,027) |
| Leasing (Notes 3g and 9) | (68,066) | (69,905) |
| Leasing receivables: | | |
| - Private sector | 1,367,036 | 1,454,113 |
| Unearned income from leasing | (1,366,395) | (1,453,228) |
| Allowance for leasing losses (Notes 3g, 9f, 9g and 9h) | (68,707) | (70,790) |
| Other receivables | 55,088,970 | 54,570,893 |
| Securities trading | 478,290 | 1,067,781 |
| Sundry (Note 10b) | 54,627,457 | 53,549,037 |
| Allowance for other loan losses (Notes 3g, 9f, 9g and 9h) | (16,777) | (45,925) |
| Other assets (Note 11) | 1,211,826 | 593,568 |
| Prepaid expenses (Notes 3i and 11b) | 1,211,826 | 593,568 |
| Permanent assets | 67,182,493 | 47,628,304 |
| Investments (Notes 3j and 12) | 39,564,074 | 28,760,260 |
| Equity in the earnings (losses) of Investments in Affiliates and Subsidiaries: | | |
| - In Brazil | 39,217,544 | 28,352,239 |
| - Overseas | 284,524 | 355,633 |
| Other investments | 193,278 | 177,357 |
| Allowance for losses | (131,272) | (124,969) |
| Premises and equipment (Notes 3k and 13) | 4,857,637 | 3,437,687 |
| Premises | 697,973 | 44,535 |
| Other premises and equipment | 9,235,434 | 8,112,598 |
| Accumulated depreciation | (5,075,770) | (4,719,446) |
| Leased assets (Note 13) | 4,789,731 | 5,987,475 |
| Leased assets | 8,146,218 | 9,224,420 |
| Accumulated depreciation | (3,356,487) | (3,236,945) |
| Deferred (Notes 3l and 14) | - | 15,634 |
| Expenses with Organization and Expansion | - | 1,502,125 |
| Accumulated amortization | - | (1,486,491) |
| Intangible assets (Notes 3m and 15) | 17,971,051 | 9,427,248 |
| Intangible Assets | 29,101,351 | 16,707,174 |

| | | |
|--------------------------|--------------------|--------------------|
| Accumulated amortization | (11,130,300) | (7,279,926) |
| Total | 987,930,919 | 882,814,165 |

The accompanying Notes are an integral part of these Financial Statements.

December 2016

Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Statement of Financial Position of the Prudential Conglomerate on December 31 *In thousands of Reais*

| | 2016 | 2015 |
|--|--------------------|--------------------|
| Liabilities | | |
| Current liabilities | 621,937,275 | 550,668,941 |
| Deposits (Notes 3o and 16a) | 163,859,769 | 153,860,516 |
| Demand deposits | 33,499,934 | 23,914,239 |
| Savings deposits | 97,088,828 | 91,878,816 |
| Interbank deposits | 527,754 | 423,549 |
| Time deposits (Note 16a) | 32,743,253 | 37,643,912 |
| Securities sold under agreements to repurchase (Notes 3o and 16b) | 229,558,728 | 223,775,169 |
| Own portfolio | 118,825,967 | 97,265,806 |
| Third-party portfolio | 101,791,581 | 121,626,991 |
| Unrestricted portfolio | 8,941,180 | 4,882,372 |
| Funds from issuance of securities (Note 16c) | 92,432,728 | 53,138,708 |
| Mortgage and real estate notes, letters of credit and others | 88,688,899 | 48,794,240 |
| Securities issued overseas | 3,331,680 | 3,981,183 |
| Structured Operations Certificates | 412,149 | 363,285 |
| Interbank accounts | 1,267,282 | 1,296,190 |
| Unsettled payments and receipts | 9,242 | 151,460 |
| Correspondent banks | 1,258,040 | 1,144,730 |
| Interdepartmental accounts | 5,830,963 | 5,161,676 |
| Third-party funds in transit | 5,830,963 | 5,161,659 |
| Internal transfer of funds | - | 17 |
| Borrowing (Note 17a) | 19,815,545 | 25,079,363 |
| Borrowing overseas | 19,815,545 | 25,079,363 |
| On-lending in Brazil - official institutions (Note 17b) | 11,211,567 | 12,044,476 |
| National treasury | 166,565 | 133,028 |
| BNDES | 3,800,239 | 3,801,626 |
| FINAME | 7,243,182 | 8,099,475 |
| Other institutions | 1,581 | 10,347 |
| On-lending overseas (Note 17b) | - | 2,502 |
| On-lending overseas | - | 2,502 |
| Derivative financial instruments (Notes 3f and 7d II) | 13,213,495 | 19,246,588 |
| Derivative financial instruments | 13,213,495 | 19,246,588 |
| Other liabilities | 84,747,198 | 57,063,753 |
| Payment of taxes and other contributions | 610,610 | 497,269 |
| Foreign exchange portfolio (Note 10a) | 8,749,458 | 5,617,070 |
| Social and statutory | 4,808,173 | 3,941,067 |
| Tax and social security (Note 20a) | 2,855,925 | 3,187,885 |
| Securities trading | 2,520,588 | 2,714,800 |
| Financial and development funds | 3,672 | 5,417 |
| Subordinated debts (Note 19) | 11,417,346 | 495,275 |

| | | |
|--|--------------------|--------------------|
| Sundry (Note 20b) | 53,781,426 | 40,604,970 |
| Long-term liabilities | 265,082,482 | 242,722,984 |
| Deposits (Notes 3o and 16a) | 71,588,609 | 43,175,356 |
| Interbank deposits | 61,157 | 46,858 |
| Time deposits (Note 16a) | 71,527,452 | 43,128,498 |
| Securities sold under agreements to repurchase (Notes 3o and 16b) | 28,179,776 | 26,319,943 |
| Own portfolio | 28,179,776 | 26,319,943 |
| Funds from issuance of securities (Note 16c) | 69,780,858 | 64,197,002 |
| Mortgage and real estate notes, letters of credit and others | 67,235,735 | 58,535,515 |
| Securities issued overseas | 2,512,104 | 5,512,429 |
| Structured Operations Certificates | 33,019 | 149,058 |
| Borrowing (Note 17a) | 2,354,029 | 7,049,946 |
| Borrowing overseas | 2,354,029 | 7,049,946 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Statement of Financial Position of the Prudential Conglomerate on December 31 *-In thousands of Reais*

| | 2016 | 2015 |
|--|--------------------|--------------------|
| Liabilities | | |
| On-lending in Brazil - official institutions (Note 17b) | 24,819,020 | 26,158,687 |
| BNDES | 10,914,430 | 8,607,769 |
| FINAME | 13,904,590 | 17,550,918 |
| Derivative financial instruments (Notes 3f and 7d II) | 192,892 | 98,888 |
| Derivative financial instruments | 192,892 | 98,888 |
| Other liabilities | 68,167,298 | 75,723,162 |
| Tax and social security (Note 20a) | 8,935,000 | 8,444,075 |
| Subordinated debts (Note 19) | 26,251,948 | 38,370,136 |
| Eligible Debt Capital Instruments (Note 19) | 14,959,571 | 11,444,939 |
| Sundry (Note 20b) | 18,020,779 | 17,464,012 |
| Deferred income | 452,085 | 501,399 |
| Deferred income | 452,085 | 501,399 |
| Non-controlling interests in subsidiaries (Note 21) | 16,664 | 14,197 |
| Shareholders' equity (Note 22) | 100,442,413 | 88,906,644 |
| Capital: | | |
| - Domiciled in Brazil | 50,461,644 | 45,521,283 |
| - Domiciled overseas | 638,356 | 578,717 |
| Capital increase | - | (3,000,000) |
| Capital reserves | 11,441 | 11,441 |
| Profit reserves | 50,448,602 | 50,340,806 |
| Asset valuation adjustments | (677,116) | (4,114,555) |
| Treasury shares (Note 22d) | (440,514) | (431,048) |
| Total | 987,930,919 | 882,814,165 |

The accompanying Notes are an integral part of these Financial Statements.

December 2016

Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Statement of Income of the Prudential Conglomerate on December 31 -In thousands of Reais

| | 2016 | | 2015 |
|---|--------------------------------|---------------------|--------------------|
| | 2nd Semester | Exercise | Exercise |
| Revenue from financial intermediation | 72,754,053 | 140,475,388 | 113,312,114 |
| Loans (Note 9j) | 40,984,862 | 75,627,989 | 67,254,431 |
| Leasing (Note 9j) | 1,406,571 | 2,519,763 | 2,939,075 |
| Operations with securities (Note 7h) | 23,631,123 | 44,090,454 | 40,612,388 |
| Derivative financial instruments (Note 7h) | 2,855,499 | 15,748,666 | (7,035,751) |
| Foreign exchange operations (Note 10a) | 836,690 | (2,992,019) | 5,332,710 |
| Reserve requirement (Note 8b) | 3,142,894 | 5,717,559 | 4,603,995 |
| Sale or transfer of financial assets | (103,586) | (237,024) | (394,734) |
| Financial intermediation expenses | 56,406,620 | 87,776,202 | 111,121,537 |
| Retail and professional market funding (Note 16d) | 38,507,489 | 69,639,328 | 58,980,188 |
| Borrowing and on-lending (Note 17c) | 2,973,890 | (8,378,771) | 28,990,869 |
| Leasing (Note 9j) | 1,187,687 | 2,140,135 | 2,433,893 |
| Allowance for loan losses (Notes 3g, 9g and 9h) | 13,737,554 | 24,375,510 | 20,716,587 |
| Gross income from financial intermediation | 16,347,433 | 52,699,186 | 2,190,577 |
| Other operating income (expenses) | (10,633,088) | (28,882,960) | 3,543,293 |
| Fee and commission income (Note 23) | 13,593,741 | 25,396,241 | 22,446,224 |
| - Other fee and commission income | 9,810,549 | 18,438,636 | 16,723,426 |
| Income from banking fees | 3,783,192 | 6,957,605 | 5,722,798 |
| Payroll and related benefits (Note 24) | (9,325,874) | (16,048,285) | (13,177,550) |
| Other administrative expenses (Note 25) | (11,889,715) | (20,609,480) | (17,518,698) |
| Tax expenses (Note 26) | (2,609,015) | (5,595,155) | (4,073,601) |
| Equity in the Earnings (Losses) of Subsidiary and Affiliates (Note 12a) | 4,343,131 | (2,464,567) | 23,662,901 |
| Other operating income (Note 27) | 3,809,952 | 6,915,319 | 5,855,879 |
| Other operating expenses (Note 28) | (8,555,308) | (16,477,033) | (13,651,862) |
| Operating income | 5,714,345 | 23,816,226 | 5,733,870 |
| Non-operating income (loss) (Note 29) | (778,788) | (830,715) | (448,798) |
| Income before income tax and social contribution and non-controlling interests | 4,935,557 | 22,985,511 | 5,285,072 |
| Income tax and social contribution (Notes 33a and 33b) | 1,893,552 | (7,899,035) | 11,905,837 |
| Non-controlling interests in subsidiaries | (840) | (2,898) | (1,274) |
| Net profit | 6,828,269 | 15,083,578 | 17,189,635 |

The accompanying Notes are an integral part of these Financial Statements.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Statement of Changes in Shareholders' Equity -In thousands of Reais

| | Capital | | Capital reserves | Profit reserves | | Asset valuation adjustment | | Treasu |
|--|-------------------|--------------------|------------------|------------------|-------------------|----------------------------|--------------------|----------------|
| | Paid in Capital | Unpaid Capital | Share premium | Legal | Statutory | Bradesco | Subsidiaries | share |
| Balance on June 30, 2016 | 51,100,000 | - | 11,441 | 6,465,714 | 41,224,046 | (775,080) | (1,227,721) | (440,51 |
| Asset valuation adjustments | - | - | - | - | - | 371,920 | 953,765 | - |
| Net income | - | - | - | - | - | - | - | - |
| Allocations:- Reserves | - | - | - | 341,414 | 2,417,428 | - | - | - |
| - Interest on Shareholders' Equity Paid and/or provisioned | - | - | - | - | - | - | - | - |
| Balance on December 31, 2016 | 51,100,000 | - | 11,441 | 6,807,128 | 43,641,474 | (403,160) | (273,956) | (440,51 |
| Balance on December 31, 2014 | 38,100,000 | - | 11,441 | 5,193,467 | 38,992,668 | (405,477) | (85,834) | (298,01 |
| Capital Increase by Subscription of Shares | 3,000,000 | (3,000,000) | - | - | - | - | - | - |
| Capital increase with reserves | 5,000,000 | - | - | - | (5,000,000) | - | - | - |
| Acquisition of treasury shares | - | - | - | - | - | - | - | -(133,03 |
| Asset valuation adjustments | - | - | - | - | - | (826,126) | (2,797,118) | - |
| Net income | - | - | - | - | - | - | - | - |
| Allocations:- Reserves | - | - | - | 859,482 | 10,295,189 | - | - | - |
| - Interest on Shareholders' Equity Paid | - | - | - | - | - | - | - | - |
| - Interim Dividends Paid | - | - | - | - | - | - | - | - |
| Balance on December 31, 2015 | 46,100,000 | (3,000,000) | 11,441 | 6,052,949 | 44,287,857 | (1,231,603) | (2,882,952) | (431,04 |
| Cancellation of Capital Increase by Subscription of Shares | (3,000,000) | 3,000,000 | - | - | - | - | - | - |
| | 8,000,000 | - | - | - | (8,000,000) | - | - | - |

| | | | | | | | | |
|--|-------------------|----------|-------------------|------------------|---------------|------------------|------------------|-----------------|
| Capital increase with reserves | | | | | | | | |
| Acquisition of treasury shares | - | - | - | - | - | - | - | (9,46) |
| Asset valuation adjustments | - | - | - | - | - | 828,443 | 2,608,996 | |
| Net income | - | - | - | - | - | - | - | - |
| Allocations:- Reserves | - | - | - | 754,179 | 7,353,617 | - | - | - |
| - Interest on Shareholders' Equity Paid and/or provisioned | - | - | - | - | - | - | - | - |
| Balance on December 31, 2016 | 51,100,000 | - | 11,441,680 | 7,128,436 | 41,474 | (403,160) | (273,956) | (440,51) |

The accompanying Notes are an integral part of these Financial Statements.

December 2016

Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Cash Flow Statement of the Prudential Conglomerate on December 31 – In thousands of Reais

| | 2016 | 2015 | |
|--|-------------------|-------------------|---------------------|
| | 2 Semester | Exercise | Exercise |
| Cash flow from operating activities: | | | |
| Net profit before income tax and social contribution | 4,935,557 | 22,985,511 | 5,285,072 |
| Adjustments to net profit before income tax and social contribution | 13,638,941 | 33,354,609 | 15,334,496 |
| Effect of Changes in Exchange Rates in Cash and Cash equivalents | (663,965) | 5,381,080 | (3,163,366) |
| Allowance for loan losses | 13,737,554 | 24,375,510 | 20,716,587 |
| Depreciation and amortization | 2,259,795 | 3,627,856 | 3,059,101 |
| Write-offs through Impairment | 1,518,780 | 1,627,074 | 361,916 |
| Expenses with civil, labor and tax provisions | 840,857 | 2,782,639 | 3,142,673 |
| Equity in the (earnings/losses) of Investments in Affiliates and Subsidiaries | (4,343,130) | 2,464,567 | (23,662,901) |
| (Gain)/loss on sale of investments | 23,197 | (139,468) | 18,979 |
| (Gain)/loss on sale of fixed assets | (224,216) | (204,837) | 48,803 |
| (Gain)/loss on sale of foreclosed assets | 403,923 | 556,216 | 284,334 |
| Foreign exchange variation of assets and liabilities overseas/Other | 86,147 | (7,116,028) | 14,528,370 |
| Adjusted net profit before taxes | 18,574,498 | 56,340,121 | 20,619,568 |
| (Increase)/decrease in interbank investments | 3,861,560 | 6,046,089 | 1,856,807 |
| (Increase)/decrease in trading securities and derivative financial instruments | (31,305,495) | (40,092,604) | 5,279,139 |
| (Increase)/decrease in interbank and interdepartmental accounts | 17,283,458 | 14,817,210 | 569,026 |
| (Increase)/decrease in loan and leasing | 3,562,300 | 17,842,542 | (32,537,887) |
| (Increase)/decrease in other receivables and other assets | 54,832,010 | 5,347,785 | (17,956,210) |
| (Increase)/decrease in reserve requirement - Brazilian Central Bank | (9,210,075) | (2,582,533) | (3,866,988) |
| (Increase)/decrease in deposits | (2,823,934) | (19,735,050) | (15,471,405) |
| (Increase)/decrease in securities sold under agreements to repurchase | 11,816,073 | 6,113,637 | (50,849,984) |
| (Increase)/decrease in funds from issuance of securities | 855,265 | 4,690,772 | 27,634,193 |
| (Increase)/decrease in borrowings and on-lending | (4,787,855) | (17,593,445) | 11,354,666 |
| (Increase)/decrease in other liabilities | (53,738,105) | 1,071,351 | 6,886,357 |
| Increase/(decrease) in deferred income | (28,738) | (49,314) | 212,066 |
| Income tax and social contribution paid | (2,650,493) | (5,823,532) | (3,921,842) |
| Net cash provided by/(used in) by operating activities | 6,240,469 | 26,393,028 | (50,192,494) |
| Cash flow from investing activities: | | | |

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| | | | |
|--|--------------------|--------------------|---------------------|
| (Increase)/decrease in held-to-maturity securities | (37,789) | (165,779) | (62,368) |
| Sale of/maturity of and interests on available-for-sale securities | 70,488,334 | 119,557,680 | 39,995,437 |
| Proceeds from sale of foreclosed assets | 217,368 | 516,835 | 604,404 |
| Sale of investments | 713,225 | 875,890 | 2,808,706 |
| Sale of premises and equipment of use | 2,233,635 | 3,459,737 | 2,486,890 |
| Purchases of available-for-sale securities | (7,188,659) | (7,188,659) | - |
| Foreclosed assets received | (47,390,955) | (91,872,765) | (64,666,556) |
| Investment acquisitions | (2,550,232) | (2,821,353) | (165,228) |
| Sale of premises and equipment of use | (3,528,545) | (4,677,835) | (3,781,862) |
| Intangible asset acquisitions | (355,965) | (1,094,026) | (5,471,840) |
| Dividends and interest on shareholders' equity received | 4,286,849 | 5,133,847 | 8,324,614 |
| Net cash provided by/(used in) investing activities | 16,887,266 | 21,723,572 | (19,927,803) |
| Cash flow from financing activities: | | | |
| Increase/(decrease) in subordinated debts | (3,807,881) | (3,145,964) | 14,465,996 |
| Dividends and interest on shareholders' equity paid | (1,473,597) | (5,561,036) | (4,775,728) |
| Non-controlling interest | 1,558 | (1,882) | 6,010 |
| Acquisition of own shares | - | (9,466) | (133,034) |
| Net cash provided by/(used in) financing activities | (5,279,920) | (8,718,348) | 9,563,244 |
| Net increase/(decrease) in cash and cash equivalents | 17,847,815 | 39,398,252 | (60,557,053) |
| Cash and cash equivalents - at the beginning of the period | 162,780,848 | 147,275,456 | 204,669,143 |
| Effect of Changes in Exchange Rates in Cash and Cash equivalents | 663,965 | (5,381,080) | 3,163,366 |
| Cash and cash equivalents - at the end of the period | 181,292,627 | 181,292,627 | 147,275,456 |
| Net increase/(decrease) in cash and cash equivalents | 17,847,815 | 39,398,252 | (60,557,053) |

The accompanying Notes are an integral part of these Financial Statements.

Bradesco

Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

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Notes to the Financial Statements of the Prudential Conglomerate

1) OPERATIONS

Banco Bradesco S.A. (Bradesco) is a private-sector publicly traded company and universal bank that, through its commercial, foreign exchange, consumer financing and housing loan portfolios, carries out all the types of banking activities for which it has authorization. The Bank is involved in a number of other activities, either directly or indirectly, through its subsidiaries, specifically leasing, investment banking, brokerage, consortium management, credit cards, real estate projects, insurance, pension plans and capitalization bonds. All these activities are undertaken by the various companies in the Bradesco Organization (Organization), working together in an integrated manner in the market.

2) PRESENTATION OF THE FINANCIAL STATEMENTS

The Financial Statements of the Prudential Conglomerate were prepared to comply with the requirements of Resolution No. 4,280/13, of the National Monetary Council (CMN) and additional rules of the Brazilian Central Bank (Bacen). Thus, specific requirements in the consolidation and/or combination of the entities listed in Resolution No. 4,280/13 determined by the CMN and Bacen were observed, which are not necessarily the same established by the corporate law and by the CMN or Bacen for other types of consolidation. In this sense, they cover the financial statements of Bradesco, and foreign branches, subsidiaries and investment funds, as requested in Resolution No. 4,280/13.

For the preparation of these consolidated financial statements, the intercompany transactions, balances of equity accounts, revenue, expenses and unrealized profits were eliminated and net income and shareholders' equity attributable to the non-controlling interests were accounted for in a separate line. For jointly controlled investments with other shareholders, assets, liabilities and income and loss were included in the consolidated financial statements of the Prudential Conglomerate according to the interest held in the shareholders' equity of each investee. Goodwill on the acquisition of investments in subsidiary/associate companies or jointly controlled companies is presented in the investments and intangible assets lines (Note 15a).

The financial statements include estimates and assumptions, such as: the calculation of estimated loan losses; fair market value estimates of certain financial instruments; civil, tax and labor provisions;

impairment losses of securities classified as available-for-sale and held-to-maturity securities and non-financial assets; and the determination of the useful life of specific assets. Actual results may differ from those based on estimates and assumptions.

Bradesco's financial statements of the Prudential Conglomerate were approved by the Board of Executive Officers on February 24, 2017.

Below are the significant directly and indirectly owned companies and investment funds included in the financial statements of the Prudential Conglomerate:

| | Activity | On December 31 | |
|---|-----------------|-------------------------|--------------|
| | | Equity interest 2016 | 2015 |
| Financial Institutions | | | |
| Ágora Corretora de Títulos e Valores Mobiliários S.A. | Brokerage | 100.00% | 100.00% |
| Banco Alvorada S.A. | Banking | 99.99% | 99.99% |
| Banco Boavista Interatlântico S.A. | Banking | 100.00% | 100.00% |
| Banco Bradescard S.A. | Cards | 100.00% | 100.00% |
| Banco Bradesco Argentina S.A. | Banking | 99.99% | 99.99% |
| Banco Bradesco BBI S.A. (1) | Investment bank | 99.81% | 99.80% |
| Banco Bradesco BERJ S.A. | Banking | 100.00% | 100.00% |
| Banco Bradesco Cartões S.A. | Cards | 100.00% | 100.00% |
| Banco Bradesco Europa S.A. | Banking | 100.00% | 100.00% |
| Banco Bradesco Financiamentos S.A. | Banking | 100.00% | 100.00% |
| Banco Bradesco New York Branch | Banking | 100.00% | 100.00% |
| Banco Bradesco S.A. Grand Cayman Branch (2) | Banking | 100.00% | 100.00% |
| | | <u>Bradesco</u> | <u>_____</u> |

Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

| | Activity | On December 31 | |
|--|-----------------------|-------------------------|---------|
| | | Equity interest 2016 | 2015 |
| Banco Losango S.A. (5) | Banking | 100.00% | - |
| Bradesco Leasing S.A. Arrendamento Mercantil | Leasing | 100.00% | 100.00% |
| Bradesco S.A. Corretora de Títulos e Valores Mobiliários | Brokerage | 100.00% | 100.00% |
| Bradesco Securities Hong Kong | Brokerage | 100.00% | 100.00% |
| Bradesco Securities, Inc. | Brokerage | 100.00% | 100.00% |
| Bradesco Securities, UK. | Brokerage | 100.00% | 100.00% |
| Bradescard México, Sociedad de Responsabilidad Limitada | Cards | 100.00% | 100.00% |
| Banco CBSS S.A. (3) | Banking | 50.01% | 100.00% |
| BRAM - Bradesco Asset Management S.A. DTVM | Fees and commissions | 100.00% | 100.00% |
| BEC - Distribuidora de Títulos e Valores Mobiliários Ltda. | Fees and commissions | 100.00% | 100.00% |
| BEM - Distribuidora de Títulos e Valores Mobiliários Ltda. | Fees and commissions | 100.00% | 100.00% |
| BMC Asset Management - DTVM Ltda. | Fees and commissions | 100.00% | 100.00% |
| Crediare S.A. - Crédito, Financiamento e Investimento (3) | Banking | 50.00% | 50.00% |
| Everest Leasing S.A. Arrendamento Mercantil | Leasing | 100.00% | 100.00% |
| Kirton Bank Brasil S.A. (5) (6) | Banking | 100.00% | - |
| Kirton Corretora de Títulos e Valores Mobiliários S.A. (5) | Brokerage | 99.97% | - |
| Tibre Distribuidora de Títulos e Valores Mobiliários Ltda. | Fees and commissions | 100.00% | 100.00% |
| Consortium Management | | | |
| Bradesco Administradora de Consórcios Ltda. | Consortium management | 100.00% | 100.00% |
| Kirton Administradora de Consórcios Ltda. (5) | Consortium management | 100.00% | - |
| Payment Institutions | | | |
| Alvorada Administradora de Cartões Ltda. | Fees and commissions | 100.00% | 100.00% |
| Braspag – Tecnologia em Pagamentos (3) | Fees and commissions | 30.06% | 30.06% |
| Cateno Gestão de Contas de Pagamentos S.A.(3) | Fees and commissions | 21.04% | 21.04% |
| Cia. Brasileira de Soluções e Serviços - Alelo (3) | Fees and commissions | 50.01% | 50.01% |
| Cidade Capital Markets Limited | Banking | 100.00% | 100.00% |
| Cielo Inc. (3) | Fees and commissions | 30.06% | 30.06% |
| Cielo S.A. (3) | Fees and commissions | 30.06% | 30.06% |
| Elo Holding Financeira S.A. (3) | Fees and commissions | 50.01% | 50.01% |
| Farly Participações Ltda. (3) | Fees and commissions | 50.01% | 50.01% |
| IBI Promotora de Vendas Ltda. (3) | Fees and commissions | 50.01% | 50.01% |
| Leader S.A. Administradora de Cartões de Crédito (7) | Fees and commissions | - | 50.00% |
| Merchant E-Solutions (3) | Fees and commissions | 30.06% | 30.06% |
| MPO Processadora de Pagamentos Móveis S.A. (3) | Fees and commissions | 50.00% | 50.00% |
| Paggo Soluções e Meios de Pagamentos S.A. (3) | Fees and commissions | 15.03% | 15.03% |
| Stelo S.A. (3) | Fees and commissions | 44.02% | 44.02% |

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| | | | |
|---|----------------------|---------|---------|
| Tempo Serviços Ltda. | Fees and commissions | 100.00% | 100.00% |
| Securitization Companies | | | |
| Alvorada Cia. Securitizadora de Créditos Financeiros | Credit acquisition | 100.00% | 100.00% |
| Alvorada Serviços e Negócios Ltda. | Credit acquisition | 100.00% | 100.00% |
| BCN – Consultoria, Adm. Bens, Serv. e Publicidade Ltda. | Credit acquisition | 100.00% | 100.00% |
| Cia. Securitizadora de Créditos Financeiros Rubi | Credit acquisition | 100.00% | 100.00% |
| Promosec Cia. Securitizadora de Créditos | Credit acquisition | 100.00% | 100.00% |
| Investment Fund (4) | | | |
| Bradesco FI Mult. Cred. Priv. Inv. Exterior Andromeda | Investment Fund | 100.00% | 100.00% |
| Bradesco FI Mult. Cred. Priv. Inv. Exterior Pioneiro | Investment Fund | 100.00% | 100.00% |
| Bradesco FI Referenciado DI Performance | Investment Fund | 100.00% | 100.00% |
| Bradesco FI Referenciado DI União (8) | Investment Fund | 99.94% | 99.78% |
| Bradesco FIC FI Mult Inv. Exterior Tellus (9) | Investment Fund | 100.00% | - |
| Bradesco FIC FI Referenciado DI Carnaúba | Investment Fund | 50.01% | 50.01% |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

| | Activity | On December 31 | |
|---|-----------------|-------------------------|---------|
| | | Equity interest 2016 | 2015 |
| Bradesco FIC FI Referenciado DI Galáxia | Investment Fund | 100.00% | 100.00% |
| FII - FI RF Cred. Privado | Investment Fund | 100.00% | 100.00% |
| FIP Mult. Plus | Investment Fund | 100.00% | 100.00% |
| FII - FI RF DI GJ (9) | Investment Fund | 100.00% | - |

(1) Increased participation through the subscription of shares in June 2016;

(2) The special purpose entity International Diversified Payment Rights Company is being consolidated. The company is part of a structure set up for the securitization of the future flow of payment orders received overseas;

(3) Proportionally consolidated companies accordance with CMN Resolution No. 4,280/13;

(4) The investment funds in which Bradesco assumes or substantially retains the risks and benefits were consolidated;

(5) Companies originating from the acquisition, in July 2016, of HSBC Brasil (Note 34f);

(6) New name of HSBC Brasil (Kirton Bank);

(7) Incorporated by Banco Bradescard S.A. in December 2016;

(8) Increase in participation in 2016; and

(9) Funds originated from the acquisition, in July 2016, of HSBC Brasil.

3) SIGNIFICANT ACCOUNTING PRACTICES**a) Functional and presentation currencies**

Financial statements of Prudential Conglomerate are presented in Brazilian reais, which is also Bradesco's functional currency. Foreign branches and subsidiaries are mainly a continuation of activities in Brazil, and, therefore, assets, liabilities and profit or loss are translated into Brazilian reais using the appropriate currency exchange rate, to comply with accounting practices adopted in Brazil. Foreign currency translation gains and losses arising are recognized in the period's statement of income in the lines "Derivative Financial Instruments" and "Borrowing and On-lending".

b) Income and expense recognition

Income and expenses are recognized on an accrual basis in order to determine the net income for the period to which they relate, regardless of when the funds are received or paid.

Fixed rate contracts are recognized at their redemption value with the income or expense relating to future periods being recognized as a deduction from the corresponding asset or liability. Finance income and costs are recognized daily on a pro-rata basis and calculated using the compounding method, except when they relate to discounted notes or to foreign transactions, which are calculated using the straight-line method.

Floating rate and foreign-currency-indexed contracts are adjusted for interest and foreign exchange rates applicable at the reporting date.

c) Cash and cash equivalents

Cash and cash equivalents include: funds available in currency, investments in gold, securities sold under agreements to repurchase and interest-earning deposits in other banks, maturing in 90 days or less, from the time of the acquisition, which are exposed to insignificant risk of change in fair value. These funds are used by Bradesco to manage its short-term commitments.

Cash and cash equivalents detailed balances are presented in Note 5.

d) Interbank investments

Unrestricted repurchase and reverse repurchase agreements are stated at their fair value. All other interbank investments are stated at cost, plus income earned up to the end of the reporting period, net of any devaluation allowance, if applicable.

The breakdown, terms and proceeds relating to interbank investments are presented in Note 6.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

e) Securities – Classification

- Trading securities – securities acquired for the purpose of being actively and frequently traded. They are recognized at cost, plus income earned and adjusted to fair value with changes recognized in the Statement of Income for the period;
- Available-for-sale securities – securities that are not specifically intended for trading purposes or to be held to maturity. They are recognized at cost, plus income earned, which is recognized in profit or loss in the period and adjusted to fair value with changes recognized in shareholders' equity, net of tax, which will be transferred to the Statement of Income only when effectively realized; and
- Held-to-maturity securities – securities for which there is positive intent and financial capacity to hold to maturity. They are recognized at cost, plus income earned recognized in the Statement of Income for the period.

Securities classified as trading and available-for-sale, as well as derivative financial instruments, are recognized in the consolidated statement of financial position at their fair value. Fair value is generally based on quoted market prices or quotations for assets or liabilities with similar characteristics. If market prices are not available, fair values are based on traders' quotations, pricing models, discounted cash flows or similar techniques to determine the fair value and may require judgment or significant estimates by Management.

Classification, breakdown and segmentation of securities are presented in Note 7 (a to c).

f) Derivative financial instruments (assets and liabilities)

Derivative instruments are classified based on the objective for which the underlying instrument was acquired at the date of purchase, taking into consideration its use for possible hedging purposes.

Operations involving derivative financial instruments are designed to meet the Bank's own needs in order to manage overall exposure, as well as to meet customer requests to manage their positions. The gains or losses are recognized in the statement of income or shareholders' equity.

Derivative financial instruments used to mitigate risk deriving from exposure to variations in the fair value of financial assets and liabilities are designated as hedges when they meet the criteria for hedge accounting and are classified according to their nature:

- Market risk hedge: the gains and losses, realized or not, of the financial instruments classified in this category as well as the financial assets and liabilities, that are the object of the hedge, are recognized in the Statement of Income; and
- Cash flow hedge: the effective portion of valuation or devaluation of the financial instruments classified in this category is recognized, net of taxes, in a specific account in shareholders' equity. The ineffective portion of the hedge is recognized directly in the Statement of Income.

A breakdown of amounts included as derivative financial instruments, in the statement of financial position and off-balance-sheet accounts, is disclosed in Note 7 (d to g).

g) Loans and leasing, advances on foreign exchange contracts, other receivables with credit characteristics and allowance for loan losses

Loans and leasing, advances on foreign exchange contracts and other receivables with credit characteristics are classified by risk level, based on: (i) the parameters established by CMN Resolution No. 2,682/99, which requires risk ratings to have nine levels, from "AA" (minimum risk) to "H" (maximum risk); and (ii) Management's assessment of the risk level. This assessment, which is carried out regularly, considers current economic conditions and past experience with loan losses, as well as specific and general risks relating to operations, debtors and guarantors. Moreover, the days-past-due is also considered in the rating of customer risk as per CMN Resolution No. 2,682/99, as follows:

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

| Past-due period (1) | Customer rating |
|----------------------------|------------------------|
| • from 15 to 30 days | B |
| • from 31 to 60 days | C |
| • from 61 to 90 days | D |
| • from 91 to 120 days | E |
| • from 121 to 150 days | F |
| • from 151 to 180 days | G |
| • more than 180 days | H |

(1) For transactions with terms of more than 36 months, past-due periods are doubled, as permitted by CMN Resolution No. 2,682/99.

Interest and inflation adjustments on past-due transactions are only recognized in the Statement of Income up to the 59th day that they are past due. As from the 60th day, they are recognized in off-balance sheet accounts and are only recognized in the Statement of Income when received.

Renegotiated transactions are held, at least, at the same rating as they were classified.

H-rated past-due transactions remain at this level for six months, after which they are written-off against the existing allowance and controlled in off-balance-sheet accounts for at least five years.

Renegotiated transactions are held at the same rating as on the date of the renegotiation or classified in a higher risk rating. Renegotiations already written-off against the allowance and that were recognized in off-balance-sheet accounts, are rated as level "H" and any possible gains derived from their renegotiation are recognized only when they are effectively received. When there is a significant repayment on the operation or when new material facts justify a change in the level of risk, the operation may be reclassified to a lower risk category.

The estimated allowance for loan losses is calculated to sufficiently cover probable losses, considering CMN and Bacen standards and instructions, together with Management's assessment of the credit risk.

Type, values, terms, levels of risk, concentration, economic sector of client's activity, renegotiation and income from loans, as well as the breakdown of expenses and statement of financial position accounts for the allowance for loan losses are presented in Note 9.

Leasing

The portfolio of leasing operations consists of contracts firmed with the support of Decree No. 140/84, of the Ministry of Finance, which contains clauses of: (a) non-cancellation; (b) purchase option; and (c) post-fixed or fixed restatement and are accounted for in accordance with the standards established by Bacen, as follows:

I- Leases receivable

Reflect the balance of installments receivable, restated according to the indexes and criteria established by contractual agreement.

II- Unearned income from leasing and Guaranteed Residual Value (GRV)

Recorded at the contractual amount, conversely to adjusted accounts of unearned revenues from leasing and Residual value to balance, both submitted through negotiated conditions. The GRV received in advance is recorded in Other Liabilities – Creditors by Anticipation of the Residual Value until the date of contractual termination. The adjustment at present value of the lease payments and the GRV receivable from the financial leasing operations is recognized as excessive/insufficient depreciation on leased assets, in order to reconcile the accounting practices. In operations whose delays are equal to or greater than 60 days, the appropriation to the result occurs upon receipt of contractual installments, in accordance with CMN Resolution No. 2,682/99.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

III- Leased fixed assets

It is recorded at acquisition cost, minus the accrued depreciations. The depreciation is calculated using the linear method, with the benefit of a 30% reduction in the normal life cycle of the asset, provisioned in the current legislation. The main annual rates of depreciation used, as base for this reduction, are the following: vehicles and the like, 20%; furniture and utensils, 10%; machinery and equipment, 10%; and other assets, 10% and 20%.

IV- Losses on leases

The losses recorded in the sale of leased assets are deferred and amortized over the remaining normal life cycle of assets, and are shown along with the Leased Fixed Assets (Note 9k).

V- Excessive (insufficient) depreciation

The accounting records of leasing operations are maintained as legal requirements, specific for this type of operation. The procedures adopted and summarized in items "II" to "IV" above differ from the accounting practices provisioned in Brazilian corporate law, especially concerning the regime of competence in the record of revenues and expenses related to lease contracts. As a result, in accordance with Bacen Circular No. 1,429/89, the present value of outstanding leasing installments was calculated, using the internal rate of return of each contract, recording a leasing revenue or expenditure, conversely to the entries of excessive or insufficient depreciation, respectively, recorded in Permanent Assets, with the objective of adapting the leasing operations to the regime of competence (Note 9k).

h) Income tax and social contribution (assets and liabilities)

Deferred tax assets, calculated on income tax losses, social contribution losses and temporary differences, are recognized in "Other Receivables - Sundry" and the deferred tax liabilities on tax differences in leasing depreciation (applicable only for income tax), fair value adjustments on securities, monetary update of judicial deposits, among others, are recognized in "Other Liabilities - Tax and Social Security", in which for the differences in leasing depreciation only the income tax rate is applied.

Deferred tax assets on temporary differences are realized when the difference between the accounting treatment and the income tax treatment reverses. Deferred tax assets on income tax and social contribution losses are realizable when taxable income is generated, up to the 30% limit of the taxable profit for the period. Deferred tax assets are recognized based on current expectations of realization considering technical studies and analyses carried out by Management.

The provision for income tax is calculated at 15% of taxable income plus a 10% surcharge. For financial companies, for companies considered as such and for the insurance industry, the social contribution on the profit was calculated until August 2015, considering the rate of 15%. For the period between September 2015 and December 2018, the rate was changed to 20%, according to Law No. 13,169/15. The rate will revert to 15% from January 2019. For the other companies, the social contribution is calculated considering the rate of 9%.

Due to the amendment of the rate, Bradesco Organization recognized, in September 2015, an incremental amount to the deferred tax of social contribution, considering the annual expectations of realization and their respective rates in force in each period, according to the technical study produced.

Provisions were recognized for other income tax and social contribution in accordance with specific applicable legislation.

The breakdown of income tax and social contribution, showing the calculations, the origin and expected use of deferred tax assets, as well as unrecognized deferred tax assets, is presented in Note 33.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

i) Prepaid expenses

Prepaid expenses consist of funds already disbursed for future benefits or services, which are recognized in the profit or loss on an accrual basis.

Incurred costs relating to assets that will generate revenue in subsequent periods are recognized in the Statement of Income according to the terms and the amount of expected benefits and directly written-off in the Statement of Income when the corresponding assets or rights are no longer part of the institution's assets or when future benefits are no longer expected.

In the case of the remuneration paid for the origination of credit operations or leasing to the banking correspondents related to credit operations originated during 2015 and 2016, Bradesco opted to recognize part of the total value of compensation, pursuant to the provisions of Bacen Circular No. 3,738/14.

Prepaid expenses are shown in detail in Note 11b.

j) Investments

Investments in unconsolidated and jointly controlled companies, where Bradesco has significant influence over the investee or holds at least 20% of the voting rights, are accounted for using the equity method.

Tax incentives and other investments are stated at cost, less allowance for losses/impairment, where applicable.

Subsidiaries are consolidated – the composition of the main companies are disclosed in Note 2. The composition of unconsolidated and jointly controlled companies, as well as other investments, are disclosed in Note 12.

k) Premises and equipment

Relates to the tangible assets used by the Bank in its activities, including those resulting from transactions that transfer risks, benefits and control of the assets to the Bank.

Premises and equipment are stated at acquisition cost, net of accumulated depreciation, calculated by the straight-line method based on the assets' estimated economic useful life, using the following rates: real estate – 4% per annum; installations, furniture, equipment for use, security systems and communications – 10% per annum; transport systems – 20% per annum; and data-processing systems – 20% to 40% per annum, and adjusted for impairment, when applicable.

The breakdown of asset costs and their corresponding depreciation, as well as the unrecognized surplus value for real estate and the fixed asset ratios, are disclosed in Note 13.

l) Deferred assets

According to CMN Resolution No. 4,534/16 and Circular Letter No. 3,791/16 to the Central Bank, in November 2016, the deferred charges item was excluded from the accounting plan and the balances were reclassified to the intangible asset. Until these standards came into force, they were recorded at cost of acquisition or formation, net of accumulated depreciation of 20% per year, calculated using the straight-line method, and since December 2008, new operations were already being recorded as intangible assets, in accordance with Bacen Circular Letter No. 3,357/08.

The composition of deferred assets is shown in Note 14.

m) Intangible assets

Relates to the right over intangible assets used by the Bank in its activities.

Intangible assets comprise:

- Future profitability/acquired client portfolio and acquisition of right to provide banking services: they are recognized and amortized over the period in which the asset will directly and indirectly contribute to future cash flows and adjusted for impairment, where applicable; and

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

- Software: stated at cost less amortization calculated on a straight-line basis over the estimated useful life (20% p.a.), from the date it is available for use and adjusted for impairment, where applicable. Internal software development costs are recognized as an intangible asset when it is possible to show the intent and ability to complete and use the software, as well as to reliably measure costs directly attributable to the intangible asset. These costs are amortized during the software's estimated useful life, considering the expected future economic benefits.

Intangible assets and the movement in these balances by class, are presented in Note 15.

n) Impairment

Financial and non-financial assets are tested for impairment.

Impairment evidence may comprise the non-payment or payment delay by the debtor, possible bankruptcy process or the significant or extended decline in an asset value.

An impairment loss of a financial or non-financial asset is recognized in the profit or loss for the period if the carrying amount of an asset or cash-generating unit exceeds its recoverable value. Impairment losses are presented in Note 7c(7), 7h, 12, 13 e 15b.

o) Securities sold under agreements to repurchase

These are recognized at the value of the liabilities and include, when applicable, related charges up to the end of the reporting period, calculated on a daily pro-rata basis.

A breakdown of the contracts recognized in deposits and securities sold under agreements to repurchase, as well as terms and amounts recognized in the statement of financial position and statement of income, is presented in Note 16.

p) Provisions, contingent assets and liabilities and legal obligations – tax and social security

Provisions, contingent assets and liabilities, and legal obligations, as defined below, are recognized, measured and disclosed in accordance with the criteria set out in CPC 25, approved by CMN Resolution No. 3,823/09 and CVM Resolution No. 594/09:

- **Contingent Assets:** these are not recognized in the financial statements, except to the extent that there are real guarantees or favorable judicial decisions, to which no further appeals are applicable, and it is considered virtually certain that cash inflows will flow to Bradesco. Contingent assets with a chance of probable success are disclosed in the notes to the financial statements;
- **Provisions:** these are recognized taking into consideration the opinion of legal counsel, the nature of the lawsuits, similarity with previous lawsuits, complexity and positioning of the courts, whenever an entity has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably measured;
- **Contingent Liabilities:** according to CPC 25, the term “contingent” is used for liabilities that are not recognized because their existence will only be confirmed by the occurrence of one or more uncertain future events beyond Management’s control. Contingent liabilities do not meet the criteria for recognition because they are considered as possible losses should only be disclosed in the notes when relevant. Obligations deemed remote are not recognized as a provision nor disclosed; and
- **Legal Obligations – Provision for Tax Risks:** results from judicial proceedings, which contest the applicability of tax laws on the grounds of legality or constitutionality, which, regardless of the assessment of the probability of success, are fully provided for in the financial statements.

Details on lawsuits, as well as segregation and changes in amounts recognized, by type, are presented in Note 18.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

q) Other assets and liabilities

Assets are stated at their realizable amounts, including, when applicable, related income and inflation and exchange variations (on a daily prorated basis), less provision for losses, when deemed appropriate. Liabilities include known or measurable amounts, including related charges and inflation and exchange variations (on a daily prorated basis).

r) Subsequent events

These refer to events occurring between the reporting date and the date the financial statements are authorized to be issued.

They comprise the following:

- Events resulting in adjustments: events relating to conditions already existing at the end of the reporting period; and
- Events not resulting in adjustments: events relating to conditions not existing at the end of the reporting period.

Subsequent events, if any, are described in Note 34.

4) INFORMATION FOR THE PURPOSE OF COMPARABILITY

From July 2016, Bradesco began consolidating the consolidated financial statements of HSBC Bank Brasil S.A. and its subsidiaries (Note 34f). We presented the main balances of the statement of financial position as of September 30, 2016 and statements of income for the period from July 1, 2016 to September 30, 2016:

| | R\$ thousand HSBC Brasil (1) |
|---|--|
| Assets | |
| Current and long-term assets | 139,665,906 |
| Funds available | 2,244,736 |
| Interbank investments | 17,455,233 |
| Securities and derivative financial instruments | 26,646,956 |
| Interbank and interdepartmental accounts | 17,041,653 |
| Loan and leasing | 45,196,618 |
| Other receivables | 30,851,968 |
| Other assets | 228,742 |
| Permanent | 3,249,876 |
| - Investments | 1,618,744 |
| - Premises and equipment | 1,169,562 |
| - Intangible assets | 461,570 |
| Total | 142,915,782 |
| Liabilities | |
| Current and long-term liabilities | 135,139,274 |
| Demand, term and other deposits | 65,015,924 |
| Securities sold under agreements to repurchase | 1,988,820 |
| Funds from Acceptances and Issue of Securities | 37,570,595 |
| Interbank and interdepartmental accounts | 1,261,678 |
| Borrowing and on-lending | 5,699,929 |
| Derivative financial instruments | 2,659,164 |
| Other liabilities | 20,943,164 |
| Non-controlling interests in associated and controlled companies | 107 |
| Shareholders' equity | 7,776,401 |
| Total | 142,915,782 |

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Notes to the Financial Statements of the Prudential Conglomerate

| | R\$ thousand |
|--|--------------------|
| | HSBC Brasil |
| Income from financial intermediation | 6,358,992 |
| Expenses from financial intermediation | (3,756,811) |
| Financial margin | 2,602,181 |
| Allowance for Loan Losses (ALL) | (1,187,495) |
| Gross Income from financial intermediation | 1,414,686 |
| Fee and commission income | 632,211 |
| Personnel expenses | (1,069,833) |
| Other administrative expenses | (918,944) |
| Tax expenses | (219,069) |
| Equity in associated and jointly controlled companies | 156,931 |
| Other operating income / expenses | 15,640 |
| Operating income | 11,622 |
| Non-operating expense | (66,409) |
| IT/SC (Income Tax/Soc. Contrib.) and non-controlling interests | 144,609 |
| Net income | 89,822 |

(1) Considers the companies that make up the consolidated Prudential.

In October 2016, approval was granted in an Extraordinary General Meeting for the partial spin-off of HSBC Brasil, through the absorption of portions of its equity by companies of the Organization, enabling progress with the integration of operational and technological platforms, resulting in the replacement of the HSBC brand in its service network, becoming Bradesco. Thus, Bradesco began to operate with a unified platform (branches, ATMs, and systems), to which all clients have access to. From now on, Bradesco will add to the products and services already offered to HSBC Brasil clients, a nationwide service network, a state-of-the-art technology platform, and an even more extensive portfolio of products and services

5) CASH AND CASH EQUIVALENTS

On December 31 - R\$ thousand
2016 **2015**

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| | | |
|--|--------------------|--------------------|
| Cash and due from banks in domestic currency | 12,508,225 | 9,243,959 |
| Cash and due from banks in foreign currency | 2,071,916 | 8,069,800 |
| Investments in gold | 180 | 142 |
| Total cash and due from banks | 14,580,321 | 17,313,901 |
| Interbank investments (1) | 166,712,306 | 129,961,555 |
| Total cash and cash equivalents | 181,292,627 | 147,275,456 |

(1) Refers to operations that mature in 90 days or less from the date they were effectively invested and with insignificant risk of change in fair value.

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Notes to the Financial Statements of the Prudential Conglomerate**6) INTERBANK INVESTMENTS****a) Breakdown and maturity**

| | On December 31 - R\$ thousand | | | | |
|---|-------------------------------|------------------|------------------|----------------|--------------------|
| | 1 to 30 | 31 to 180 | 181 to | More | |
| | days | days | 360 | than | 2016 |
| | | | days | 360 | 2015 |
| | | | | days | |
| Securities purchased under agreements to resell: | | | | | |
| Own portfolio position | 68,566,345 | - | - | - | 68,566,345 |
| Financial treasury bills | 33,116,017 | - | - | - | 33,116,017 |
| National treasury notes | 21,782,551 | - | - | - | 21,782,551 |
| National treasury bills | 13,211,887 | - | - | - | 13,211,887 |
| Bank deposit certificates | 240,455 | - | - | - | 240,455 |
| Debentures | 208,986 | - | - | - | 208,986 |
| Other | 6,449 | - | - | - | 6,449 |
| Funded position | 99,329,484 | 1,081,498 | - | - | 100,410,982 |
| Financial treasury bills | 46,235,731 | 1,031,173 | - | - | 47,266,904 |
| National treasury notes | 29,552,172 | 50,325 | - | - | 29,602,497 |
| National treasury bills | 23,541,581 | - | - | - | 23,541,581 |
| Short position | 978,509 | 124,786 | - | - | 1,103,295 |
| National treasury bills | 978,509 | 124,786 | - | - | 1,103,295 |
| Subtotal | 168,874,338 | 1,206,284 | - | - | 170,080,622 |
| Interest-earning deposits in other banks: | | | | | |
| Interest-earning deposits in other banks: | 3,344,920 | 1,613,652 | 1,748,334 | 780,394 | 7,487,300 |
| Provision for losses | - | - | - | - | - |
| Subtotal | 3,344,920 | 1,613,652 | 1,748,334 | 780,394 | 7,487,300 |
| Total in 2016 | 172,219,258 | 2,819,936 | 1,748,334 | 780,394 | 177,567,922 |
| % | 97.0 | 1.6 | 1.0 | 0.4 | 100.0 |
| Total in 2015 | 134,390,227 | 4,196,705 | 1,242,882 | 515,131 | 140,344,945 |
| % | 95.8 | 3.0 | 0.9 | 0.3 | 100.0 |

b) Income from interbank investments

Classified in the statement of income as income from operations with securities.

| | December 31 YTD - R\$ thousand | |
|--|--------------------------------|-------------------|
| | 2016 | 2015 |
| Income from investments in purchase and sale commitments: | | |
| •Own portfolio position | 1,108,738 | 347,648 |
| •Funded position | 20,720,128 | 19,708,089 |
| •Short position | 283,547 | 382,362 |
| Subtotal | 22,112,413 | 20,438,099 |
| Income from interest-earning deposits in other banks | 651,103 | 508,590 |
| Total (Note 7h) | 22,763,516 | 20,946,689 |

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Notes to the Financial Statements of the Prudential Conglomerate**7) SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS**

Information on securities and derivative financial instruments is as follows:

a) Summary of the consolidated classification of securities by operating segment and issuer

| | 2016 | | | On December 31 - R\$ thousand 2015 | | |
|--|--------------------|---------------------|--------------------|---------------------------------------|--------------------|--------------|
| | Financial | Other Activities | Total | % | Total | % |
| Trading securities | 53,160,117 | 56 | 53,160,173 | 37.4 | 48,115,797 | 25.5 |
| - Government securities | 20,560,248 | - | 20,560,248 | 22.6 | 15,009,209 | 8.0 |
| - Corporate securities | 15,658,473 | 56 | 15,658,529 | 7.1 | 14,063,944 | 7.4 |
| - Derivative financial instruments (1) | | | | | | |
| (6) | 16,941,396 | - | 16,941,396 | 7.7 | 19,042,644 | 10.1 |
| Available-for-sale securities (3) | 153,099,549 | 4,803 | 153,104,352 | 56.8 | 128,530,119 | 67.9 |
| - Government securities | 93,487,733 | 1,659 | 93,489,392 | 29.6 | 75,782,762 | 40.0 |
| - Corporate securities | 59,611,816 | 3,144 | 59,614,960 | 27.2 | 52,747,357 | 27.9 |
| Held-to-maturity securities (3) | 12,772,270 | - | 12,772,270 | 5.8 | 12,598,538 | 6.6 |
| - Government securities | 33,083 | - | 33,083 | - | 41,092 | - |
| - Corporate securities | 12,739,187 | - | 12,739,187 | 5.8 | 12,557,446 | 6.6 |
| Subtotal | 219,031,936 | 4,859 | 219,036,795 | 100.0 | 189,244,454 | 100.0 |
| Purchase and sale commitments | | | | | | |
| (2) | 104,836 | - | 104,836 | - | 79,517 | - |
| Grand total | 219,136,772 | 4,859 | 219,141,631 | 100.0 | 189,323,971 | 100.0 |
| - Government securities | 114,081,064 | 1,659 | 114,082,723 | 52.2 | 90,833,063 | 48.0 |
| - Corporate securities | 104,950,872 | 3,200 | 104,954,072 | 47.8 | 98,411,391 | 52.0 |
| Subtotal | 219,031,936 | 4,859 | 219,036,795 | 100.0 | 189,244,454 | 100.0 |
| Purchase and sale commitments | | | | | | |
| (2) | 104,836 | - | 104,836 | - | 79,517 | - |
| Grand total | 219,136,772 | 4,859 | 219,141,631 | 100.0 | 189,323,971 | 100.0 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**b) Consolidated classification by category, maturity and operating segment****l) Trading securities**

| Securities | 2016 | | | | Fair/book value (4) (5) | Original amortized cost |
|---|---------------------|------------------|------------------|--------------------|-------------------------|-------------------------|
| | 1 to 30 days | 31 to 180 days | 181 to 360 days | More than 360 days | | |
| - Financial | 26,285,206 | 3,006,221 | 2,906,223 | 20,962,467 | 53,160,117 | 62,511,117 |
| Financial treasury bills | 48,694 | 2,144 | 267,713 | 10,294,603 | 10,613,154 | 10,613,154 |
| National treasury notes | 63,523 | 200,946 | 14,761 | 5,867,052 | 6,146,282 | 5,867,052 |
| Financial bills | 222,584 | 1,308,336 | 2,056,795 | 263,707 | 3,851,422 | 3,851,422 |
| National treasury bills | 224,850 | 40,605 | 241,845 | 1,566,514 | 2,073,814 | 2,073,814 |
| Debentures | 39,488 | 16,499 | 189,039 | 1,583,753 | 1,828,779 | 2,000,000 |
| Brazilian foreign debt securities | 1,307,266 | - | - | 50,759 | 1,358,025 | 1,358,025 |
| Derivative financial instruments (1) (6) | 15,734,634 | 973,846 | 120,004 | 112,912 | 16,941,396 | 26,285,206 |
| Other | 8,644,167 | 463,845 | 16,066 | 1,223,167 | 10,347,245 | 10,417,245 |
| - Other activities | 56 | - | - | - | 56 | 56 |
| Other | 56 | - | - | - | 56 | 56 |
| Subtotal | 26,285,262 | 3,006,221 | 2,906,223 | 20,962,467 | 53,160,173 | 62,511,173 |
| Purchase and sale commitments - Financial (2) | 104,836 | - | - | - | 104,836 | 104,836 |
| Grand total | 26,390,098 | 3,006,221 | 2,906,223 | 20,962,467 | 53,265,009 | 62,616,009 |
| Derivative financial instruments (liabilities) (6) | (12,399,309) | (534,524) | (279,662) | (192,892) | (13,406,387) | (11,670,000) |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

II) Available-for-sale securities

| Securities (7) | 2016 | | | | Fair/book value (4) (5) |
|--|-------------------|------------------|------------------|--------------------|----------------------------|
| | 1 to 30 days | 31 to 180 days | 181 to 360 days | More than 360 days | |
| Financial | 10,783,859 | 7,632,308 | 2,320,671 | 132,362,711 | 153,099,549 |
| National treasury bills | 120,042 | 3,416,175 | 1,560,524 | 52,049,807 | 57,146,548 |
| Debentures | 407,659 | 1,162,184 | 496,636 | 36,667,559 | 38,734,038 |
| National treasury notes | 2,729,317 | 2,085,988 | - | 28,650,163 | 33,465,468 |
| Foreign corporate securities | 1,657 | 37,211 | 50,188 | 10,995,554 | 11,084,610 |
| Shares | 6,233,670 | - | - | - | 6,233,670 |
| Financial treasury bills | 129,924 | 42,210 | 11,498 | 2,139,330 | 2,322,962 |
| Promissory Notes | 97,300 | 512,489 | 201,825 | 297,669 | 1,109,283 |
| Certificates of real estate receivables | 21,468 | - | - | 865,209 | 886,677 |
| Other | 1,042,822 | 376,051 | - | 697,420 | 2,116,293 |
| - Other activities | 3,144 | - | - | 1,659 | 4,803 |
| Other | 3,144 | - | - | 1,659 | 4,803 |
| Subtotal | 10,787,003 | 7,632,308 | 2,320,671 | 132,364,370 | 153,104,352 |
| Hedge - cash flow (Note 7f) | - | - | - | - | - |
| Securities reclassified to "Held-to-maturity securities" (3) | - | - | - | - | - |
| Grand total | 10,787,003 | 7,632,308 | 2,320,671 | 132,364,370 | 153,104,352 |

III) Held-to-maturity securities

| Securities (3) | 2016 | | | | Fair Value (5) | Gain (loss) not accounted for | Amortized cost (4) | On December 31 - R\$ 2015 |
|---|--------------|----------------|-----------------|--------------------|-------------------|-------------------------------|--------------------|------------------------------|
| | 1 to 30 days | 31 to 180 days | 181 to 360 days | More than 360 days | | | | |
| - Financial | - | - | - | - | 11,443,461 | (1,328,809) | 12,598,538 | (1) |
| Certificates of real estate receivables | - | - | - | - | 11,379,323 | (1,359,864) | 12,557,446 | (1) |
| Others | - | - | - | - | 64,138 | 31,055 | 41,092 | |
| Total | - | - | - | - | 11,443,461 | (1,328,809) | 12,598,538 | (1) |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**c) Breakdown of the portfolios by financial statement classification**

| Securities | On December 31 - R\$ thousand | | | | | |
|---|-------------------------------|-------------------|------------------|-------------------|--------------------|--------------------|
| | 1 to 30 | 31 to 180 | 181 to 360 | More than | Total in | Total in |
| | days | days | days | 360 days | (4) (5) | (4) (5) |
| Own portfolio | 21,319,266 | 7,292,917 | 3,203,601 | 87,333,135 | 119,148,919 | 116,061,365 |
| Fixed income securities | 13,520,507 | 7,292,917 | 3,203,601 | 87,333,135 | 111,350,160 | 108,694,627 |
| • Debentures | 447,147 | 1,178,683 | 685,675 | 38,251,312 | 40,562,817 | 32,924,295 |
| • National treasury bills | 344,892 | 3,416,175 | - | -14,067,254 | 17,828,321 | 20,316,107 |
| • Certificates of real estate receivables | 21,468 | - | - | -13,672,096 | 13,693,564 | 13,687,790 |
| • National treasury notes | 2,792,840 | - | - | -10,202,365 | 12,995,205 | 11,220,945 |
| • Financial treasury bills | 55,546 | 127 | 193,052 | 6,452,335 | 6,701,060 | 5,698,562 |
| • Financial bills | 248,467 | 1,684,387 | 2,056,795 | 263,705 | 4,253,354 | 5,143,744 |
| • Foreign corporate securities | 173,516 | 140,743 | 66,180 | 2,611,497 | 2,991,936 | 8,252,434 |
| • Foreign corporate securities | 1,307,266 | - | - | 472,868 | 1,780,134 | 1,472,300 |
| • Promissory Notes | 97,300 | 512,489 | 201,825 | 297,669 | 1,109,283 | 1,558,616 |
| • Bank deposit certificates | 37,926 | 360,313 | - | 15,335 | 413,574 | 601,915 |
| • Foreign government securities | 42,777 | - | - | 325,455 | 368,232 | 2,220,799 |
| • Compromised transactions (2) | 104,836 | - | - | - | 104,836 | 79,517 |
| • Other | 7,846,526 | - | 74 | 701,244 | 8,547,844 | 5,517,603 |
| Equity securities | 7,798,759 | - | - | - | 7,798,759 | 7,366,738 |
| • Shares of listed companies | 7,798,759 | - | - | - | 7,798,759 | 7,366,738 |
| Restricted securities | 123,201 | 2,371,766 | 1,708,266 | 71,234,549 | 75,437,782 | 49,176,233 |
| Repurchase agreements | - | -2,312,436 | 1,604,486 | 59,106,653 | 63,023,575 | 41,590,713 |
| • National treasury bills | - | -1,568,156 | 28,838,611 | 30,406,767 | 11,156,098 | 11,156,098 |
| • National treasury notes | - | -2,286,932 | 14,761 | 19,338,428 | 21,640,121 | 24,587,596 |
| • Foreign corporate securities | - | - | - | 8,642,151 | 8,642,151 | 4,306,897 |
| • Financial treasury bills | - | 25,504 | 21,569 | 2,184,622 | 2,231,695 | 1,540,122 |
| • Other | - | - | - | 102,841 | 102,841 | - |
| Brazilian Central Bank | 120,363 | - | 461 | 53,383 | 174,207 | 22,065 |
| • Financial treasury bills | 120,363 | - | - | - | 120,363 | - |
| • National treasury notes | - | - | 461 | 53,383 | 53,844 | 22,065 |

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Notes to the Financial Statements of the Prudential Conglomerate

| Securities | On December 31, 2015 | | | | |
|---|----------------------|----------------|-----------------|--------------------|-------------|
| | 1 to 30 days | 31 to 180 days | 181 to 360 days | More than 360 days | Total |
| Privatization rights | - | - | - | 48,706 | 48,706 |
| Guarantees provided | 2,838 | 59,330 | 103,319 | 12,025,807 | 12,191,314 |
| • National treasury bills | - | 40,605 | 38,729 | 4,917,102 | 49,244,836 |
| • National treasury notes | - | - | - | 4,059,976 | 4,059,976 |
| • Financial treasury bills | 2,709 | 18,725 | 64,590 | 3,048,729 | 3,134,753 |
| • Other | 129 | - | - | - | 129 |
| Derivative financial instruments (1) (6) | 15,734,634 | 973,846 | 120,004 | 112,912 | 16,941,396 |
| Securities subject to unrestricted repurchase agreements | - | - | 195,023 | 7,418,511 | 7,613,534 |
| • National treasury bills | - | - | 195,023 | 5,739,971 | 5,934,994 |
| • National treasury notes | - | - | - | 926,099 | 926,099 |
| • Financial treasury bills | - | - | - | 752,441 | 752,441 |
| Grand total | 37,177,101 | 10,638,529 | 5,226,894 | 166,099,107 | 219,141,631 |
| % | 17.0 | 4.9 | 2.4 | 75.7 | |

(1) Consistent with the criteria in Bacen Circular Letter No. 3,068/01 and due to the characteristics of the securities, we are classifying the derivative financial instruments, except those considered as cash flow hedges in the category Trading Securities;

(2) Refers to of investment funds and managed portfolios invested in repo operations with Bradesco, the owners of which are controlled companies included in the consolidated financial statements of the Prudential Conglomerate;

(3) In compliance with Article 8 of Bacen Circular Letter No. 3,068/01, Bradesco declares that it has the financial capacity and intention to maintain held-to-maturity securities until their maturity dates. The mark-to-market of securities, which were transferred from the category "Available-for-Sale Securities" to the category of "Securities Held to Maturity", in June 2015 and in December 2013, was maintained in the shareholders' equity and will be recognized in the results for the remaining term of these securities, according to Bacen Circular No. 3,068/01;

(4) The number of days to maturity was based on the contractual maturity of the instruments, regardless of their accounting classification;

(5) The fair value of securities is determined based on the market price available at the end of the reporting period. If no market price quotation is available at the end of the reporting period, amounts are estimated based on the prices quoted by dealers, pricing models, quotation models or price quotations for instruments with similar characteristics. For investment funds, the original amortized cost reflects the fair value of the respective quotas;

(6) Includes hedge for protection of assets and liabilities, denominated in or indexed to foreign currency, primarily, arising from foreign investments, eliminating the effects of exchange variation of these assets and liabilities. For a better analysis of these items, consider the net exposure (Note 7d II); and

(7) In the year ended December 31, 2016, there were impairment losses in the amount of R\$1,344,601 thousand, related to securities classified in the category "Available-for-Sale Securities" (R\$135,850 thousand in 2015).

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Notes to the Financial Statements of the Prudential Conglomerate

d) Derivative financial instruments

Bradesco carries out transactions involving derivative financial instruments, which are recognized in the statement of financial position or in off-balance-sheet accounts, to meet its own needs in managing its global exposure, as well as to meet its customer's requests, in order to manage their exposure, These operations involve a range of derivatives, including interest rate swaps, currency swaps, futures and options, Bradesco's risk management policy is based on the utilization of derivative financial instruments mainly to mitigate the risks from operations carried out by the Bank and its subsidiaries.

Securities classified as trading and available-for-sale, as well as derivative financial instruments, are recognized in the consolidated statement of financial position at their fair value, Fair value is generally based on quoted market prices or quotations for assets or liabilities with similar characteristics, Should market prices not be available, fair values are based on dealer quotations, pricing models, discounted cash flows or similar techniques for which the determination of fair value may require judgment or significant estimates by Management.

Quoted market prices are used to determine the fair value of derivative financial instruments, The fair value of swaps is determined by using discounted cash flow modeling techniques that use yield curves, reflecting adequate risk factors, The information to build yield curves is mainly obtained from the Securities, Commodities and Futures Exchange (BM&FBOVESPA) and the domestic and international secondary market, These yield curves are used to determine the fair value of currency swaps, interest rate and other risk factor swaps.

The fair value of forward and futures contracts is also determined based on market price quotations for derivatives traded on an exchange or using methodologies similar to those outlined for swaps, The fair values of credit derivative instruments are determined based on market price quotation or from specialized entities, The fair value of options is determined based on mathematical models, such as Black & Scholes, using yield curves, implied volatilities and the fair value of corresponding assets, Current market prices are used to calculate volatility.

Derivative financial instruments in Brazil mainly refer to swaps and futures and are registered at the OTC Clearing House (Cetip) and BM&FBOVESPA.

Operations involving forward contracts of interest rates, indexes and currencies are contracted by Management to hedge Bradesco's overall exposures and to meet customer needs.

Foreign derivative financial instruments refer to swap, forward, options, credit and futures operations and are mainly carried out at the stock exchanges in Chicago and New York, as well as the over-the-counter (OTC) markets.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**l) Amount of derivative financial instruments recognized in off-balance-sheet accounts**

| | On December 31 - R\$ thousand | | | |
|--------------------------------|-------------------------------|------------|--------------------|------------|
| | 2016 | | 2015 | |
| | Grand total amount | Net amount | Grand total amount | Net amount |
| Futures contracts | | | | |
| Purchase commitments: | 132,086,746 | - | 153,287,275 | - |
| - Interbank market | 104,638,551 | 60,392,195 | 119,152,260 | 93,363,261 |
| - Foreign currency (1) | 27,399,904 | - | 34,101,616 | - |
| - Other | 48,291 | 47,324 | 33,399 | - |
| Sale commitments: | 102,937,341 | - | 67,214,114 | - |
| - Interbank market (2) | 44,246,356 | - | 25,788,999 | - |
| - Foreign currency (3) | 58,690,018 | 31,290,114 | 41,360,434 | 7,258,818 |
| - Other | 967 | - | 64,681 | 31,282 |
| Option contracts | | | | |
| Purchase commitments: | 9,569,190 | - | 4,412,516 | - |
| - Interbank market | 1,974,175 | 231,280 | 3,824,996 | 186,806 |
| - Foreign currency | 7,567,515 | 4,731,221 | 559,071 | - |
| - Other | 27,500 | 27,500 | 28,449 | - |
| Sale commitments: | 4,579,189 | - | 9,901,395 | - |
| - Interbank market | 1,742,895 | - | 3,638,190 | - |
| - Foreign currency | 2,836,294 | - | 6,233,860 | 5,674,789 |
| - Other | - | - | 29,345 | 896 |
| Forward contracts | | | | |
| Purchase commitments: | 16,681,944 | - | 15,132,203 | - |
| - Foreign currency | 16,633,033 | - | 15,014,083 | - |
| - Other | 48,911 | - | 118,120 | - |
| Sale commitments: | 19,624,951 | - | 16,206,711 | - |
| - Foreign currency | 18,036,706 | 1,403,673 | 16,056,742 | 1,042,659 |
| - Other | 1,588,245 | 1,539,334 | 149,969 | 31,849 |
| Swap contracts | | | | |
| Assets (long position): | 79,546,229 | - | 125,696,298 | - |
| - Interbank market | 20,377,476 | 11,551,440 | 45,693,291 | - |
| - Fixed rate | 50,100,855 | 25,274,411 | 43,858,054 | 40,363,110 |
| - Foreign currency | 7,276,143 | - | 33,543,125 | 22,011,883 |

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| | | | | |
|--------------------------------------|-------------------|-----------|-------------------|-----------|
| - IGPM | 768,950 | - | 1,336,950 | 1,141,950 |
| - Other | 1,022,805 | - | 1,264,878 | - |
| Liabilities (short position): | 50,962,798 | - | 72,330,795 | - |
| - Interbank market | 8,826,036 | - | 53,982,529 | 8,289,238 |
| - Fixed rate | 24,826,444 | - | 3,494,944 | - |
| - Foreign currency (3) | 14,201,872 | 6,925,729 | 11,531,242 | - |
| - IGPM | 1,010,500 | 241,550 | 195,000 | - |
| - Other | 2,097,946 | 1,075,141 | 3,127,080 | 1,862,202 |

Derivatives include operations maturing in D+1.

(1) Includes, on December 31, 2015, cash flow hedge to protect the firm commitment, concerning the contract of purchase and sale of shares, totaling R\$20,250,293 thousand;

(2) Includes, on December 31, 2016, cash flow hedges to protect IDI-related investments, totaling R\$21,502,218 thousand (Note 7f) (R\$28,251,095 thousand in 2015); and

(3) Includes specific hedges to protect assets and liabilities, arising from foreign investments, totaling R\$47,266,464 thousand (R\$56,280,814 thousand in 2015).

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**II) Breakdown of derivative financial instruments (assets and liabilities) shown at original amortized cost and fair value**

| | 2016 | | | On December 31 - R\$ thousand 2015 | | |
|---------------------------------|-------------------------|---------------------------|---------------------|---------------------------------------|---------------------------|---------------------|
| | Original amortized cost | Mark-to-market adjustment | Fair market value | Original amortized cost | Mark-to-market adjustment | Fair market value |
| Adjustment payables - swaps (1) | 22,760,282 | (9,313,969) | 13,446,313 | 23,657,821 | (7,028,285) | 16,629,536 |
| Adjustment receivable - future | 5,047 | - | 5,047 | 19,394 | - | 19,394 |
| Receivable forward purchases | 150,086 | - | 150,086 | 1,863,780 | - | 1,863,780 |
| Receivable forward sales | 3,035,377 | - | 3,035,377 | 321,953 | - | 321,953 |
| Premiums on exercisable options | 338,722 | (34,149) | 304,573 | 225,765 | (17,784) | 207,981 |
| Total assets (A) | 26,289,514 | (9,348,118) | 16,941,396 | 26,088,713 | (7,046,069) | 19,042,644 |
| Adjustment payables - swaps | (8,758,592) | (1,735,312) | (10,493,904) | (10,112,719) | (5,863,369) | (15,976,088) |
| Adjustment receivable - future | (737) | - | (737) | (20,363) | - | (20,363) |
| Payable forward purchases | (1,066,718) | - | (1,066,718) | (47,195) | - | (47,195) |
| Payable forward sales/other | (1,584,951) | - | (1,584,951) | (3,180,895) | - | (3,180,895) |
| Premiums on written options | (260,004) | (73) | (260,077) | (140,270) | 19,335 | (120,935) |
| Total liabilities (B) | (11,671,002) | (1,735,385) | (13,406,387) | (13,501,442) | (5,844,034) | (19,345,476) |
| Net Effect (A-B) | 14,618,512 | (11,083,503) | 3,535,009 | 12,587,271 | (12,890,103) | (302,827) |

(1) Includes receivable adjustments relating to hedge of assets and liabilities, designated and/or indexed in foreign currency, primarily, arising from foreign investments, eliminating the effects of exchange variation of these assets and liabilities.

III) Futures, options, forward and swap contracts – (Reference Value)

| | On December 31 - R\$ thousand | | | | 2016 | 2015 |
|-----------------------|-------------------------------|----------------|-----------------|--------------------|-------------|-------------|
| | 1 to 90 days | 91 to 180 days | 181 to 360 days | More than 360 days | | |
| Futures contracts (1) | 102,977,764 | 9,530,011 | 9,844,936 | 112,671,376 | 235,024,087 | 220,501,389 |

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| | | | | | | |
|----------------------|--------------------|-------------------|-------------------|--------------------|--------------------|--------------------|
| Option contracts | 10,044,338 | 587,986 | 2,988,624 | 527,431 | 14,148,379 | 14,313,911 |
| Forward contracts | 20,894,959 | 7,554,290 | 4,453,133 | 3,404,513 | 36,306,895 | 31,338,914 |
| Swap contracts (1) | 18,592,643 | 11,307,608 | 8,824,006 | 91,784,770 | 130,509,027 | 198,027,093 |
| Total in 2016 | 152,509,704 | 28,979,895 | 26,110,699 | 208,388,090 | 415,988,388 | |
| Total in 2015 | 231,625,607 | 55,752,780 | 39,247,229 | 137,555,691 | | 464,181,307 |

(1) Includes contracts relating to hedges for the protection of assets and liabilities, designated and/or indexed in foreign currency, primarily, arising from foreign investments, eliminating the effects of exchange variation of these assets and liabilities

IV) Types of margin offered in guarantee of derivative financial instruments, mainly futures contracts

| | On December 31 - R\$ thousand | |
|------------------------------|-------------------------------|------------------|
| | 2016 | 2015 |
| Government securities | | |
| National treasury notes | 4,443,424 | 3,166,558 |
| National treasury bills | 2,840,800 | 94,479 |
| Total | 7,284,224 | 3,261,037 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**V) Revenues and expenses, net**

| | December 31 YTD- R\$ thousand | |
|---------------------------|-------------------------------|--------------------|
| | 2016 | 2015 |
| Swap contracts (1) | 2,711,592 | (182,415) |
| Forward contracts | 572,891 | (2,437,673) |
| Option contracts | (296,108) | 184,159 |
| Futures contracts (1) (2) | 12,760,291 | (4,599,822) |
| Total (Nota 7h) | 15,748,666 | (7,035,751) |

(1) Includes the gain (loss) and the respective adjustment to the market capitalization of the hedge for protection of the assets and liabilities, designated and/or indexed in foreign currency, primarily, arising from foreign investments; and

(2) Includes, the results and respective adjustment to the market value of the hedge of the firm commitment, concerning the purchase and sale of shares agreement, which was offset, completely, by the adjustment of the market value of the hedge object (Nota 33e).

VI) Reference values of derivative financial instruments, by trading location and counterparts

| | On December 31 - R\$ thousand | |
|---------------------------------|-------------------------------|--------------------|
| | 2016 | 2015 |
| BM&FBOVESPA (stock exchange) | 234,979,826 | 194,819,447 |
| CETIP (over-the-counter) | 154,396,924 | 225,747,300 |
| Overseas (stock exchange) (1) | 16,835,168 | 25,776,762 |
| Overseas (over-the-counter) (1) | 9,776,470 | 17,837,798 |
| Total | 415,988,388 | 464,181,307 |

(1) Comprised of operations carried out on the Chicago and New York Stock Exchanges and over-the-counter markets.

e) Credit Default Swaps (CDS)

On December 31, 2016, Bradesco had credit default swaps (CDS) with the following characteristics: the risk received in credit swaps whose underlying assets are “debt securities issued by companies” in the amount of R\$114,069 thousand (R\$136,668 thousand in 2015) and “bonds of the Brazilian public debt” in the amount of R\$668,115 thousand and the risk transferred in credit swaps whose underlying assets are “derivatives of the Brazilian public debt” is R\$(16,296) thousand, amounting to a total net credit risk value of negative R\$765,888 thousand (R\$136,668 thousand in 2015), with an effect on the calculation of required shareholders’ equity of negative R\$11,977 thousand (R\$15,033 thousand in 2015). The contracts related to credit derivatives transactions described above are due in 2021. The mark-to-market of the protection rates that remunerates the counterparty that received the risk totaled R\$(1,067) thousand (R\$42 thousand in 2015). There were no credit events, as defined in the agreements, during the period.

f) Cash flow hedge

On December 31, 2016, Bradesco used cash flow hedges to protect the cash flow from receipts of interest on investments in securities, related to the risk of a variable interest rate of the DI, using DI Futures contracts, amounting to R\$21,502,218 thousand (R\$28,251,095 thousand in 2015), having as object of hedge the securities backed in DI, to the sum of R\$21,476,571 thousand (R\$25,541,835 thousand in 2015), making the cash flow fixed in advance. The adjustment to fair value of these operations recognized in the shareholders’ equity was R\$43,190 thousand (R\$73,843 thousand in 2015), net of tax effects was R\$25,914 thousand (R\$44,306 thousand in 2015). The non-effective fair value recognized in profit or loss was of R\$(9,815) thousand. On December 31, 2015, Bradesco constituted hedge accounting, with the aim of protecting its cash flows from payment of interest rates on funds, regarding the floating interest rate of DI, being traded DI Future contracts on BM&FBOVESPA totaling R\$20,038,119 thousand, having as object of hedge captures linked to DI, totaling R\$20,334,375 thousand, converting to fixed cash flows. The adjustment to fair value of these operations recognized in the shareholders’ equity was R\$4,552 thousand, net of tax effects was R\$2,731 thousand. The effectiveness of the hedge portfolio was assessed in accordance with Bacen Circular Letter No. 3,082/02.

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Financial Statements of the Prudential Conglomerate and Independent Auditor’s Report

Notes to the Financial Statements of the Prudential Conglomerate

g) Hedge against market risk

On December 31, 2015, Bradesco had a hedge against market risk using the futures contracts and, later, with cash in foreign currencies which generated R\$(1,406,154) thousand, for protection from the effects of the exchange rate variation of the firm commitment, related to the contract for the purchase and sale of shares (Note 34f), which produced an adjustment at fair value of R\$(1,761,964) thousand. The effect of these operations resulted in the revenue of R\$(355,810) thousand. The effectiveness of the hedge portfolio was assessed in accordance with Bacen Circular Letter No. 3,082/02.

h) Income from securities, insurance and derivative financial instruments

| | December 31 YTD- R\$ thousand | |
|--|-------------------------------|-------------------|
| | 2016 | 2015 |
| Fixed income securities (1) | 21,580,476 | 19,496,468 |
| Interbank investments (Note 6b) | 22,763,516 | 20,946,689 |
| Equity securities (2) | (253,538) | 169,231 |
| Subtotal | 44,090,454 | 40,612,388 |
| Income from derivative financial instruments (Note 7d V) | 15,748,666 | (7,035,751) |
| Total | 59,839,120 | 33,576,637 |

(1) During the year ended December 31, 2016, it includes the losses through impairment to the sum of R\$1,236,307 thousand; and

(2) During the year ended December 31, 2016, it includes the losses through impairment to the sum of R\$108,297 thousand (R\$135,850 thousand in 2015).

8) INTERBANK ACCOUNTS – RESERVE REQUIREMENT**a) Reserve requirement**

| | Remuneration | On December 31 - R\$ thousand | |
|---|---------------------|-------------------------------|-------------|
| | | 2016 | 2015 |
| Reserve requirement – demand deposits | not remunerated | 7,266,416 | 3,889,953 |
| Reserve requirement – savings deposits | savings index | 19,164,904 | 19,406,668 |
| Reserve requirement – time deposits | Selic rate | 16,798,087 | 16,399,981 |
| Additional reserve requirement – savings deposits | Selic rate | 5,245,387 | 5,023,233 |

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| | | | |
|--|--------------------|-------------------|-------------------|
| Additional reserve requirement – time deposits | Selic rate | 9,561,737 | 10,072,059 |
| Reserve requirement – SFH | TR + interest rate | 792,642 | 686,217 |
| Total | | 58,829,173 | 55,478,111 |

b) Revenue from reserve requirement

| | December 31 YTD- R\$ thousand | |
|-----------------------------|-------------------------------|------------------|
| | 2016 | 2015 |
| Reserve requirement – Bacen | 5,667,516 | 4,587,412 |
| Reserve requirement – SFH | 50,043 | 16,583 |
| Total | 5,717,559 | 4,603,995 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**9) LOANS**

Information relating to loans, including advances on foreign exchange contracts, leasing and other receivables with credit characteristics is shown below:

a) By type and maturity

| | 1 to 30 | 31 to 60 | 61 to 90 | 91 to 180 | Performing loan 181 to 360 | Mo 36 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------------------|------------|
| | days | days | days | days | days | |
| Discounted trade receivables and loans (1) | 22,226,613 | 12,469,940 | 11,208,710 | 20,564,396 | 23,522,460 | 66 |
| Financing | 4,411,624 | 4,265,978 | 3,917,485 | 11,769,982 | 17,391,219 | 89 |
| Agricultural and agribusiness loans | 559,902 | 689,399 | 683,149 | 2,333,820 | 7,646,902 | 8 |
| Subtotal | 27,198,139 | 17,425,317 | 15,809,344 | 34,668,198 | 48,560,581 | 165 |
| Leasing | 150,254 | 145,700 | 122,509 | 347,187 | 543,625 | 1 |
| Advances on foreign exchange contracts (2) | 967,490 | 1,952,177 | 1,781,249 | 2,569,210 | 1,833,864 | |
| Subtotal | 28,315,883 | 19,523,194 | 17,713,102 | 37,584,595 | 50,938,070 | 166 |
| Other receivables (3) | 12,046,446 | 7,753,050 | 2,691,394 | 5,326,237 | 4,486,165 | 1 |
| Total loans | 40,362,329 | 27,276,244 | 20,404,496 | 42,910,832 | 55,424,235 | 168 |
| Sureties and guarantees (4) | 4,331,635 | 1,665,670 | 1,180,338 | 5,947,167 | 15,753,938 | 50 |
| Loan assignment - real estate receivables certificate | 42,003 | 42,000 | 41,998 | 120,872 | 180,390 | |
| Acquisition of credit card receivables | 391,601 | 159,946 | 76,165 | 104,462 | 43,677 | |
| Loans available for import (4) | 75,508 | 39,131 | 73,046 | 92,911 | 39,940 | |
| Confirmed exports loans (4) | 4,158 | 6,562 | 1,957 | 33,572 | 20,000 | |
| Co-obligation from assignment of rural loan (4) | - | - | - | - | - | |
| Total in 2016 | 45,207,234 | 29,189,553 | 21,778,000 | 49,209,816 | 71,462,180 | 219 |
| Total in 2015 | 41,358,470 | 28,667,671 | 18,855,035 | 44,739,069 | 63,153,454 | 215 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

| | Non-performing loans Past-due installments | | | | | | On December 31, 2016 | |
|--|---|------------------|------------------|------------------|------------------|-------------------|----------------------|--|
| | 1 to 30 | 31 to 60 | 61 to 90 | 91 to 180 | 181 to 540 | Total in | % (5) | |
| | days | days | days | days | days | 2016 (B) | | |
| Discounted trade receivables and loans (1) | 1,678,411 | 1,765,075 | 1,389,652 | 3,542,404 | 5,345,870 | 13,721,412 | 77.6 | |
| Financing | 455,708 | 253,194 | 181,924 | 456,891 | 316,299 | 1,664,016 | 9.4 | |
| Agricultural and agribusiness loans | 49,508 | 87,949 | 125,903 | 150,550 | 72,099 | 486,009 | 2.7 | |
| Subtotal | 2,183,627 | 2,106,218 | 1,697,479 | 4,149,845 | 5,734,268 | 15,871,437 | 89.7 | |
| Leasing | 12,158 | 10,380 | 7,737 | 15,054 | 10,047 | 55,376 | 0.3 | |
| Advances on foreign exchange contracts (2) | 10,356 | 50,944 | 47,428 | 13,115 | - | 121,843 | 0.7 | |
| Subtotal | 2,206,141 | 2,167,542 | 1,752,644 | 4,178,014 | 5,744,315 | 16,048,656 | 90.7 | |
| Other receivables (3) | 1,118,927 | 36,377 | 33,112 | 220,308 | 228,396 | 1,637,120 | 9.3 | |
| Grand total in 2016 | 3,325,068 | 2,203,919 | 1,785,756 | 4,398,322 | 5,972,711 | 17,685,776 | 100.0 | |
| Grand total in 2015 | 1,914,268 | 1,550,440 | 1,282,453 | 3,119,025 | 3,821,050 | | | |

| | Non-performing loans Installments not yet due | | | | | | On December 31, 2016 | |
|--|--|------------------|----------------|------------------|------------------|-------------------|----------------------|--|
| | 1 to 30 | 31 to 60 | 61 to 90 | 91 to 180 | 181 to 360 | More than 360 | Total in | |
| | days | days | days | days | days | days | 2016 (C) | |
| Discounted trade receivables and loans (1) | 924,652 | 802,295 | 669,229 | 1,653,595 | 2,558,517 | 6,349,289 | 12,957,577 | |
| Financing | 284,522 | 262,701 | 238,416 | 696,760 | 1,047,108 | 3,752,689 | 6,282,196 | |
| Agricultural and agribusiness loans | 810 | 1,720 | 2,239 | 13,709 | 76,243 | 231,888 | 326,609 | |
| Subtotal | 1,209,984 | 1,066,716 | 909,884 | 2,364,064 | 3,681,868 | 10,333,866 | 19,566,386 | |
| Leasing | 11,115 | 11,491 | 9,569 | 26,170 | 40,295 | 72,166 | 170,805 | |
| Subtotal | 1,221,099 | 1,078,207 | 919,453 | 2,390,234 | 3,722,163 | 10,406,032 | 19,737,191 | |
| Other receivables (3) | 4,379 | 3,841 | 3,269 | 7,906 | 9,302 | 12,780 | 41,477 | |
| Total in 2016 | 1,225,478 | 1,082,048 | 922,722 | 2,398,140 | 3,731,465 | 10,418,812 | 19,778,668 | |
| Total in 2015 | 1,018,207 | 847,664 | 796,478 | 1,934,457 | 3,098,535 | 7,885,896 | | |

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Notes to the Financial Statements of the Prudential Conglomerate

| | On December 31 - R\$ thousand | | | |
|---|-------------------------------|--------------|----------------------|--------------|
| | Total in 2016 | % (5) | Total in 2015 | % (5) |
| | (A+B+C) | | (A+B+C) | |
| Discounted trade receivables and loans (1) | 183,564,501 | 38.7 | 179,044,007 | 40.7 |
| Financing | 139,469,684 | 29.5 | 130,893,777 | 29.8 |
| Agricultural and agribusiness loans | 21,670,986 | 4.6 | 20,843,832 | 4.7 |
| Subtotal | 344,705,171 | 72.8 | 330,781,616 | 75.2 |
| Leasing | 2,783,356 | 0.6 | 3,072,777 | 0.7 |
| Advances on foreign exchange contracts (2) (Note 10a) | 9,225,833 | 1.9 | 7,646,767 | 1.7 |
| Subtotal | 356,714,360 | 75.3 | 341,501,160 | 77.6 |
| Other receivables (3) | 35,434,204 | 7.5 | 25,488,316 | 5.8 |
| Total loans | 392,148,564 | 82.8 | 366,989,476 | 83.4 |
| Sureties and guarantees (4) | 78,947,801 | 16.7 | 69,883,007 | 15.9 |
| Loan assignment – real estate receivables certificate | 1,033,748 | 0.2 | 1,159,747 | 0.3 |
| Acquisition of credit card receivables | 775,851 | 0.2 | 1,292,981 | 0.3 |
| Loans available for import (4) | 329,015 | 0.1 | 245,751 | 0.1 |
| Confirmed exports loans (4) | 66,249 | - | 40,092 | - |
| Co-obligation from assignment of rural loan (4) | 81,653 | - | 91,234 | - |
| Total in 2016 | 473,382,881 | 100.0 | | |
| Total in 2015 | | | 439,702,288 | 100.0 |

(1) Including credit card loans and advances on credit card receivables of R\$17,481,923 thousand (R\$16,868,308 thousand in 2015);

(2) Advances on foreign exchange contracts are classified as a deduction from "Other Liabilities";

(3) The item "Other Receivables" comprises receivables on sureties and guarantees honored, receivables on sale of assets, securities and credits receivable, income receivable from foreign exchange contracts and export contracts and credit card receivables (cash and installment purchases at merchants) totaling R\$25,628,739 thousand (R\$20,745,581 thousand in 2015);

(4) Recognized in off-balance sheet accounts; and

(5) Percentage of each type in relation to the total loan portfolio, including sureties and guarantee, loan assignment and acquisition of receivables.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**b) By type and levels of risk**

| | Levels | | | | | |
|--|--------------------|--------------------|-------------------|-------------------|-------------------|------------------|
| | AA | A | B | C | D | E |
| Discounted trade receivables and loans | 33,117,864 | 77,815,331 | 11,906,683 | 23,621,868 | 8,813,321 | 4,616,960 |
| Financing | 83,451,517 | 21,503,635 | 19,630,512 | 6,782,767 | 3,121,692 | 1,193,060 |
| Agricultural and agribusiness loans | 5,604,641 | 4,857,598 | 7,730,504 | 2,078,275 | 753,810 | 263,820 |
| Subtotal | 122,174,022 | 104,176,564 | 39,267,699 | 32,482,910 | 12,688,823 | 6,073,840 |
| Leasing | 337,586 | 444,775 | 1,700,257 | 51,298 | 52,951 | 30,700 |
| Advances on foreign exchange contracts (2) | 2,448,149 | 3,033,800 | 2,051,733 | 1,409,647 | 132,081 | 45,160 |
| Subtotal | 124,959,757 | 107,655,139 | 43,019,689 | 33,943,855 | 12,873,855 | 6,149,710 |
| Other receivables | 4,108,820 | 21,058,129 | 3,143,892 | 4,249,883 | 295,690 | 98,680 |
| Total in 2016 | 129,068,577 | 128,713,268 | 46,163,581 | 38,193,738 | 13,169,545 | 6,248,400 |
| % | 32.9 | 32.8 | 11.8 | 9.7 | 3.4 | 1.6 |
| Total in 2015 | 75,714,421 | 147,688,858 | 65,230,625 | 43,945,919 | 10,027,355 | 3,794,570 |
| % | 20.6 | 40.3 | 17.8 | 12.0 | 2.7 | 1.0 |

(1) Percentage of each type in relation to the total loan portfolio, excluding sureties and guarantees, loan assignments, acquisition of receivables and co-obligation in rural loan assignments; and

(2) See Note 10a.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**c) Maturity ranges and levels of risk**

| | Levels of risk | | | | | | | | Total in 2016 | |
|----------------------------------|----------------|---------|-----------|-----------|-----------|-----------|-----------|------------|------------------|---|
| | AAA | B | C | D | E | F | G | H | | |
| Installments not yet due | - | - | - | - | - | - | - | - | - | - |
| 1 to 30 | - | 156,772 | 239,916 | 157,925 | 101,702 | 78,074 | 72,846 | 418,243 | 1,225,4 | |
| 31 to 60 | - | 110,163 | 189,001 | 144,682 | 92,621 | 74,575 | 69,969 | 401,037 | 1,082,0 | |
| 61 to 90 | - | 93,238 | 151,219 | 127,118 | 81,298 | 65,500 | 59,902 | 344,447 | 922,7 | |
| 91 to 180 | - | 196,646 | 380,797 | 341,905 | 221,464 | 173,917 | 160,167 | 923,244 | 2,398,1 | |
| 181 to 360 | - | 243,537 | 628,104 | 549,220 | 364,937 | 279,556 | 251,042 | 1,415,069 | 3,731,4 | |
| More than 360 | - | 468,916 | 2,039,345 | 1,996,380 | 1,050,424 | 745,719 | 599,774 | 3,518,254 | 10,418,8 | |
| Past-due installments (2) | - | - | - | - | - | - | - | - | - | - |
| 1 to 14 | - | 5,505 | 88,438 | 102,302 | 219,729 | 33,240 | 25,047 | 339,832 | 814,0 | |
| 15 to 30 | - | 416,114 | 321,534 | 151,587 | 90,251 | 53,872 | 44,667 | 1,432,950 | 2,510,9 | |
| 31 to 60 | - | 8,476 | 808,202 | 338,602 | 177,791 | 107,861 | 238,067 | 524,920 | 2,203,9 | |
| 61 to 90 | - | - | 37,180 | 726,253 | 207,338 | 221,747 | 105,162 | 488,076 | 1,785,7 | |
| 91 to 180 | - | - | 6,139 | 33,037 | 652,062 | 752,975 | 932,332 | 2,021,777 | 4,398,3 | |
| 181 to 360 | - | - | - | - | 13,202 | 22,715 | 21,644 | 5,703,174 | 5,760,7 | |
| More than 360 | - | - | - | - | - | - | - | 211,976 | 211,9 | |
| Subtotal | - | - | - | - | - | - | - | - | - | - |
| Specific provision | - | 16,994 | 146,696 | 466,901 | 982,117 | 1,305,418 | 1,806,977 | 17,742,999 | 22,468,1 | |

(1) Percentage of maturities by type of installment; and

(2) For transactions with terms of more than 36 months, past-due periods are doubled, as permitted by CMN Resolution No. 2,682/99.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

| | Levels of risk Performing loans | | | | | | | |
|---------------------------------|------------------------------------|--------------------|-------------------|-------------------|-------------------|------------------|------------------|--------------|
| | AA | A | B | C | D | E | F | G |
| Installments not yet due | 129,068,577 | 128,713,268 | 44,464,214 | 33,303,863 | 8,500,534 | 2,975,584 | 1,154,901 | 525 |
| 1 to 30 | 8,203,013 | 19,434,389 | 3,768,012 | 6,319,409 | 1,076,823 | 238,564 | 118,363 | 87 |
| 31 to 60 | 6,132,362 | 12,871,040 | 3,051,448 | 3,990,162 | 472,120 | 171,912 | 99,831 | 39 |
| 61 to 90 | 6,873,201 | 7,900,837 | 1,878,922 | 2,626,336 | 464,947 | 135,855 | 48,376 | 30 |
| 91 to 180 | 13,719,679 | 16,799,007 | 5,796,371 | 4,864,234 | 617,523 | 370,297 | 90,349 | 74 |
| 181 to 360 | 18,284,398 | 21,923,070 | 7,405,737 | 5,397,762 | 819,515 | 482,135 | 229,100 | 85 |
| More than 360 | 75,855,924 | 49,784,925 | 22,563,724 | 10,105,960 | 5,049,606 | 1,576,821 | 568,882 | 207 |
| Generic provision | - | 643,970 | 444,642 | 999,116 | 850,556 | 892,675 | 577,723 | 367 |
| Grand total in 2016 (2) | 129,068,577 | 128,713,268 | 46,163,581 | 38,193,738 | 13,169,545 | 6,248,403 | 3,764,652 | 3,105 |
| Existing provision | - | 835,997 | 996,189 | 2,392,112 | 3,936,063 | 3,114,306 | 2,630,188 | 3,087 |
| Minimum required provision | - | 643,970 | 461,636 | 1,145,812 | 1,317,457 | 1,874,792 | 1,883,141 | 2,174 |
| Excess provision (3) | - | 192,027 | 534,553 | 1,246,300 | 2,618,606 | 1,239,514 | 747,047 | 912 |
| Grand total in 2015 (2) | 75,714,421 | 147,688,858 | 65,230,625 | 43,945,919 | 10,027,355 | 3,794,578 | 3,444,653 | 2,090 |
| Existing provision | - | 844,174 | 746,872 | 3,994,638 | 2,558,553 | 1,854,649 | 2,370,177 | 2,076 |
| Minimum required provision | - | 738,492 | 652,307 | 1,318,378 | 1,002,735 | 1,138,374 | 1,722,326 | 1,463 |
| Excess provision (3) | - | 105,682 | 94,565 | 2,676,260 | 1,555,818 | 716,275 | 647,851 | 613 |

(1) Percentage of maturities by type of installment;

(2) The total includes performing loans of R\$354,684,123 thousand (R\$339,721,003 thousand in 2015) and non-performing loans of R\$37,464,441 thousand (R\$27,268,473 thousand in 2015); and

(3) On December 31, 2016, it includes a provision for guarantees provided, comprising sureties, letters of credit and standby letter of credit, which is presented here within the balance for the excess provision, and totals R\$3,060,990 thousand of which (i) R\$604,623 thousand refers, initially, to the specific portion, in accordance with Resolution No. 4,512/16, that will be allocated to a specific account in January 2017, and (ii) R\$2,456,367 thousand refers to a surplus portion that will comprise the surplus provision over a loan portfolio (R\$694,184 thousand in 2015) (Note 20b).

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**d) Concentration of loans**

| | On December 31 - R\$ thousand | | | |
|-----------------------|-------------------------------|--------------|-------------|--------------|
| | 2016 | % (1) | 2015 | % (1) |
| Largest borrower | 8,813,581 | 2.2 | 10,241,594 | 2.8 |
| 10 largest borrowers | 33,142,835 | 8.5 | 33,934,087 | 9.2 |
| 20 largest borrowers | 49,304,501 | 12.6 | 49,215,450 | 13.4 |
| 50 largest borrowers | 72,750,721 | 18.6 | 72,260,779 | 19.7 |
| 100 largest borrowers | 90,181,624 | 23.0 | 88,061,715 | 24.0 |

(1) Percentage on total portfolio (as defined by Bacen).

e) By economic sector

| | On December 31 - R\$ thousand | | | |
|--|-------------------------------|-------------|--------------------|-------------|
| | 2016 | % | 2015 | % |
| Public sector | 8,813,581 | 2.2 | 10,250,375 | 2.8 |
| Federal government | 8,813,581 | 2.2 | 10,241,594 | 2.8 |
| Petrochemical | 8,813,581 | 2.2 | 10,241,594 | 2.8 |
| State government | - | - | 8,781 | - |
| Production and distribution of electricity | - | - | 8,781 | - |
| Private sector | 383,334,983 | 97.8 | 356,739,101 | 97.2 |
| Manufacturing | 68,659,155 | 17.6 | 65,158,128 | 17.7 |
| Food products and beverages | 16,616,458 | 4.2 | 13,663,410 | 3.7 |
| Steel, metallurgy and mechanics | 12,037,852 | 3.1 | 11,036,550 | 3.0 |
| Light and heavy vehicles | 9,661,882 | 2.5 | 8,690,405 | 2.4 |
| Pulp and paper | 5,307,358 | 1.4 | 4,532,249 | 1.2 |
| Chemical | 3,729,962 | 1.0 | 5,623,541 | 1.5 |
| Textiles and apparel | 2,702,434 | 0.7 | 2,905,258 | 0.8 |
| Automotive parts and accessories | 2,653,298 | 0.7 | 2,135,485 | 0.6 |
| Rubber and plastic articles | 2,628,035 | 0.7 | 2,820,736 | 0.8 |
| Non-metallic materials | 2,539,204 | 0.6 | 1,948,504 | 0.5 |
| Furniture and wood products | 2,031,428 | 0.5 | 2,118,945 | 0.6 |
| Extraction of metallic and non-metallic ores | 1,639,453 | 0.4 | 2,390,913 | 0.6 |

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| | | | | |
|--|-------------------|-------------|-------------------|-------------|
| Oil refining and production of alcohol | 1,351,070 | 0.3 | 1,492,215 | 0.4 |
| Electric and electronic products | 1,261,017 | 0.3 | 1,313,480 | 0.4 |
| Leather articles | 1,054,014 | 0.3 | 903,781 | 0.2 |
| Publishing, printing and reproduction | 633,217 | 0.2 | 552,354 | 0.2 |
| Other industries | 2,812,473 | 0.7 | 3,030,302 | 0.8 |
| Commerce | 43,094,790 | 11.0 | 41,167,862 | 11.2 |
| Merchandise in specialty stores | 7,239,485 | 1.8 | 7,562,731 | 2.0 |
| Non-specialized retailer | 7,161,921 | 1.8 | 6,359,532 | 1.7 |
| Food products, beverages and tobacco | 5,296,989 | 1.4 | 4,874,823 | 1.3 |
| Waste and scrap | 4,101,903 | 1.0 | 3,387,141 | 0.9 |
| Clothing and footwear | 2,689,705 | 0.7 | 3,006,953 | 0.8 |
| Agricultural products | 2,620,565 | 0.7 | 2,066,407 | 0.6 |
| Automobile | 2,580,276 | 0.7 | 2,830,651 | 0.8 |
| Motor vehicle repairs, parts and accessories | 2,541,537 | 0.6 | 2,832,412 | 0.8 |
| Grooming and household articles | 2,280,972 | 0.6 | 1,877,115 | 0.5 |
| Fuel | 1,681,438 | 0.4 | 1,846,528 | 0.5 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

| | On December 31 - R\$ thousand | | | |
|---|-------------------------------|--------------|--------------------|--------------|
| | 2016 | % | 2015 | % |
| Wholesale of goods in general | 1,152,768 | 0.3 | 1,029,359 | 0.3 |
| Trading intermediary | 809,701 | 0.2 | 1,026,999 | 0.3 |
| Other commerce | 2,937,530 | 0.8 | 2,467,211 | 0.7 |
| Financial intermediaries | 2,241,631 | 0.6 | 4,252,849 | 1.2 |
| Services | 94,007,360 | 23.9 | 96,464,131 | 26.3 |
| Civil construction | 23,608,035 | 6.0 | 23,347,260 | 6.4 |
| Transportation and storage | 16,244,912 | 4.1 | 17,471,591 | 4.8 |
| Real estate activities, rentals and corporate services | 15,607,480 | 4.0 | 12,335,436 | 3.4 |
| Holding companies, legal, accounting and business advisory services | 8,764,597 | 2.2 | 7,165,977 | 1.9 |
| Production and distribution of electric power, gas and water | 5,244,520 | 1.3 | 4,722,345 | 1.3 |
| Clubs, leisure, cultural and sport activities | 5,034,333 | 1.3 | 5,675,333 | 1.5 |
| Social services, education, health, defense and social security | 3,655,042 | 0.9 | 3,118,796 | 0.8 |
| Hotels and catering | 2,967,894 | 0.8 | 2,867,336 | 0.8 |
| Telecommunications | 330,596 | 0.1 | 440,342 | 0.1 |
| Other services | 12,549,951 | 3.2 | 19,319,715 | 5.3 |
| Agriculture, cattle raising, fishing, forestry and timber industry | 4,337,781 | 1.1 | 3,155,975 | 0.9 |
| Individuals | 170,994,266 | 43.6 | 146,540,156 | 39.9 |
| Total | 392,148,564 | 100.0 | 366,989,476 | 100.0 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**f) Breakdown of loans and allowance for loan losses**

| Level of risk | Non-performing loans | | Portfolio balance | | Total | % (1) 2 |
|----------------------------|-----------------------|--------------------------|------------------------------|--------------------|--------------------|--------------|
| | Installments past due | Installments not yet due | Total - non-performing loans | Performing loans | | |
| | | | | | | |
| AA | - | - | - | 129,068,577 | 129,068,577 | 32.9 |
| A | - | - | - | 128,713,268 | 128,713,268 | 32.8 |
| B | 430,095 | 1,269,272 | 1,699,367 | 44,464,214 | 46,163,581 | 11.8 |
| C | 1,261,493 | 3,628,382 | 4,889,875 | 33,303,863 | 38,193,738 | 9.7 |
| Subtotal | 1,691,588 | 4,897,654 | 6,589,242 | 335,549,922 | 342,139,164 | 87.2 |
| D | 1,351,781 | 3,317,230 | 4,669,011 | 8,500,534 | 13,169,545 | 3.4 |
| E | 1,360,373 | 1,912,446 | 3,272,819 | 2,975,584 | 6,248,403 | 1.6 |
| F | 1,192,410 | 1,417,341 | 2,609,751 | 1,154,901 | 3,764,652 | 1.0 |
| G | 1,366,919 | 1,213,700 | 2,580,619 | 525,047 | 3,105,666 | 0.8 |
| H | 10,722,705 | 7,020,294 | 17,742,999 | 5,978,135 | 23,721,134 | 6.0 |
| Subtotal | 15,994,188 | 14,881,011 | 30,875,199 | 19,134,201 | 50,009,400 | 12.8 |
| Grand total in 2016 | 17,685,776 | 19,778,665 | 37,464,441 | 354,684,123 | 392,148,564 | 100.0 |
| % | 4.5 | 5.1 | 9.6 | 90.4 | 100.0 | |
| Grand total in 2015 | 11,687,236 | 15,581,237 | 27,268,473 | 339,721,003 | 366,989,476 | |
| % | 3.2 | 4.2 | 7.4 | 92.6 | 100.0 | |

(1) Percentage of level of risk in relation to the total portfolio; and

(2) Cumulative percentage of level of risk on total portfolio.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

| Level of risk | % Minimum provisioning required | Minimum required Specific | | Provision | | |
|----------------------------|---------------------------------|---------------------------|--------------------------|-------------------|-------------------|-------------------|
| | | Installments past due | Installments not yet due | Total specific | Generic | Total |
| AA | - | - | - | - | - | - |
| A | 0.5 | - | - | - | 643,970 | 643,970 |
| B | 1.0 | 4,301 | 12,693 | 16,994 | 444,642 | 461,636 |
| C | 3.0 | 37,845 | 108,851 | 146,696 | 999,116 | 1,145,812 |
| Subtotal | | 42,146 | 121,544 | 163,690 | 2,087,728 | 2,251,418 |
| D | 10.0 | 135,178 | 331,723 | 466,901 | 850,556 | 1,317,457 |
| E | 30.0 | 408,383 | 573,734 | 982,117 | 892,675 | 1,874,792 |
| F | 50.0 | 596,476 | 708,942 | 1,305,418 | 577,723 | 1,883,141 |
| G | 70.0 | 957,115 | 849,862 | 1,806,977 | 367,804 | 2,174,781 |
| H | 100.0 | 10,722,705 | 7,020,294 | 17,742,999 | 5,978,135 | 23,721,134 |
| Subtotal | | 12,819,857 | 9,484,555 | 22,304,412 | 8,666,893 | 30,971,305 |
| Grand total in 2016 | | 12,862,003 | 9,606,099 | 22,468,102 | 10,754,621 | 33,222,723 |
| % | | 31.6 | 23.6 | 55.2 | 26.4 | 81.6 |
| Grand total in 2015 | | 7,547,734 | 6,725,897 | 14,273,631 | 8,814,824 | 23,088,455 |
| % | | 25.6 | 22.8 | 48.4 | 29.9 | 78.3 |

(1) Percentage of existing provision in relation to total portfolio, by level of risk; and

(2) On December 31, 2016, it includes a provision for guarantees provided, comprising sureties, letters of credit and standby letter of credit, which is presented here within the balance for excess provision, and totals R\$3,060,990 thousand of which (i) R\$604,623 thousand refers, initially, to the specific portion, in accordance with Resolution No. 4,512/16, that will be allocated to a specific account in January 2017; and (ii) R\$2,456,367 thousand refers to a surplus portion that will comprise the surplus provision over a loan portfolio (R\$694,184 thousand in 2015) (Note 20b).

Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**g) Changes in allowance for loan losses**

| | On December 31 YTD - R\$ thousand | |
|---|-----------------------------------|---------------------|
| | 2016 | 2015 |
| Opening balance | 29,497,977 | 23,087,243 |
| - Specific provision (1) | 14,273,631 | 11,946,960 |
| - Generic provision (2) | 8,814,824 | 7,134,243 |
| - Excess provision (3) (4) | 6,409,522 | 4,006,040 |
| Additions (Note 9h-1) | 26,742,316 | 20,989,175 |
| Balance originating from an acquired institution (5) | 7,273,313 | - |
| Write-offs/other | (22,800,532) | (14,578,441) |
| Closing balance | 40,713,074 | 29,497,977 |
| - Specific provision (1) | 22,468,102 | 14,273,631 |
| - Generic provision (2) | 10,754,621 | 8,814,824 |
| - Excess provision (3) (4) | 7,490,351 | 6,409,522 |

(1) For contracts with installments past due for more than 14 days;

(2) Recognized based on the customer/transaction classification and therefore not included in the preceding item;

(3) The additional provision is recognized based on Management's experience and the expectation in relation to the loan portfolio, to determine the total provision deemed sufficient to cover specific and general credit risk, when considered together with the provision calculated based on levels of risk and the corresponding minimum percentage in the provision established by Resolution No. 2,682/99. The excess provision per customer was classified according to the level of risk in Note 9f;

(4) On December 31, 2016, it includes the provision for guarantees provided, comprising sureties, letters of credit and standby letter of credit, which is presented here within the balance for excess provision, and totals R\$3,060,990 thousand of which (i) R\$604,623 thousand refers, initially, to the specific portion, in accordance with Resolution No. 4,512/16, that will be allocated to a specific account in January 2017; and (ii) R\$2,456,367 thousand refers to a surplus portion that will comprise the surplus provision over a loan portfolio (R\$694,184 thousand in 2015) (Note 20b); and

(5) Represented by HSBC Brasil (Note 34f).

h) Allowance for Loan Losses expense net of amounts recovered

Expenses with the allowance for loan losses, net of credit write-offs recovered, are as follows,

| | On December 31 YTD - R\$ thousand | |
|---|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Amount recorded (1) | 26,742,316 | 20,989,175 |
| Amount recovered (2) (3) | (5,522,379) | (4,154,122) |
| Allowance for Loan Losses expense net of amounts recovered | 21,219,937 | 16,835,053 |

(1) During the year ended December 31, 2016, includes amount recognized of the provision of guarantees offered, comprising sureties, guarantees, letters of credit and standby letter of credit, which are presented in the "surplus" provision, totaling R\$2,366,806 thousand of which (i) R\$604,623 thousand refer, initially, to the specific portion, in accordance with Resolution No. 4,512/16; and (ii) R\$1,762,183 thousand refer to a surplus portion (R\$272,588 thousand in 2015) (Note 28);

(2) Classified in income from loans (Note 9j); and

(3) As of December 2016, credit was granted for operations already written-off for losses, without the retention of risks and benefits, in the amount of R\$2,082,410 thousand, with effect on income in the amount of R\$41,648 thousand.

i) Changes in the renegotiated portfolio

| | On December 31 YTD - R\$ thousand | |
|--------------------------------------|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Opening balance | 12,732,277 | 10,777,178 |
| Amount renegotiated | 18,807,642 | 13,135,207 |
| Amount received | (9,013,965) | (7,261,018) |
| Write-offs | (5,011,949) | (3,919,090) |
| Closing balance | 17,514,005 | 12,732,277 |
| Allowance for loan losses | 11,981,827 | 8,432,306 |
| Percentage on renegotiated portfolio | 68.4% | 66.2% |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**j) Income from loans and leasing**

| | On December 31 YTD - R\$ thousand | |
|---|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Discounted trade receivables and loans | 51,102,931 | 46,187,463 |
| Financing | 17,153,430 | 15,301,119 |
| Agricultural and agribusiness loans | 1,849,249 | 1,611,727 |
| Subtotal | 70,105,610 | 63,100,309 |
| Recovery of credits charged-off as losses | 5,522,379 | 4,154,122 |
| Subtotal | 75,627,989 | 67,254,431 |
| Leasing, net of expenses | 379,628 | 505,182 |
| Total | 76,007,617 | 67,759,613 |

k) Conciliation of the composition of the portfolio of financial leasing, at present value, with the accounting balances (Notes 3g and 9b):

| | On December 31 YTD - R\$ thousand | |
|---|-----------------------------------|--------------------|
| | 2016 | 2015 |
| Financial leases receivable | 2,662,234 | 2,885,869 |
| Income to be appropriated for financial leases receivable | (2,611,482) | (2,786,528) |
| Financial leased assets, plus lease losses (net) | 7,817,457 | 9,224,420 |
| Accrued depreciation on asset finance leasing: | (3,027,726) | (3,236,944) |
| - Accumulated depreciation | (4,661,827) | (5,625,879) |
| - Difference in depreciation | 1,634,101 | 2,388,935 |
| Anticipated guaranteed residual value (Note 20b) | (2,057,127) | (3,014,040) |
| Total of the present value | 2,783,356 | 3,072,777 |

10) OTHER RECEIVABLES**a) Foreign exchange portfolio**

Balances

| | On December 31 - R\$ thousand | |
|--|-------------------------------|-------------------|
| | 2016 | 2015 |
| Assets – other receivables | | |
| Exchange purchases pending settlement | 11,356,891 | 11,064,254 |
| Exchange sale receivables | 6,273,733 | 3,358,519 |
| (-) Advances in domestic currency received | (174,803) | (161,992) |
| Income receivable on advances granted | 165,089 | 108,718 |
| Total | 17,620,910 | 14,369,499 |
| Liabilities – other liabilities | | |
| Exchange sales pending settlement | 6,132,249 | 3,401,184 |
| Exchange purchase payables | 11,836,211 | 9,855,141 |
| (-) Advances on foreign exchange contracts | (9,225,833) | (7,646,767) |
| Other | 6,831 | 7,512 |
| Total | 8,749,458 | 5,617,070 |
| Net foreign exchange portfolio | 8,871,452 | 8,752,429 |
| Off-balance-sheet accounts: | | |
| - Loans available for import | 329,015 | 245,751 |
| - Confirmed exports loans | 66,249 | 40,092 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**Foreign exchange results****Adjusted foreign exchange results for presentation purposes**

| | On December 31 YTD - R\$ thousand | |
|---|-----------------------------------|--------------------|
| | 2016 | 2015 |
| Foreign exchange income | (2,992,019) | 5,332,710 |
| Adjustments: | | |
| - Income on foreign currency financing (1) | 185,027 | 370,318 |
| - Income on export financing (1) | 2,401,110 | 1,794,425 |
| - Income on foreign investments (2) | 18,790 | 59,908 |
| - Expenses of liabilities with foreign bankers (3) (Note 17c) | (152,497) | (2,349,502) |
| - Funding expenses (4) | (1,772,847) | (1,179,402) |
| - Other (5) | 4,342,460 | (2,891,631) |
| Total adjustments | 5,022,043 | (4,195,884) |
| Adjusted foreign exchange income | 2,030,024 | 1,136,826 |

(1) Recognized in "Income from loans";

(2) Recognized in "Income from operations with securities";

(3) Related to funds for financing of advances on foreign exchange contracts and import financing, recognized in "Borrowing and on-lending expenses";

(4) Refers to funding expenses of investments in foreign exchange; and

(5) Primarily includes the exchange rate variations of resources invested in foreign currency.

b) Sundry

On December 31 - R\$ thousand

| | 2016 | 2015 |
|----------------------------------|--------------------|-------------------|
| Deferred tax assets (Note 33c) | 48,576,195 | 46,376,596 |
| Credit card operations | 26,404,590 | 22,038,562 |
| Debtors for escrow deposits | 15,092,779 | 10,466,064 |
| Trade and credit receivables (1) | 9,624,637 | 5,632,752 |
| Prepaid taxes | 6,490,596 | 6,270,214 |
| Other debtors | 3,373,538 | 5,127,162 |
| Payments to be reimbursed | 592,072 | 706,035 |
| Receivables from sale of assets | 117,518 | 100,335 |
| Other | 490,131 | 388,706 |
| Total | 110,762,056 | 97,106,426 |

(1) Primarily includes receivables from the acquisition of loans and advances on receivables.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**11) OTHER ASSETS****a) Foreclosed assets/other**

| | | | On December 31 - R\$ thousand | |
|-------------------------------------|------------------|---------------------------------|---------------------------------------|------------------|
| | Cost | Provision for losses | Cost net of provision 2016 | 2015 |
| Real estate | 1,511,664 | (277,693) | 1,233,971 | 904,368 |
| Goods subject to special conditions | 581,141 | (581,141) | - | - |
| Vehicles and similar | 576,545 | (354,551) | 221,994 | 230,387 |
| Inventories/warehouse | 28,199 | - | 28,199 | 47,569 |
| Machinery and equipment | 20,156 | (14,627) | 5,529 | 6,117 |
| Other | 21,343 | (18,391) | 2,952 | 4,510 |
| Total in 2016 | 2,739,048 | (1,246,403) | 1,492,645 | |
| Total in 2015 | 2,053,188 | (860,237) | | 1,192,951 |

b) Prepaid expenses

| | On December 31 - R\$ thousand | |
|--|-------------------------------|------------------|
| | 2016 | 2015 |
| Commission on the placement of loans and financing (1) | 590,524 | 823,017 |
| Advertising and marketing expenses (2) | 54,898 | 196,889 |
| Other (3) | 1,870,105 | 1,288,366 |
| Total | 2,515,527 | 2,308,272 |

(1) Commissions paid to storeowners, car dealers and correspondent banks – payroll-deductible loans;

(2) Prepaid expenses of future advertising and marketing campaigns on media; and

(3) It includes, principally, (i) anticipation of commissions concerning the operational agreement to offer credit cards and other products and (ii) card issue costs.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**12) INVESTMENTS**

a) The income/expense from the equity method accounting of investments was recognized in the statement of income, under "Equity in the Earnings (Losses) of Unconsolidated and Jointly Controlled Companies", and correspond in 2016 to R\$\$ (2,464,567) thousand (R\$23,662,901 thousand in 2015) and the investments under the entry "Earnings of Affiliates and Subsidiaries", correspond to R\$39,502,068 thousand (R\$28,707,872 thousand in 2015),

| Companies (1) | Capital Stock | Shareholders' equity adjusted | Number of shares/ quotas held (in thousands) | | Equity interest consolidated on capital stock | Adjusted income | On Dec | |
|--|---------------|-------------------------------|---|-----------|---|-----------------|-----------|-----------------|
| | | | Common | Preferred | | | Quotas | Book value 2016 |
| Bradseg Participações S.A. (3) | 11,950,000 | 26,194,013 | 7,542,117 | - | - | 97.11% | 5,374,279 | 25,437,006 |
| Quixaba Empreendimentos e Participações Ltda. (4) | 7,613,896 | 7,249,968 | - | - | -761,389,607 | 100.00% | 156,119 | 7,249,968 |
| Kirton Seguros S.A. (5) | 554,865 | 1,065,971 | 26,751 | - | - | 98.08% | 131,777 | 1,045,504 |
| Tibre Holdings Ltda. | 275,000 | 560,553 | - | - | 275,000 | 100.00% | 58,983 | 560,553 |
| Bradescard Elo Participações S.A. Embaúba Holdings Ltda. | 669,200 | 392,587 | 4,167,605 | - | - | 100.00% | 56,791 | 392,587 |
| BF Promotora de Vendas Ltda. | 326,000 | 305,560 | - | - | 285,905 | 87.70% | 31,121 | 267,976 |
| Haitong Banco de Investimento do Brasil S.A. | 426,220 | 247,168 | - | - | 426,220 | 100.00% | (54,357) | 247,168 |
| Kirton Corretora de Seguros S.A. (5) | 420,000 | 639,610 | 12,734 | 12,734 | - | 20.00% | 7,980 | 127,922 |
| | 217,743 | 69,941 | 99,755 | - | - | 99.75% | 32,047 | 69,766 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|-------------------|
| Rubi Holdings Ltda. (6) | - | - | - | - | - | - | - | - |
| Investments in Affiliates and Foreign Controlled Companies | | | | | | | | 284,524 |
| Other (7) (8) | | | | | | | | 3,819,094 |
| Foreign exchange gain/loss of branches abroad | | | | | | | | |
| Total Earnings of Affiliates and Subsidiaries | | | | | | | | 39,502,068 |

(1) Data related to December 31, 2016;

(2) The adjustment considers income calculated periodically by the companies and includes equity variations recorded by the investees not recognized in profit or loss, as well as alignment of accounting practice adjustments, where applicable;

(3) Capital increase, in March 2016, in the amount of R \$ 241,000 thousand;

(4) Indirect investment until November 2016;

(5) Companies arising from the incorporation of HSBC balances in October 2016;

(6) Companies incorporated in November 2016 by Quixaba Empreendimentos e Participações Ltda.;

(7) In 2016, impairment losses were recognized in associates and joint control companies, in the amount of R\$37,122 thousand, on the investment in EBSE – Empresa Brasileira de Solda Elétrica S.A.; and

(8) Basically, investments in the enterprises: Serel Participações em Imóveis S,A,, Bankpar Consultoria e Serviços Ltda., Caetê Holdings Ltda., Ganant Corretora de Seguros Ltda., Miramar Holdings S,A,, Neon Holdings S,A, and Imagra Imobiliária e Agrícola Ltda.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**13) PREMISES AND EQUIPMENT AND LEASED ASSETS**

| | Annual rate of depreciation | Cost | Depreciation | On December 31 - R\$ thousand | |
|--|-----------------------------------|-------------------|--------------------|-------------------------------------|------------------|
| | | | | Cost net of depreciation 2016 | 2015 |
| Property and equipment: | | | | | |
| - Buildings | 4% | 317,379 | (33,462) | 283,917 | 13,718 |
| - Land | - | 380,594 | - | 380,594 | 5,514 |
| Facilities, furniture and equipment in use | 10% | 5,117,990 | (2,489,379) | 2,628,611 | 2,328,647 |
| Security and communication systems | 10% | 288,899 | (173,248) | 115,651 | 68,228 |
| Data processing systems | 20 to 40% | 3,745,597 | (2,341,757) | 1,403,840 | 952,765 |
| Transportation systems | 20% | 82,948 | (37,924) | 45,024 | 68,365 |
| Fixed Assets in Course | | - | - | - | 450 |
| Subtotal | | 9,933,407 | (5,075,770) | 4,857,637 | 3,437,687 |
| Leased assets | | 8,146,218 | (3,356,487) | 4,789,731 | 5,987,475 |
| Grand total in 2016 | | 18,079,625 | (8,432,257) | 9,647,368 | |
| Grand total in 2015 | | 17,381,552 | (7,956,390) | | 9,425,162 |

(1) In 2016, impairment losses were recognized in the statement of financial position items "Data processing systems" and "Transportation systems", in the amount of R\$32,977 thousand (R\$18,186 thousand in 2015, basically, in the statement of financial position item "Security and communications systems"),

The fixed assets to shareholders' equity ratio is 44.8% when considering only the companies and payment institutions within the economic group (the "Prudential Conglomerate"), where the maximum limit is 50.0%,

14) DEFERRED

As mentioned in Note 3I, in November 2016, the deferred charges item was excluded from the accounting plan and the balances were reclassified to the intangible asset. As of December 31, 2015, the balance of deferred charges was R\$15,634 thousand.

15) INTANGIBLE ASSETS**a) Intangible assets**

Acquired intangible assets consist of:

| | Rate of Amortization (1) | Cost | Amortization | On December 31 - R\$ thousand Cost net of amortization | |
|--|--------------------------------|-------------------|---------------------|---|------------------|
| | | | | 2016 | 2015 |
| Acquisition of financial services rights | Contract | 5,249,161 | (3,355,756) | 1,893,405 | 2,151,827 |
| Software (2) | 20% | 8,381,903 | (5,249,047) | 3,132,856 | 2,902,352 |
| Goodwill (3) | Up to 20% | 12,416,721 | (1,758,003) | 10,658,718 | 2,005,832 |
| Other | Contract | 3,053,566 | (767,494) | 2,286,072 | 2,367,237 |
| Total in 2016 | | 29,101,351 | (11,130,300) | 17,971,051 | |
| Total in 2015 | | 16,707,174 | (7,279,926) | | 9,427,248 |

(1) Intangible assets are amortized over an estimated period of economic benefit and recognized in “other administrative expenses” and “other operating expenses”, where applicable;

(2) Software acquired and/or developed by specialized companies; and

(3) Composed of goodwill on acquisition of equity interest in Banco Bradescard - R\$666,826 thousand, Cielo / Investidas - R\$965,313 thousand, Banco Bradesco BBI - R\$129,050 thousand and Kirton Bank - R\$8,881,478 thousand.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**b) Changes in intangible assets by type**

| | On December 31 - R\$ th | | | | |
|---|-------------------------|---|------------------------------------|-----------------------------------|-------------------|
| | Initial balance | Balance originating from an acquired institution (1) | Additions / (reductions) (3) | Amortization for the period | bal |
| Acquisition of financial services rights | 2,151,827 | 264,349 | 389,687 | (912,457) | 1,893,306 |
| Software | 2,902,352 | 288,826 | 2,316,760 | (2,375,083) | 3,132,855 |
| Goodwill – Future profitability(2) | 2,005,832 | 4,221,787 | (90,176) | (560,614) | 5,576,829 |
| Goodwill – Based on intangible assets and other reasons (2) | - | 3,771,674 | - | (289,712) | 3,481,962 |
| Goodwill – Difference in fair value of assets/liabilities (2) | - | 1,655,708 | - | (55,781) | 1,600,000 |
| Other | 2,367,237 | 4,840 | 166,301 | (252,306) | 2,285,872 |
| Total in 2016 | 9,427,248 | 10,207,184 | 2,782,572 | (4,445,953) | 17,971,051 |
| Total in 2015 | 6,228,514 | - | 5,366,208 | (2,167,474) | 9,427,248 |

(1) HSBC Brasil (Note 34f);

(2) It takes into account the effects of the study's final report on purchase price allocation ("PPA"); and

(3) Includes, during the year ended December 31, 2016, expenditure by analysis of recoverability of assets – impairment, to the value of R\$212,374 thousand (R\$207,880 thousand in 2015).

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Notes to the Financial Statements of the Prudential Conglomerate**16) DEPOSITS, SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND FUNDS FROM ISSUANCE OF SECURITIES****a) Deposits**

| | On December 31 - R\$ thousand | | | | | 2016 | 2015 |
|----------------------------|-------------------------------|-------------------|--------------------|-----------------------|--------------------|--------------------|------|
| | 1 to 30 days | 31 to 180 days | 181 to 360 days | More than 360 days | | | |
| Demand deposits (1) | 33,499,934 | - | - | - | 33,499,934 | 23,914,239 | |
| Savings deposits (1) | 97,088,828 | - | - | - | 97,088,828 | 91,878,816 | |
| Interbank deposits | 296,229 | 225,126 | 6,399 | 61,157 | 588,911 | 470,407 | |
| Time deposits (2) | 7,916,974 | 15,368,533 | 9,457,746 | 71,527,452 | 104,270,705 | 80,772,410 | |
| Grand total in 2016 | 138,801,965 | 15,593,659 | 9,464,145 | 71,588,609 | 235,448,378 | | |
| % | 59.0 | 6.6 | 4.0 | 30.4 | 100.0 | | |
| Grand total in 2015 | 132,480,349 | 11,878,558 | 9,501,609 | 43,175,356 | | 197,035,872 | |
| % | 67.3 | 6.0 | 4.8 | 21.9 | | 100.0 | |

(1) Classified as "1 to 30 days", not considering average historical turnover; and

(2) Considers the actual maturities of the respective investments.

b) Securities sold under agreements to repurchase

| | On December 31 - R\$ thousand | | | | | 2016 | 2015 |
|----------------------------------|-------------------------------|-------------------|--------------------|-----------------------|---------------------|--------------------|------|
| | 1 to 30 days | 31 to 180 days | 181 to 360 days | More than 360 days | | | |
| Own portfolio | 62,842,182 | 48,356,982 | 7,626,803 | 28,179,776 | 147,005,743 | 123,585,749 | |
| Government securities | 53,217,354 | 176,096 | 82,244 | 788 | 53,476,482 | 37,362,100 | |
| Debentures of own issuance | 4,620,760 | 47,031,754 | 7,311,376 | 27,312,488 | 86,276,378 | 82,082,129 | |
| Foreign | 5,004,068 | 1,149,132 | 233,183 | 866,500 | 7,252,883 | 4,141,520 | |
| Third-party portfolio (1) | 101,791,581 | - | - | - | -101,791,581 | 121,626,991 | |

| | | | | | | |
|-----------------------------------|--------------------|-------------------|------------------|-------------------|--------------------|--------------------|
| Unrestricted portfolio (1) | 8,602,775 | 338,405 | - | - | 8,941,180 | 4,882,372 |
| Grand total in 2016 | 173,236,538 | 48,695,387 | 7,626,803 | 28,179,776 | 257,738,504 | |
| % | 67.2 | 18.9 | 3.0 | 10.9 | 100.0 | |
| Grand total in 2015 | 168,442,854 | 49,181,159 | 6,151,156 | 26,319,943 | | 250,095,112 |
| % | 67.3 | 19.7 | 2.5 | 10.5 | | 100.0 |

(1) Represented by government securities,

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Notes to the Financial Statements of the Prudential Conglomerate**c) Funds from issuance of securities**

| | On December 31 - R\$ thousand | | | | | |
|--|-------------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| | 1 to 30 | 31 to 180 | 181 to 360 | More than | 2016 | 2015 |
| | days | days | days | 360 days | | |
| Securities – Brazil: | | | | | | |
| - Letters of credit for real estate | 551,705 | 10,068,278 | 8,927,415 | 7,408,176 | 26,955,574 | 20,223,220 |
| - Letters of credit for agribusiness | 534,493 | 2,839,570 | 4,368,997 | 1,373,232 | 9,116,292 | 7,642,250 |
| - Financial bills | 3,626,966 | 31,546,653 | 26,224,822 | 58,454,327 | 119,852,768 | 79,464,285 |
| Subtotal | 4,713,164 | 44,454,501 | 39,521,234 | 67,235,735 | 155,924,634 | 107,329,755 |
| Securities – Overseas: | | | | | | |
| - MTN Program Issues (1) | 2,461,922 | 145,083 | - | 178,649 | 2,785,654 | 6,221,382 |
| - Securitization of future flow of money orders received from overseas | 10,583 | 460,930 | 253,162 | 2,333,455 | 3,058,130 | 3,272,230 |
| Subtotal | 2,472,505 | 606,013 | 253,162 | 2,512,104 | 5,843,784 | 9,493,612 |
| Structured operations certificates | 28,445 | 154,336 | 229,368 | 33,019 | 445,168 | 512,343 |
| Grand total in 2016 | 7,214,114 | 45,214,850 | 40,003,764 | 69,780,858 | 162,213,586 | |
| % | 4.4 | 27.9 | 24.7 | 43.0 | 100.0 | |
| Grand total in 2015 | 4,601,838 | 20,055,363 | 28,481,507 | 64,197,002 | | 117,335,710 |
| % | 3.9 | 17.1 | 24.3 | 54.7 | | 100.0 |

(1) Issuance of securities on the international market to invest in foreign exchange transactions, pre-export financing, import financing and working capital financing, predominately in the medium and long term.

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Notes to the Financial Statements of the Prudential Conglomerate**d) Cost for market funding and inflation**

| | On December 31 YTD - R\$ thousand | |
|--|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Savings deposits | 6,712,509 | 6,450,258 |
| Time deposits | 8,780,895 | 9,757,877 |
| Securities sold under agreements to repurchase | 29,396,166 | 28,680,607 |
| Funds from of securities issued | 24,220,263 | 13,593,214 |
| Other funding expenses | 529,495 | 498,232 |
| Total | 69,639,328 | 58,980,188 |

17) BORROWING AND ON-LENDING**a) Borrowing**

| | On December 31 - R\$ thousand | | | | | |
|----------------------------|-------------------------------|-------------------|-------------------|------------------|-------------------|-------------------|
| | 1 to 30 | 31 to 180 | 181 to 360 | More than | 2015 | 2015 |
| | days | days | days | 360 days | | |
| Overseas | 3,319,166 | 9,876,176 | 6,620,203 | 2,354,029 | 22,169,574 | 32,129,309 |
| Grand total in 2016 | 3,319,166 | 9,876,176 | 6,620,203 | 2,354,029 | 22,169,574 | |
| % | 15.0 | 44.5 | 29.9 | 10.6 | 100.0 | |
| Grand total in 2015 | 4,596,891 | 10,582,367 | 9,900,105 | 7,049,946 | | 32,129,309 |
| % | 14.3 | 32.9 | 30.9 | 21.9 | | 100.0 |

b) On-lending

| | On December 31 - R\$ thousand | | | | | |
|--|-------------------------------|------------------|-------------------|------------------|-------------|-------------|
| | 1 to 30 | 31 to 180 | 181 to 360 | More than | 2016 | 2015 |
| | days | days | days | 360 days | | |

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| | | | | | | |
|----------------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|
| In Brazil | 994,954 | 4,619,556 | 5,597,057 | 24,819,020 | 36,030,587 | 38,203,163 |
| - National Treasury | - | - | 166,565 | - | 166,565 | 133,028 |
| - BNDES | 373,088 | 1,481,798 | 1,945,353 | 10,914,430 | 14,714,669 | 12,409,395 |
| - FINAME | 621,598 | 3,137,758 | 3,483,826 | 13,904,590 | 21,147,772 | 25,650,393 |
| - Other institutions | 268 | - | 1,313 | - | 1,581 | 10,347 |
| Overseas | - | - | - | - | - | 2,502 |
| Grand total in 2016 | 994,954 | 4,619,556 | 5,597,057 | 24,819,020 | 36,030,587 | |
| % | 2.8 | 12.8 | 15.5 | 68.9 | 100.0 | |
| Grand total in 2015 | 1,008,437 | 5,767,458 | 5,271,083 | 26,158,687 | | 38,205,665 |
| % | 2.6 | 15.1 | 13.8 | 68.5 | | 100.0 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**c) Borrowing and on-lending expenses**

| | On December 31 YTD - R\$ thousand | |
|--|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Borrowing: | | |
| - In Brazil | 623,436 | 451,871 |
| - Overseas | (10,865,977) | 24,585,669 |
| Subtotal borrowing | (10,242,541) | 25,037,540 |
| On-lending in Brazil: | | |
| - National Treasury | 12,377 | 7,292 |
| - BNDES | 1,032,792 | 769,167 |
| - FINAME | 661,503 | 825,788 |
| - Other institutions | 131 | 1,461 |
| On-lending overseas: | | |
| - Payables to foreign bankers (Note 10a) | 152,497 | 2,349,502 |
| - Other expenses with foreign on-lending | 4,470 | 119 |
| Subtotal on-lending | 1,863,770 | 3,953,329 |
| Total | (8,378,771) | 28,990,869 |

18) PROVISIONS, CONTINGENT ASSETS AND LIABILITIES AND LEGAL LIABILITIES – TAX AND SOCIAL SECURITY**a) Contingent assets**

Contingent assets are not recognized in the financial statements, However, there are ongoing proceedings where the chance of success is considered probable, such as: a) Social Integration Program (PIS), Bradesco has made a claim to offset PIS against Gross Operating Income, paid under Decree-Laws No. 2,445/88 and No. 2,449/88, regarding the payment that exceeded the amount due under Supplementary Law No. 07/70 (PIS Repique); and b) other taxes, the legality and/or constitutionality of which is being challenged, where the decision may lead to reimbursement of amounts paid.

b) Provisions classified as probable losses and legal obligations – tax and social security

The Organization is a party to a number of labor, civil and tax lawsuits, arising from the normal course of business.

Management recognized provisions where, based on their opinion and that of their legal counsel, the nature of the lawsuit, similarity to previous lawsuits, complexity and the courts standing, the loss is deemed probable.

Management considers that the provision is sufficient to cover the future losses generated by the respective lawsuits.

Provisions related to legal obligations are maintained until the conclusion of the lawsuit, represented by judicial decisions with no further appeals or due to the statute of limitation.

I - Labor claims

These are claims brought by former employees and outsourced employees seeking indemnifications, most significantly for unpaid “overtime”, pursuant to Article 224 of the Consolidation of Labor Laws (CLT), In proceedings in which a judicial deposit is used to guarantee the execution of the judgment, the labor provision is made considering the estimated loss of these deposits, For proceedings with similar characteristics and for which there has been no official court decision, the provision is recognized based on the average calculated value of payments made for labor complaints settled in the past 12 months; and for proceedings originating from acquired banks, with unique characteristics, the calculation and assessment of the required balance is conducted periodically, based on the updated recent loss history.

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Overtime is monitored by using electronic time cards and paid regularly during the employment contract and, accordingly, the claims filed by former employees do not represent significant amounts.

II - Civil claims

These are claims for pain and suffering and property damages, mainly relating to protests, returned checks, the inclusion of information about debtors in the credit restriction registry and the replacement of inflation adjustments excluded as a result of government economic plans, These lawsuits are individually controlled using a computer-based system and provisioned whenever the loss is deemed as probable, considering the opinion of Management and their legal counsel, the nature of the lawsuits, similarity with previous lawsuits, complexity and positioning of the courts.

Most of these lawsuits are brought to the Special Civil Court (JEC), in which the claims are limited to 40 times the minimum wage and do not have a significant impact on the Organization's financial position.

There are a significant number of legal claims pleading alleged differences in adjustment for inflation on savings account balances due to the implementation of economic plans that were part of the federal government's economic policy to reduce inflation in the '80s and '90s.

Although Bradesco complied with the law and regulation in force at the time, these lawsuits have been recognized in provisions, taking into consideration the claims where the Bank is the defendant and the perspective of loss, which is considered after the analysis of each demand, based on the current decision of the Superior Court of Justice (STJ).

Note that, regarding disputes relating to economic plans, the Federal Supreme Court (STF) suspended the prosecution of all lawsuits at the cognizance stage, until the Court issues a final decision on the right under litigation.

III - Legal obligations – provision for tax risks

The Organization is disputing the legality and constitutionality of certain taxes and contributions in court, for which provisions have been recognized in full, although there is a good chance of a favorable outcome, based on the opinion of Management and their legal counsel, The processing of these legal obligations and the provisions for cases for which the risk of loss is deemed as probable is regularly monitored in the legal court, During or after the conclusion of each case, a favorable outcome may arise for the Organization, resulting in the reversal of the related provisions.

The main cases are:

- PIS and COFINS – R\$2,297,093 thousand (R\$2,088,742 thousand in 2015): a request for authorization to calculate and pay PIS and COFINS based on effective billing, as set forth in Article 2 of Supplementary Law No. 70/91, removing from the calculation base the unconstitutional inclusion of other revenues other than those billed;
- IRPJ/CSLL on losses of credits – R\$1,913,208 thousand (R\$1,880,905 thousand in 2015): we are requesting to deduct from income tax and social contributions payable (IRPJ and CSLL, respectively) amounts of actual and definite loan losses related to unconditional discounts granted during collections, regardless of compliance with the terms and conditions provided for in Articles 9 to 14 of Law No. 9,430/96 that only apply to temporary losses;
- Pension Contributions – R\$1,291,230 thousand (R\$995,380 thousand in 2015): official notifications related to the pension contributions on financial contributions in private pension plans, considered by the authorities to be compensatory sums subject to the incidence of pension contributions and to an isolated fine for not withholding IRRF on the financial contributions;

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- INSS – Contribution to SAT – R\$374,620 thousand: in an ordinary lawsuit filed by the Brazilian Federation of Banks – Febraban, since April 2007, on behalf of its members, is questioned the classification of banks at the highest level of risk, with respect to Work Accident Risk – RAT, which eventually raised the rate of the respective contribution from 1% to 3%, in accordance with Decree No. 6,042/07; and

- PIS – R\$339,767 thousand (R\$325,932 thousand in 2015): The Bradesco Organization is requesting authorization to offset overpaid amounts in 1994 and 1995 as PIS contribution, already compensated, provisioned upon granting of the preliminary injunction, corresponding to the surplus paid over that calculated on the tax base established in the Constitution, i.e., gross operating income, as defined in the income tax legislation set out in Article 44 of Law No. 4,506/64, which excludes interest income.

In general, the provisions relating to lawsuits are classified as non-current, due to the unpredictability of the duration of the proceedings in the Brazilian justice system, For this reason, the estimate has not been disclosed with relation to the specific year in which these lawsuits will be finalized.

IV - Provisions by nature

| | On December 31 - R\$ thousand | |
|-----------------------------|-------------------------------|-------------------|
| | 2016 | 2015 |
| Labor claims | 4,803,146 | 2,876,624 |
| Civil claims | 4,116,474 | 3,321,586 |
| Subtotal (1) | 8,919,620 | 6,198,210 |
| Provision for tax risks (2) | 7,302,534 | 6,376,654 |
| Total | 16,222,154 | 12,574,864 |

(1) Note 20b; and

(2) Classified under “Other liabilities - tax and social security” (Note 20a).

V - Changes in provisions

| | | R\$ thousand | |
|--|------------------|------------------|--------------------|
| | | 2016 | |
| | Labor | Civil | Tax (1) (2) |
| Balance on December 31, 2015 | 2,876,624 | 3,321,586 | 6,376,654 |
| Adjustment for inflation | 438,267 | 409,430 | 589,056 |
| Provisions, net of (reversals and write-offs) | 625,793 | 949,220 | (229,127) |
| Balance originating from an acquired institution (3) | 1,623,639 | 536,048 | 663,935 |
| Payments | (761,177) | (1,099,810) | (97,984) |
| Balance on December 31, 2016 | 4,803,146 | 4,116,474 | 7,302,534 |

(1) Mainly include legal liabilities;

(2) In 2016, there was a reversal of a provision related to: the Pis - EC 17 lawsuit, in the amount of R \$ 213,743 thousand; the constitution of a provision for social security contributions on contributions in private pension plans, in the amount of R \$ 215,668 thousand; and

(3) HSBC Brasil (Note 34f).

c) Contingent liabilities classified as possible losses

The Organization maintains a system to monitor all administrative and judicial proceedings in which the institution is plaintiff or defendant and, based on the opinion of legal counsel, classifies the lawsuits according to the expectation of loss, Case law trends are periodically analyzed and, if necessary, the related risk is reclassified, In this respect, contingent lawsuits deemed to have a possible risk of loss are not recognized as a liability in the financial statements, The main proceedings in this category are the following: a) Fines and disallowances of Cofins loan

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compensations, released after a favorable decision in a judicial proceeding, where the unconstitutionality of the expansion of the intended calculation base was discussed for revenues other than those from billing (Law No. 9,718/98), in the amount of R\$3,999,185 thousand; b) Leasing companies' Tax on Services of any Nature (ISSQN), total lawsuits correspond to R\$2,398,185 thousand (R\$1,910,629 thousand in 2015) which relates to the municipal tax demands from municipalities other than those in which the company is located and where, under law, tax is collected; c) 2006 to 2013 income tax and social contribution, relating to goodwill amortization being disallowed on the acquisition of investments, for the amount of R\$2,254,789 thousand (R\$1,777,707 thousand in 2015) d) IRPJ and CSLL deficiency note relating to disallowance of exclusions of revenues from the mark-to-market of securities from 2007 to 2012, differences in depreciation expenses, insufficient depreciation expenses, expenses with depreciation of leased assets, operating expenses and income and disallowance of tax loss compensation, in the amount of R\$1,653,942 thousand (R\$908,915 thousand in 2015); e) Notifications and disallowances of compensations of PIS and Cofins related to the unconstitutional extension of the basis of calculation intended for other income other than the billing (Law No. 9,718/98), from acquired companies, amounting to R\$1,317,238 thousand; f) IRPJ and CSLL deficiency notice relating to the disallowance of loan loss deductions, for the amount of R\$760,436 thousand (R\$1,200,403 thousand in 2015).

d) Other matters

I. In May 31, 2016, Bradesco became aware of the indictment of three members of its Executive Board of Directors by the Federal Police, in the scope of the so-called "Operation Zealots", On July 28, 2016, the Federal Public Prosecution filed an accusation against all three members of the Board of Executive Officers and a former member of its Board of Directors, which was received by the Judge of the 10th Federal Court of Judicial Section of the Federal District, The Management conducted a thorough internal evaluation of the records and documents related to the indictment and found no evidence of any illegality committed by its representatives, The executives of Bradesco have already submitted their respective defenses in the criminal proceedings, pointing out the facts and evidence demonstrating their innocence, Bradesco is cooperating with the authorities and appropriate regulatory authorities, providing the information requested, in Brazil and abroad.

On account of the news published in the media, on the indictment in the "Operation Zealots", a class action was filed in the District Court of New York, on June 3, 2016, On September 1, 2016, Bradesco spontaneously attended the proceedings of the Class Action and agreed with the plaintiff a term for the submission of the revocation of the suit until December 21, 2016, On October 21, 2016, the Plaintiff Leader presented the addendum of the Initial Petition, appointing as defendants Bradesco and three members of

its Board of Executive Officers, According to the demand, investors who purchased preferred American Depository Shares ("ADS") of Bradesco between April 30, 2012 and July 27, 2016 would have suffered losses provoked by Bradesco due to a supposed violation regarding the American law of capital markets, according to communication to the Market on May 31, June 8 and July 28, 2016, Considering that the demand is in a preliminary stage, it is not possible at present to make a risk rating, and there is not yet evidence to support an assessment of the value of the respective risk.

II. The wholly-owned subsidiaries of Banco Bradesco S.A., BEM - Distribuidora de Títulos e Valores Mobiliários Ltda, and BRAM - Bradesco Asset Management S.A, Distribuidora de Títulos e Valores Mobiliários, as well as two of its Managers, were mentioned in the scope of the so-called "Greenfield operation" of the Federal Police, because they were responsible for the administration and management of the Fund in Equity - FIP (Equity Investment Fund), respectively, Besides providing the documents, the Federal Court has ruled, in the course of this Operation, the blocking of these companies' values, As a result of this, a Commitment was signed, approved by the 10th Federal Court of the Federal District, to release the values through the provision of guarantees of up to R\$104 million, without the recognition of any civil or criminal liability on the part of companies or administrators of the Bradesco Organization, In the scope of this commitment, managers and officers of the Bradesco Organization committed to provide any clarifications to the authorities responsible for conducting this investigation, regardless of a formal subpoena, Additionally, the internal evaluations indicate that there has been no illegality in conducting these activities according to communication to the Market on September 20, 2016, So far, there is no indication that the investigations could result in the accountability of these companies.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**19) SUBORDINATED DEBT**

| | | On December 31 - R\$ thousand | | |
|-----------------------------|---------------|-------------------------------|------------|------------|
| | Original term | Amount of | 2016 | 2015 |
| | in years | the operation | | |
| In Brazil: | | | | |
| Subordinated CDB: | | | | |
| 2016 (1) | 6 | - | - | 1,129 |
| 2019 | 10 | 20,000 | 56,200 | 48,919 |
| Financial bills: | | | | |
| 2016 (1) | 6 | - | - | 194,398 |
| 2017 | 6 | 8,630,999 | 11,075,463 | 10,479,463 |
| 2018 | 6 | 8,262,799 | 9,875,551 | 9,449,037 |
| 2019 | 6 | 21,858 | 33,402 | 29,859 |
| 2017 | 7 | 40,100 | 95,872 | 84,064 |
| 2018 | 7 | 141,050 | 293,357 | 256,191 |
| 2019 | 7 | 3,172,835 | 3,423,463 | 3,366,282 |
| 2020 | 7 | 1,700 | 2,612 | 2,351 |
| 2022 (2) | 7 | 4,305,011 | 5,050,633 | 4,393,265 |
| 2023 (4) | 7 | 1,359,452 | 1,522,243 | - |
| 2018 | 8 | 50,000 | 112,038 | 97,531 |
| 2019 | 8 | 12,735 | 25,212 | 22,230 |
| 2020 | 8 | 28,556 | 49,498 | 43,541 |
| 2021 | 8 | 1,236 | 1,896 | 1,710 |
| 2023 (2) | 8 | 1,706,846 | 2,015,625 | 1,733,383 |
| 2024 (4) | 8 | 136,695 | 143,415 | - |
| 2021 | 9 | 7,000 | 11,813 | 10,214 |
| 2024 (2) | 9 | 4,924 | 5,806 | 4,977 |
| 2025 (4) | 9 | 400,944 | 417,641 | - |
| 2021 | 10 | 19,200 | 37,191 | 32,823 |
| 2022 | 10 | 54,143 | 91,314 | 81,225 |
| 2023 | 10 | 688,064 | 1,011,423 | 921,434 |
| 2025 (2) | 10 | 284,137 | 342,886 | 293,445 |
| 2026 (4) | 10 | 361,196 | 392,886 | - |
| 2026 (2) | 11 | 3,400 | 4,001 | 3,432 |
| 2027 (4) | 11 | 47,046 | 48,566 | - |
| Perpetual (3) | - | 5,000,000 | 5,015,870 | 5,016,437 |
| CDB pegged to loans: | | | | |

| | | | | |
|---------------------------|----|-----------|-------------------|-------------------|
| 2016 (1) | 1 | - | - | 1,160 |
| Subtotal in Brazil | | | 41,155,877 | 36,568,500 |
| Overseas: | | | | |
| 2019 | 10 | 1,333,575 | 2,486,489 | 2,978,569 |
| 2021 | 11 | 2,766,650 | 5,341,661 | 6,398,386 |
| 2022 | 10 | 1,886,720 | 3,644,838 | 4,364,895 |
| Subtotal overseas | | | 11,472,988 | 13,741,850 |
| Total (5) | | | 52,628,865 | 50,310,350 |

(1) Subordinated debt transactions that matured in 2016;

(2) New issues of financial letters in October, November and December 2015, referring to subordinate debts;

(3) New issues of financial letters in December 2015, referring to subordinate debts, were recognized under the heading "Eligible Debt Capital Instruments", which in November 2016 were authorized by Bacen to compose the tier I capital;

(4) New issues of financial letters from January to December 2016, referring to subordinate debts were recognized under the heading "Eligible Debt Capital Instruments"; and

(5) It includes the amount of R\$14,959,571 thousand, referring to subordinate debts recognized in "Eligible Debt Capital Instruments".

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Notes to the Financial Statements of the Prudential Conglomerate**20) OTHER LIABILITIES****a) Tax and social security**

| | On December 31 - R\$ thousand | |
|--|-------------------------------|-------------------|
| | 2016 | 2015 |
| Provision for tax risk (Note 18b IV) | 7,302,534 | 6,376,654 |
| Provision for deferred income tax (Note 33e) | 2,191,131 | 2,153,563 |
| Taxes and contributions on profit payable | 974,248 | 1,861,832 |
| Taxes and contributions payable | 1,323,012 | 1,239,911 |
| Total | 11,790,925 | 11,631,960 |

b) Sundry

| | On December 31 - R\$ thousand | |
|--|-------------------------------|-------------------|
| | 2016 | 2015 |
| Credit card operations | 23,717,936 | 19,100,529 |
| Sundry creditors (1) | 12,777,579 | 11,506,944 |
| Civil and labor provisions (Note 18b IV) | 8,919,620 | 6,198,210 |
| Loan assignment obligations | 8,761,827 | 7,519,809 |
| Provision for payments | 5,073,695 | 4,156,202 |
| Creditors by anticipation of residual value | 2,057,127 | 3,014,040 |
| Obligations by quotas of investment funds | 152,639 | 2,965,518 |
| Liabilities for acquisition of assets and rights | 4,472,598 | 391,414 |
| Other (1) | 5,869,184 | 3,216,316 |
| Total | 71,802,205 | 58,068,982 |

(1) Includes provision for contingent liabilities, originating from obligations for transfer of credits, totaling R\$628,517 thousand (R\$558,010 thousand in 2015) (Note 28); and

(2) On December 31, 2016, it includes provision for guarantees provided, comprising sureties, letters of credit and standby letter of credit, which is presented here within the balance for excess provision, totaling R\$3,060,990 thousand of which (i) R\$604,623 thousand refers, initially, to the specific portion, in

accordance with Resolution No. 4,512/16, that will be allocated to a specific account in January 2017; and (ii) R\$2,456,367 thousand refers to a surplus portion that will comprise the surplus provision over a loan portfolio (R\$694,184 thousand in 2015) (Notes 9g and 28).

21) NON-CONTROLLING INTERESTS IN SUBSIDIARIES

| | On December 31 - R\$ thousand | |
|-------------------------|-------------------------------|---------------|
| | 2016 | 2015 |
| Banco Bradesco BBI S,A, | 16,436 | 14,107 |
| Other | 228 | 90 |
| Total | 16,664 | 14,197 |

22) SHAREHOLDERS' EQUITY (PARENT COMPANY)

a) Capital stock in number of shares

Fully subscribed and paid-in capital stock comprises non-par, registered, book-entry shares.

| | On December 31 | |
|---------------------------------|----------------------|----------------------|
| | 2016 (1) | 2015 |
| Common shares | 2,776,801,011 | 2,524,364,555 |
| Preferred shares | 2,776,800,721 | 2,524,364,292 |
| Subtotal | 5,553,601,732 | 5,048,728,847 |
| Treasury (common shares) | (4,575,045) | (3,669,932) |
| Treasury (preferred shares) | (17,141,588) | (15,583,262) |
| Total outstanding shares | 5,531,885,099 | 5,029,475,653 |

(1) Includes effect of bonus of shares of 10%.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**b) Transactions of share capital involving quantities of shares**

| | Common | Preferred | Total |
|---|----------------------|----------------------|----------------------|
| Number of outstanding shares as at December 31, 2015 | 2,520,694,623 | 2,508,781,030 | 5,029,475,653 |
| Increase of capital stock with issuing of shares – bonus of 10% (1) | 252,436,456 | 252,436,429 | 504,872,885 |
| Increase of shares in treasury – bonus of 10% | (415,913) | (1,558,326) | (1,974,239) |
| Shares acquired and not canceled | (489,200) | - | (489,200) |
| Number of outstanding shares as at December 31, 2016 | 2,772,225,966 | 2,759,659,133 | 5,531,885,099 |

(1) Benefited the shareholders registered in the records of Bradesco on April 15, 2016.

In the Extraordinary General Meeting of March 10, 2016, the approval was proposed by the Board of Directors to increase the capital stock by R\$8,000,000 thousand, increasing it from R\$43,100,000 thousand to R\$51,100,000 thousand, with a bonus in shares, through the capitalization of part of the balance of the account "Profit Reserves - Statutory Reserve", in compliance with the provisions in Article 169 of Law No. 6,404/76, by issuing 504,872,885 new nominative-book entry shares, with no nominal value, whereby 252,436,456 are common and 252,436,429 are preferred shares, attributed free-of-charge to the shareholders as bonus, to the ratio of 1 new share for every 10 shares of the same type that they own on the base date.

c) Interest on shareholders' equity/dividends

Bradesco's capital remuneration policy aims to distribute interest on shareholders' equity at the maximum amount calculated under current legislation, and this is included, net of Withholding Income Tax, in the calculation for mandatory dividends for the year under the Company's Bylaws.

The Board of Directors' Meeting held on June 22, 2016, approved the Board of Executive Officers' proposal to pay to the shareholders intermediary interest on shareholder's equity for the first semester of 2016, to the value of R\$1,002,000 thousand, of which R\$0.172525087 are per common share and R\$0.189777596 per preferred share, whose payment was made on July 18, 2016.

In a meeting of the Board of Directors on September 30, 2016, the proposal of the Board of Executive Officers was approved for payment to shareholders of extraordinary interest on own capital related to the third quarter of 2016, to the value of R\$3,317,000 thousand, of which R\$0.571123466 was offered per common share and R\$0.628235813, per preferred share, whose payment will be made on March 8, 2017.

In a meeting of the Board of Directors on December 21, 2016, the proposal of the Board of Executive Officers was approved for payment to shareholders of complementary interest on own capital related to the fourth quarter of 2016, to the value of R\$1,491,000 thousand, of which R\$0.256721461 was offered per common share and R\$0.282393608, per preferred share, whose payment will be made on March 8, 2017.

Interest on shareholders' equity for the year ended December 31, 2016 is calculated as follows:

| | |
|---|--------------|
| Net income for the year | 15,08 |
| (-) Legal reserve | 75 |
| Adjusted calculation basis | 14,33 |
| Monthly, intermediaries and supplementary interest on shareholders' equity (gross), paid and/or provisioned | 6,9 |
| Withholding income tax on interest on shareholders' equity | (1,04 |
| Interest on own capital (net) accumulated in December 2016 | 5,9 |
| Interest on own capital (net)/dividends accumulated in December 2015 | 5,2 |

(1) Percentage of interest on shareholders' equity after adjustments.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

Interest on shareholders' equity were paid or recognized in provisions, as follows:

| Description | Per share (gross) | | Gross amount paid/ recognized in provision | R\$ thousand | |
|--|-------------------|------------------|---|-------------------------------------|---|
| | Common shares | Preferred shares | | Withholding Income Tax (IRRF) (15%) | Net amount paid/ recognized in provision |
| Monthly interest on shareholders' equity paid | 0.211702 | 0.232873 | 1,068,764 | 160,315 | 908,449 |
| Supplementary interest paid on own capital | 0.767707 | 0.844478 | 4,054,200 | 608,130 | 3,446,070 |
| Interim dividends paid | 0.172629 | 0.189892 | 912,000 | - | 912,000 |
| Total accrued on December 31, 2015 | 1.152038 | 1.267243 | 6,034,964 | 768,445 | 5,266,519 |
| Monthly interest on shareholders' equity paid | 0.206998 | 0.227698 | 1,165,782 | 174,867 | 990,915 |
| Intermediary interest on own capital paid (1) | 0.172525 | 0.189778 | 1,002,000 | 150,300 | 851,700 |
| Extraordinary provisioned interest on own capital (2) | 0.571123 | 0.628236 | 3,317,000 | 497,550 | 2,819,450 |
| Supplementary interest on shareholders' equity provisioned (2) | 0.256721 | 0.282394 | 1,491,000 | 223,650 | 1,267,350 |
| Total accrued on December 31, 2016 | 1.207367 | 1.328106 | 6,975,782 | 1,046,367 | 5,929,415 |

(1) Paid on July 18, 2016; and

(2) To be paid on March 8, 2017.

d) Treasury shares

A total of 4,575,045 common shares and 17,141,588 preferred shares, with the share bonus effect of 10%, had been acquired, totaling R\$440,514 thousand until December 31, 2016, and remain in treasury. The minimum, average and maximum cost per common share is R\$19.34962, R\$24.55863 and R\$27.14350,

and per preferred share is R\$19.37456, R\$26.98306 and R\$33.12855, respectively, The fair value was R\$29.14 per common share and R\$29.00 per preferred share on December 31, 2016.

23) FEE AND COMMISSION INCOME

| | On December 31 YTD - R\$ thousand | |
|--|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Credit card income | 9,887,929 | 9,139,422 |
| Checking account | 6,030,640 | 4,946,319 |
| Loans | 2,811,105 | 2,800,161 |
| Collections | 1,777,515 | 1,573,818 |
| Consortium management | 1,278,753 | 1,040,109 |
| Asset management | 1,263,840 | 1,067,170 |
| Underwriting / Financial Advisory Services | 733,530 | 540,879 |
| Custody and brokerage services | 692,357 | 554,418 |
| Payments | 373,639 | 382,426 |
| Other | 546,933 | 401,502 |
| Total | 25,396,241 | 22,446,224 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**24) PAYROLL AND RELATED BENEFITS**

| | On December 31 YTD - R\$ thousand | |
|--------------------------------|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Salaries | 7,811,103 | 6,016,606 |
| Benefits | 3,366,241 | 2,746,911 |
| Social security charges | 2,707,013 | 2,280,890 |
| Employee profit sharing | 1,374,394 | 1,240,636 |
| Provision for labor claims (1) | 635,302 | 765,102 |
| Training | 154,212 | 127,405 |
| Total | 16,048,285 | 13,177,550 |

25) OTHER ADMINISTRATIVE EXPENSES

| | On December 31 YTD - R\$ thousand | |
|-------------------------------|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Outsourced services | 4,591,185 | 3,971,066 |
| Depreciation and amortization | 3,589,001 | 2,995,757 |
| Data processing | 1,986,822 | 1,553,556 |
| Communication | 1,741,860 | 1,520,856 |
| Rental | 1,614,998 | 1,387,437 |
| Asset maintenance | 1,151,168 | 1,021,893 |
| Advertising and marketing | 1,072,201 | 888,208 |
| Financial system services | 1,024,757 | 839,670 |
| Security and surveillance | 737,840 | 607,420 |
| Transport | 712,687 | 619,539 |
| Water, electricity and gas | 361,880 | 324,443 |
| Supplies | 320,779 | 315,954 |
| Travel | 117,598 | 106,277 |
| Other | 1,586,704 | 1,366,622 |
| Total | 20,609,480 | 17,518,698 |

26) TAX EXPENSES

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| | On December 31 YTD - R\$ thousand | |
|---|-----------------------------------|------------------|
| | 2016 | 2015 |
| Contribution for Social Security Financing (COFINS) | 3,921,108 | 2,730,197 |
| Tax on Services (ISSQN) | 668,390 | 575,756 |
| Social Integration Program (PIS) contribution | 657,537 | 461,874 |
| Municipal Real Estate Tax (IPTU) expenses | 87,811 | 71,254 |
| Other | 260,309 | 234,520 |
| Total | 5,595,155 | 4,073,601 |

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**27) OTHER OPERATING INCOME**

| | On December 31 YTD - R\$ thousand | |
|--|-----------------------------------|------------------|
| | 2016 | 2015 |
| Other interest income | 2,599,162 | 2,337,016 |
| Reversal of other operating provisions (1) | 2,324,757 | 1,502,162 |
| Revenues from recovery of charges and expenses | 275,207 | 267,467 |
| Other | 1,716,193 | 1,749,234 |
| Total | 6,915,319 | 5,855,879 |

(1) In the year ended December 31, 2016, includes the reversal of a provision for tax contingencies (Note 18b (v)).

28) OTHER OPERATING EXPENSES

| | On December 31 YTD - R\$ thousand | |
|------------------------------------|-----------------------------------|-------------------|
| | 2016 | 2015 |
| Other finance costs | 5,414,950 | 5,150,809 |
| Sundry losses | 1,862,031 | 1,781,899 |
| Discount granted | 1,460,771 | 1,379,205 |
| Commissions on loans and financing | 1,018,046 | 1,316,963 |
| Intangible assets amortization | 38,855 | 63,344 |
| Other (1) | 6,682,380 | 3,959,642 |
| Total | 16,477,033 | 13,651,862 |

(1) During the years ended December 31, 2016 and 2015, it includes: (i) provision for guarantees provided, encompassing guarantees, sureties, letters of credit and standby letter of credit, which is presented here within the balance for excess provision (Note 9h); and (ii) provision for contingent liabilities, originating from obligations for transfer of credits – FCVS (Note 20b).

29) NON-OPERATING INCOME (LOSS)

| | On December 31 YTD - R\$ thousand | |
|---|-----------------------------------|------------------|
| | 2016 | 2015 |
| Gain/loss on sale and write-off of assets and investments (1) | (485,376) | (352,116) |
| Recording of non-operating provisions (2) | (418,580) | (194,467) |
| Other | 73,241 | 97,785 |
| Total | (830,715) | (448,798) |

(1) During the year ended December 31, 2016, it includes: (i) the positive result in divestiture of the shares of Banco CBSS S,A (Note 12); and (ii) expenses by analysis of the recoverability of assets – impairment (Notes 12 and 15); and

(2) Represented mainly by an allowance for losses on non-use assets (BNDU).

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**30) RELATED-PARTY TRANSACTIONS**

a) Related party transactions (direct and indirect) are carried out under conditions and at rates consistent with those entered into with third parties, when applicable, and effective on the dates of the operations. The transactions are as follows:

| | Controllers (1) | | Jointly controlled and investment in associates (2) | | Key management personnel (3) | | On December 31, 20 |
|---|-----------------|-----------|---|-----------|------------------------------|---------|--------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 20 |
| | Assets | | | | | | |
| Securities purchased under agreements to resell | - | - | 550,280 | - | - | - | 55 |
| Receivable from associated companies | - | - | 1,606,306 | 4,028,555 | - | - | 1,60 |
| Liabilities | | | | | | | |
| Demand deposits/Savings accounts | 30 | 24 | 79,117 | 95,043 | 18,645 | 12,044 | 9 |
| Time deposits | 1,354,229 | 114,221 | 1,167,991 | 337,547 | 67,949 | 57,385 | 2,59 |
| Securities sold under repurchase agreements | - | 637,903 | 394,124 | 3,015,409 | 14,759 | 17,806 | 40 |
| Captures in Interbank deposits | - | - | - | 3,960 | - | - | - |
| Securities issued | 5,755,615 | 184,368 | 11,377,563 | 7,772,722 | 808,768 | 698,594 | 17,94 |
| Derivative financial instruments | 20,681 | - | - | - | - | - | 2 |
| Interest on own capital and dividends payable | 1,770,149 | 1,279,382 | - | - | - | - | 1,77 |
| Other liabilities | - | - | 22,042 | 13,822 | - | - | 2 |

| | Controllers (1) | | Jointly controlled and investment in associates (2) | | Key management personnel (3) | | Years ended Decemb |
|--|-----------------------------------|-------------|---|-------------|------------------------------|-----------|--------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 20 |
| | Financial intermediation expenses | (1,109,250) | (78,813) | (1,705,733) | (1,284,185) | (108,333) | (88,344) |
| Administrative expenses | - | - | (521,933) | (480,938) | - | - | (|
| Expenses in operations with derivatives | (20,681) | - | - | - | - | - | - |
| Other expenses net of other operating revenues | (2,391) | (2,160) | (366,385) | (245,314) | - | - | (|

- (1) Cidade de Deus Cia, Cial, de Participações, Fundação Bradesco, NCF Participações S.A., Titanium Holdings S.A., BBD Participações S.A. and Nova Cidade de Deus Participações S.A.;
- (2) Companies listed in Note 2; and
- (3) Members of the Board of Directors and the Board of Executive Officers.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

b) Compensation for Key Management Personnel

Each year, the Annual Shareholders' Meeting approves:

- The annual total amount of Management compensation, set forth at the Board of Directors Meetings, to be paid to board members and members of the Board of Executive Officers, as determined by the Company's Bylaws; and
- The amount allocated to finance Management pension plans, within the Employee and Management pension plan of the Organization.

For 2016, the maximum amount of R\$474,500 thousand (R\$349,900 thousand in 2015) was set for Management compensation and R\$268,100 thousand (R\$353,050 thousand in 2015) to finance defined contribution pension plans.

The current policy on Management compensation sets forth that 50% of net variable compensation, if any, must be allocated to the acquisition of preferred shares of Banco Bradesco S.A., which vest in three equal, annual and successive installments, the first of which is in the year following the payment date. This procedure complies with CMN Resolution No. 3,921/10, which sets forth a management compensation policy for financial institutions.

Short-term Management benefits

| | Years ended December 31 - R\$ thousand | |
|--------------|--|----------------|
| | 2016 | 2015 |
| Salaries | 441,592 | 309,864 |
| Total | 441,592 | 309,864 |

Post-employment benefits

| | Years ended December 31 - R\$ thousand | |
|--|---|----------------|
| | 2016 | 2015 |
| Defined contribution supplementary pension plans | 251,250 | 311,670 |
| Total | 251,250 | 311,670 |

Bradesco does not offer its Key Management Personnel long-term benefits related to severance pay or share-based compensation, pursuant to CPC 10 – Share-Based Payment, approved by CMN Resolution No. 3,989/11.

Shareholding

Together, members of the Board of Directors and Board of Executive Officers had the following shareholding in Bradesco:

| | 2016 | On December 31 2015 |
|------------------|-------------|-------------------------------|
| Common shares | 0.69% | 0.61% |
| Preferred shares | 1.13% | 1.06% |
| Total shares (1) | 0.91% | 0.83% |

(1) On December 31, 2016, direct and indirect shareholding of the members of Bradesco's Board of Directors and Board of Executive Officers amounted to 2.83% of common shares, 1.17% of preferred shares and 2.00% of all shares.

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Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate**31) FINANCIAL INSTRUMENTS**

Below is the statement of financial position by currency

| | On December 31- R\$ thousand | | | |
|--|------------------------------|--------------------|--------------------|--------------------|
| | 2016 | | 2015 | |
| | Balance | Local | Foreign (1) (2) | Foreign (1) (2) |
| Assets | | | | |
| Current and long-term assets | 920,748,426 | 850,834,243 | 69,914,183 | 93,032,937 |
| Funds available | 14,580,321 | 12,508,405 | 2,071,916 | 8,069,800 |
| Interbank investments | 177,567,922 | 175,165,594 | 2,402,328 | 2,367,697 |
| Securities and derivative financial instruments | 219,141,631 | 204,342,844 | 14,798,787 | 18,096,407 |
| Interbank and interdepartmental accounts | 59,016,054 | 59,016,054 | - | - |
| Loan and leasing | 310,260,121 | 272,476,282 | 37,783,839 | 50,248,336 |
| Other receivables and assets | 140,182,377 | 127,325,064 | 12,857,313 | 14,250,697 |
| Permanent assets | 67,182,493 | 66,780,740 | 401,753 | 506,725 |
| Investments | 39,564,074 | 39,279,550 | 284,524 | 355,633 |
| Premises and equipment and leased assets | 9,647,368 | 9,613,989 | 33,379 | 32,103 |
| Intangible assets | 17,971,051 | 17,887,201 | 83,850 | 118,989 |
| Total | 987,930,919 | 917,614,983 | 70,315,936 | 93,539,662 |
| Liabilities | | | | |
| Current and long-term liabilities | 887,019,757 | 814,941,949 | 72,077,808 | 99,261,413 |
| Deposits | 235,448,378 | 222,662,728 | 12,785,650 | 28,999,894 |
| Securities sold under agreements to repurchase | 257,738,504 | 250,485,620 | 7,252,884 | 4,141,520 |
| Funds from issuance of securities | 162,213,586 | 154,767,480 | 7,446,106 | 11,430,749 |
| Interbank and interdepartmental accounts | 7,098,245 | 4,060,199 | 3,038,046 | 2,502,757 |
| Borrowing and on-lending | 58,200,161 | 35,654,825 | 22,545,336 | 32,619,633 |
| Derivative financial instruments | 13,406,387 | 13,082,197 | 324,190 | 1,300,208 |
| Other liabilities: | | | | |
| - Subordinated debts | 37,669,294 | 26,214,108 | 11,455,186 | 13,714,436 |
| - Other | 115,245,202 | 108,014,792 | 7,230,410 | 4,552,216 |
| Deferred income | 452,085 | 452,085 | - | - |
| Non-controlling interests in subsidiaries | 16,664 | 16,664 | - | - |
| Shareholders' equity | 100,442,413 | 100,442,413 | - | - |
| Total | 987,930,919 | 915,853,111 | 72,077,808 | 99,261,413 |

| | | |
|---|---------------------|---------------------|
| Net position of assets and liabilities | (1,761,872) | (5,721,751) |
| Net position of derivatives (2) | (45,490,016) | (28,614,136) |
| Other net off-balance-sheet accounts (3) | (371,648) | (449,877) |
| Net exchange position (liability) | (47,623,536) | (34,785,764) |

- (1) Amounts originally recognized and/or indexed mainly in USD;
- (2) Excluding operations maturing in D+1, to be settled at the rate on the last day of the month; and
- (3) Other commitments recognized in off-balance-sheet accounts.

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The statement of financial position by maturity is as follows

| | On December 31 | | | | |
|---|--------------------|--------------------|-------------------|--------------------|---------------------|
| | 1 to 30 | 31 to 180 | 181 to 360 | More than | Maturity |
| | days | days | days | 360 days | not stated |
| Assets | | | | | |
| Current and long-term assets | 437,364,837 | 101,147,350 | 75,951,745 | 306,284,494 | |
| Funds available | 14,580,321 | - | - | - | |
| Interbank investments (2) | 173,300,755 | 1,738,439 | 1,748,334 | 780,394 | |
| Securities and derivative financial instruments (1) (2) | 113,392,323 | 12,602,220 | 9,433,445 | 83,713,643 | |
| Interbank and interdepartmental accounts | 58,237,800 | - | - | 778,254 | |
| Loan and leasing | 28,875,481 | 67,785,592 | 48,887,641 | 164,711,407 | |
| Other receivables and assets | 48,978,157 | 19,021,099 | 15,882,325 | 56,300,796 | |
| Permanent assets | 5,249,553 | 1,977,116 | 2,359,954 | 17,651,202 | 39,944,660 |
| Investments | - | - | - | - | 39,564,070 |
| Premises and equipment | 4,918,297 | 324,917 | 389,900 | 3,633,660 | 380,590 |
| Deferred | - | - | - | - | - |
| Intangible assets | 331,256 | 1,652,199 | 1,970,054 | 14,017,542 | |
| Total in 2016 | 442,614,390 | 103,124,466 | 78,311,699 | 323,935,696 | 39,944,660 |
| Total in 2015 | 397,513,815 | 96,840,698 | 68,437,230 | 291,256,648 | 28,765,770 |
| Liabilities | | | | | |
| Current and long-term liabilities | 413,513,588 | 130,768,069 | 77,655,618 | 265,082,482 | |
| Deposits (3) | 138,801,964 | 15,593,660 | 9,464,145 | 71,588,609 | |
| Securities sold under agreements to repurchase (2) | 173,236,538 | 48,695,387 | 7,626,803 | 28,179,776 | |
| Funds from issuance of securities | 7,214,114 | 45,214,850 | 40,003,764 | 69,780,858 | |
| Interbank and interdepartmental accounts | 7,098,245 | - | - | - | |
| Borrowing and on-lending | 4,314,120 | 14,495,732 | 12,217,260 | 27,173,049 | |
| Derivative financial instruments | 12,399,308 | 534,525 | 279,662 | 192,892 | |
| Other liabilities: | | | | | |
| - Subordinated debts | 444,467 | 3,904,856 | 7,068,023 | 26,251,948 | |
| - Other | 70,004,832 | 2,329,059 | 995,961 | 41,915,350 | |
| Deferred income | 452,085 | - | - | - | - |
| Non-controlling interests in subsidiaries | - | - | - | - | 16,660 |
| Shareholders' equity | - | - | - | - | -100,442,410 |
| Total in 2016 | 413,965,673 | 130,768,069 | 77,655,618 | 265,082,482 | 100,459,070 |
| Total in 2015 | 390,498,378 | 99,951,202 | 60,720,760 | 242,722,984 | 88,920,840 |

| | | | | |
|-------------------------------|-------------------|------------------|-------------------|-------------------|
| Net assets in 2016 YTD | 28,648,717 | 1,005,114 | 1,661,195 | 60,514,409 |
| Net assets in 2015 YTD | 7,015,437 | 3,904,933 | 11,621,403 | 60,155,067 |

- (1) Investments in investment funds are classified as 1 to 30 days;
- (2) Repurchase agreements are classified according to the maturity of the transactions; and
- (3) Demand and savings deposits are classified as 1 to 30 days, without considering average historical turnover.

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| Calculation basis - Basel Ratio | On December 31 - R\$ thousand | |
|---|--------------------------------------|--------------------|
| | Prudential Conglomerate | |
| | 2016 | 2015 |
| Tier I capital | 78,762,886 | 77,506,951 |
| Common equity | 73,747,016 | 77,506,951 |
| Shareholders' equity | 100,442,413 | 88,906,644 |
| Non-controlling interests / Other | 60,615 | - |
| Prudential adjustments (1) (2) | (26,756,012) | (11,399,693) |
| Additional Capital (3) | 5,015,870 | - |
| Tier II capital | 22,363,950 | 25,318,399 |
| Subordinated debts (CMN Resolution No. 4.192/13) | 9,803,498 | 5,805,384 |
| Subordinated debts (previous to CMN Resolution No. 4.192/13) | 12,560,452 | 19,513,015 |
| Reference Equity (a) | 101,126,836 | 102,825,350 |
| - Credit risk | 589,977,243 | 556,440,558 |
| - Market risk | 15,767,767 | 18,670,132 |
| - Operational risk | 50,443,507 | 37,106,557 |
| Risk-weighted assets – RWA (b) | 656,188,517 | 612,217,247 |
| Basel ratio (a/b) | 15.4% | 16.8% |
| Tier I capital | 12.0% | 12.7% |
| - Principal capital | 11.2% | 12.7% |
| - Additional Capital | 0.8% | - |
| Tier II capital | 3.4% | 4.1% |

(1) As from January 2016, the factor applied to prudential adjustments went from 40% to 60%, according to the timeline for application of deductions of prudential adjustments, defined in Article 11 of CMN Resolution No. 4.192/13;

(2) In 2016, it includes the effects of goodwill generated in the acquisition of HSBC Brasil (Note 15b); and

(3) In November 2016, Bacen authorized the use of Subordinated Letters of Credit to compose the Additional Capital – Tier I.

a) Capital Management

The Basel Index is part of the set of indicators that are monitored and evaluated in the process of Capital Management, and is intended to measure the sufficiency of capital in relation to the exposure to risks. The table above shows the composition of the Reference Equity and of the Risk Weighted Assets, according to the standards of Bacen. During the period, Bradesco has fulfilled all the minimum regulatory requirements.

32) EMPLOYEE BENEFITS

Bradesco and its subsidiaries sponsor a private defined contribution pension for employees and directors, that allows financial resources to be accumulated by participants throughout their careers by means of employee and employer contributions and invested in an Exclusive Investment Fund (FIE). The Plan is managed by Bradesco Vida e Previdência S.A. and BRAM – Bradesco Asset Management S.A. DTVM is responsible for the financial management of the FIEs funds.

The Supplementary Pension Plan counts on contributions from employees and administrators of Bradesco and its subsidiaries equivalent to at least 4% of the salary by employees and, 5% of the salary, plus the percentage allocated to covers of risk benefits (invalidity and death) by the company. Actuarial obligations of the defined contribution plan are fully covered by the plan assets of the corresponding FIE. In addition to the plan, in 2001, participants who chose to migrate from the defined benefit plan are guaranteed a proportional deferred benefit, corresponding to their accumulated rights in that plan. For the active participants, retirees and pensioners of the defined benefit plan, now closed to

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new members, in extinction, the present value of the actuarial obligations of the plan is completely secured by collateral assets.

Banco Alvorada S.A. (successor from the spin-off of Banco Baneb S.A.) maintains defined contribution and defined benefit retirement plans, through Fundação Baneb de Seguridade Social – Bases (related to the former employees of Baneb).

Bradesco's sponsors both defined benefit and defined contribution retirement plans, through Caixa de Assistência e Aposentadoria dos Funcionários do Banco do Estado do Maranhão (Capof), to employees originating from Banco BEM S.A.

Bradesco sponsors a defined benefit plan through Caixa de Previdência Privada Bec – Cabec, for former employees of Banco do Estado do Ceará S.A., having requested the withdrawal of the sponsorship in March 2016, in course.

With the acquisition of HSBC Bank Brasil S.A. (current Kirton Bank Brasil S.A.), the open pension plan, which was offered to employees of that institution, in the modality of defined contribution, has been discontinued. From October 2016, the employees transferred can adhere to the Pension Plan offered to the employees of Bradesco.

Kirton Bank Brasil S.A., Kirton Capitalização S.A., Kirton Corretora de Seguros S.A., Kirton Corretora de Títulos e Valores Mobiliários S.A. and Kirton Seguros S.A. sponsor a defined benefit plan called APABA to employees originating from Banco Bamerindus do Brasil S.A., and Kirton Administração de Serviços para Fundos de Pensão Ltda. sponsors to its employees the Kirton Prev Benefits Plan (*Plano de Benefícios Kirton Prev*)), both managed by MultiBRA – Pension Fund.

Banco Losango S.A., Kirton Bank Brasil S.A. and Credival – Participações, Administração e Assessoria Ltda. sponsor three pension plans for its employees, which are: Losango I Benefits Plan – Basic Part, Losango I – Supplementary Part and PREVMAIS Losango Plan, all managed by MultiBRA – Settlor – Multiple

Fund.

Bradesco took on the obligations of Kirton Bank Brasil S.A. with regard to Life Insurance, Health Insurance Plans, and Retirement Compensation for employees coming from Banco Bamerindus do Brasil S.A.

In accordance with CPC 33 (R1) – Employee Benefits, approved by CVM Resolution No. 600/09, Bradesco and its subsidiaries, as sponsors of these plans, considering the economic and actuarial study, have calculated their actuarial commitments using real interest rate and recognize in their financial statements the obligation due. The resources guaranteeing the pension plans are invested in accordance with the relevant legislation (public and private securities, shares of listed companies and properties). Follow the main assumptions used by the independent actuary in the actuarial assessment of our plans, based on CPC 33 (R1):

| Risk factors | 2016 |
|---|--|
| Nominal discount rate | 11.1% p.a. |
| Nominal rate of minimum expected return on assets | 11.1% p.a. |
| Nominal rate of future salary increases | 4.8% p.a. |
| Nominal growth rate of social security benefits and plans | 4.8% p.a. |
| Inflation rate | 4.8% p.a. |
| Biometric table of overall mortality | AT 2000 and BR-EMS |
| Biometric table of entering disability | By Plan |
| Expected turnover rate | - |
| Probability of entering retirement | 100% in 1st eligibility to a benefit by the plan 100% in |

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Considering the above assumptions, in accordance with CPC 33 (R1), the present value of the actuarial obligations of the benefit plans and of its assets to cover these obligations, is represented below:

| | Years ended December 31 - R\$ thousand | |
|--------------------------------------|---|------------------|
| | 2016 | 2015 |
| (i) Projected benefit obligations: | | |
| At the beginning of the year | 1,162,005 | 1,182,761 |
| Balance from an acquired institution | 761,119 | - |
| Cost of current service | (1,077) | (579) |
| Interest cost | 181,595 | 133,385 |
| Participant's contribution | 2,831 | 2,590 |
| Actuarial gain/(loss) | 182,762 | (58,529) |
| Benefit paid | (147,842) | (97,623) |
| At the end of the year | 2,141,393 | 1,162,005 |
| (ii) Plan assets at fair value: | | |
| At the beginning of the year | 1,047,782 | 1,070,636 |
| Balance from an acquired institution | 883,858 | - |
| Expected earnings | 307,728 | 64,011 |
| Contributions received: | | |
| Employer | 33,515 | 8,168 |
| Employees | 2,831 | 2,590 |
| Benefit paid | (147,842) | (97,623) |
| At the end of the year | 2,127,872 | 1,047,782 |
| (iii) Financial position: | | |
| Plans in deficit | (130,293) | (131,849) |
| Plans in surplus | 116,772 | 17,626 |
| Net balance | (13,521) | (114,223) |

The net cost/(benefit) of the pension plans, recognized in the statement of income, include the following components:

Years ended December 31 - R\$
thousand

| | 2016 | 2015 |
|--|--------------|---------------|
| Projected benefit obligations: | | |
| Cost of service | (1,077) | (579) |
| Cost of interest on actuarial obligations | 181,595 | 133,385 |
| Expected earnings from the assets of the plan | (174,937) | (120,960) |
| Net cost/(benefit) of the pension plans | 5,581 | 11,846 |

The accumulated obligations of the pension plans are included in "Other liabilities", in our statement of financial position.

In 2016, as a result of the plans arising from the acquisition of HSBC Brasil, we recognized a liability of health insurance, life insurance, and savings plans, in the amount of R\$498,591 thousand, being: (i) presumed balance in the amount of R\$453,768 thousand; (ii) cost of interest and services in the amount of R\$23,288 thousand; (iii) actuarial gain in the amount of R\$34,674 thousand; and (iv) benefit paid in the amount of R\$(13,139) thousand.

The table below, of sensitivity analysis of the obligations of the benefit plans, demonstrates the impact on the actuarial exposure (11.1% p.a.) by the amendment of the premise in the discount rate in 1 p.p.:

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| Discount rate | Sensitivity Analysis | Effect on actuarial liabilities | Effect on the present value of the obligations |
|----------------------|-----------------------------|--|---|
| 12.1% p.a. | Increase of 1 p.p. | reduction | (338,533) |
| 10.1% p.a. | Reduction of 1 p.p. | increase | 385,452 |

Bradesco, in its offices abroad, provides pension plans for its employees and administrators, in accordance with the standards established by the local authorities, which allows the accrual of financial resources during the professional career of the participant.

Expenses related to contributions made during the year ended December 31, 2016, totaled R\$1,961,397 thousand (R\$1,715,751 thousand in 2015).

In addition to this benefit, Bradesco and its subsidiaries offer other benefits to their employees and administrators, including health insurance, dental care, life and personal accident insurance, and professional training. These expenses, including the aforementioned contributions, totaled R\$3,520,453 thousand during the year ended December 31, 2016 (R\$2,874,316 thousand in 2015).

33) INCOME TAX AND SOCIAL CONTRIBUTION**a) Calculation of income tax and social contribution charges**

| | Years ended December 31 - R\$ thousand | |
|---|--|------------------|
| | 2016 | 2015 |
| Income before income tax and social contribution | 22,985,511 | 5,285,072 |
| Total burden of income tax and social contribution at the current rates (1) | (10,343,480) | (2,378,282) |
| Effect on the tax calculation: | | |
| Earnings (losses) of affiliates and jointly controlled companies | (1,126,461) | 10,648,305 |

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| | | |
|--|--------------------|-------------------|
| Net non-deductible expenses of nontaxable income | 764,160 | 208,255 |
| Net tax credit of deferred liabilities | - | 2,315,337 |
| Interest on shareholders' equity (paid and payable) | 3,139,102 | 2,305,334 |
| Other amounts (2) | (332,356) | (1,193,112) |
| Income and social contribution taxes for the year | (7,899,035) | 11,905,837 |

(1) Current rates: (i) 25% for income tax; (ii) 15% for the social contribution to financial and companies, and 20%, from September 2015 to December 2018, in accordance with Law No. 13,169/15; and (iii) of 9% for the other companies (Note 3h); and

(2) Primarily, 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%) shown; and (iii) the deduction incentives.

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Notes to the Financial Statements of the Prudential Conglomerate**b) Breakdown of income tax and social contribution in the statement of income**

| | December 31 YTD - R\$ thousand | |
|---|--------------------------------|--------------------|
| | 2016 | 2015 |
| Current taxes: | | |
| Income tax and social contribution payable | (5,149,237) | (3,692,050) |
| Deferred taxes: | | |
| Amount recorded/realized in the period on temporary differences | (1,633,103) | 12,096,574 |
| Use of opening balances of: | | |
| Social contribution loss | (632,638) | (110,641) |
| Income tax loss | (846,727) | (13,857) |
| Constitution in the period on: | | |
| Social contribution loss | 146,722 | 371,354 |
| Income tax loss | 215,948 | 806,439 |
| Activation of the tax credit – Law No. 13,169/15: | | |
| Social contribution losses | - | 422,598 |
| Temporary differences | - | 2,025,420 |
| Total deferred taxes | (2,749,798) | 15,597,887 |
| Income tax and social contribution for the year | (7,899,035) | 11,905,837 |

c) Deferred income tax and social contribution

| | Balance on 12,31,2015 | Balance originating from an acquired institution (1) | Amount recognized | Amount realized |
|---|-----------------------|--|-------------------|-----------------|
| Allowance for loan losses | 23,450,323 | 3,923,893 | 14,040,939 | 16,116,454 |
| Civil provisions | 1,467,028 | 205,142 | 958,011 | 796,827 |
| Tax provisions | 2,004,229 | 309,741 | 615,777 | 161,405 |
| Labor provisions | 1,228,024 | 656,624 | 515,855 | 401,881 |
| Provision for devaluation of securities and investments | 89,830 | 109,501 | 37,307 | 73,440 |
| Provision for devaluation of foreclosed assets | 379,176 | 3,301 | 306,908 | 153,601 |
| Adjustment to fair value of trading securities | 6,470,648 | - | 156,150 | 1,763,603 |

| | | | | |
|--|-------------------|------------------|-------------------|-------------------|
| Amortization of goodwill | 186,478 | - | 318,130 | 13,800 |
| Other | 2,911,921 | 429,328 | 2,679,944 | 1,781,113 |
| Total deductible taxes on temporary differences | 38,187,657 | 5,637,530 | 19,629,021 | 21,262,124 |
| Income tax and social contribution losses in Brazil and overseas | 5,847,494 | 779,900 | 362,670 | 1,479,365 |
| Subtotal (2) (3) | 44,035,151 | 6,417,430 | 19,991,691 | 22,741,489 |
| Adjustment to fair value of available-for-sale securities (3) | 2,235,348 | 27,740 | 250,946 | 1,640,622 |
| Social contribution - Provisional Measure No. 2,158-35/01 | 106,097 | - | - | 106,097 |
| Total deferred tax assets (Note 10b) | 46,376,596 | 6,445,170 | 20,242,637 | 24,488,208 |
| Deferred tax liabilities (Note 33f) | 2,153,562 | (37) | 498,504 | 460,898 |
| Deferred tax assets, net of deferred tax liabilities | 44,223,034 | 6,445,207 | 19,744,133 | 24,027,310 |

(1) HSBC Brasil (Note 34f);

(2) In December 2015, as a result of the criteria established by Art. 1, subparagraph I of CMN Resolution No. 3,059/02, with amendments introduced by CMN Resolution No. 4,441/15, Banco Bradesco registered with the Bacen, an authorization request for maintenance of balance and constitution of new deferred tax assets; and

(3) Deferred tax assets from were calculated considering the increase in the social contribution rate, determined by Law No. 11,727/08 and Law No. 13,169/15 (Note 3h), With regard to the temporary effects produced by the adoption of Law No. 13,169/15, which raised the rate of the social contribution to 20%, the respective tax credits, in September 2015, were calculated based on the expected implementation at the time.

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| | R\$ thousand | | | | |
|--------------|-----------------------|---------------------|---|---------------------|-------------------|
| | Temporary differences | | Income tax and social contribution losses | | Total |
| | Income tax | Social contribution | Income tax | Social contribution | |
| | Income tax | Social contribution | Income tax | Social contribution | Total |
| 2017 | 5,806,325 | 3,738,601 | 138,956 | 311,869 | 9,995,751 |
| 2018 | 6,422,751 | 4,651,387 | 766,643 | 604,528 | 12,445,309 |
| 2019 | 5,924,918 | 3,780,951 | 437,113 | 205,166 | 10,348,148 |
| 2020 | 4,843,518 | 2,642,739 | 93,108 | 220,196 | 7,799,561 |
| 2021 | 1,020,804 | 720,406 | 1,143,111 | 759,899 | 3,644,220 |
| After 2021 | 1,506,435 | 1,133,249 | 286,888 | 543,222 | 3,469,794 |
| Total | 25,524,751 | 16,667,333 | 2,865,819 | 2,644,880 | 47,702,783 |

The projected realization of deferred tax assets is an estimate and it is not directly related to the expected accounting income.

The present value of deferred tax assets, calculated based on the average funding interest rate, net of tax effects, amounts to R\$44,469,333 thousand (R\$39,468,147 thousand in 2015), of which R\$39,456,629 thousand (R\$34,146,305 thousand in 2015) relates to temporary differences, R\$5,012,704 thousand (R\$5,217,852 thousand in 2015) to tax losses and negative basis of social contribution (R\$103,990 thousand in 2015) to deferred social contribution, Provisional Measure No. 2,158-35.

e) Deferred tax liabilities

| | On December 31 - R\$ thousand | |
|--|-------------------------------|---------|
| | 2016 | 2015 |
| Fair value adjustment to securities and derivative financial instruments | 213,464 | 137,051 |
| Difference in depreciation | 381,118 | 597,234 |

| | | |
|---------------------------------|------------------|------------------|
| Judicial deposit and others (1) | 1,596,549 | 1,419,278 |
| Total | 2,191,131 | 2,153,563 |

(1) It includes, on December 31, 2015, the sum of R\$132,681 thousand, related to the increase of the CSLL rate, in accordance with Law No. 13,169/15.

The deferred tax liabilities of companies in the financial sector were established considering the increased social contribution rate, established by Law No. 11,727/08 and Law No. 13,169/15 (Note 3h).

34) OTHER INFORMATION

a) The Organization manages investment funds and portfolios with net assets which, on December 31, 2016, amounted to R\$756,488,583 thousand (R\$550,283,806 thousand in 2015).

b) Consortium funds

| | On December 31 - R\$ thousand | |
|--|-------------------------------|-------------|
| | 2016 | 2015 |
| Monthly estimate of funds receivable from consortium members | 581,688 | 485,083 |
| Contributions payable by the group | 29,474,653 | 23,659,786 |
| Consortium members - assets to be included | 25,901,634 | 21,213,015 |
| Credits available to consortium members | 5,488,351 | 4,617,600 |

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| | 2016 | 2015 | In units |
|-------------------------------------|-------------|-------------|-----------|
| Number of groups managed | 3,700 | 3,590 | 3,590 |
| Number of active consortium members | 1,334,286 | 1,194,004 | 1,194,004 |
| Number of assets to be included | 610,666 | 567,892 | 567,892 |

c) As part of the convergence process with international accounting standards, the Brazilian Accounting Pronouncements Committee (CPC) issued several accounting pronouncements, as well as their interpretations and guidelines, which are applicable to financial institutions only after approval by CMN. The accounting standards which have been approved by CMN include the following:

- Resolution No. 3,566/08 – Impairment of Assets (CPC 01);
- Resolution No. 3,604/08 – Statement of Cash Flows (CPC 03);
- Resolution No. 3,750/09 – Related Party Disclosures (CPC 05);
- Resolution No. 3,823/09 – Provisions, Contingent Liabilities and Contingent Assets (CPC 25);
- Resolution No. 3,973/11 – Subsequent Event (CPC 24);
- Resolution No. 3,989/11 – Share-based Payment (CPC 10);
- Resolution No. 4,007/11 – Accounting Policies, Changes in Estimates and Error Correction (CPC 23);
- Resolution No. 4,144/12 – Conceptual Framework for Preparing and Presenting Financial Statements;
and
- Resolution No. 4,424/15 – Employee Benefits (CPC 33).

Presently, it is not possible to estimate when the CMN will approve the other CPC pronouncements or if they will be applied prospectively or retrospectively.

d) In 2016, there were no significant changes in the rules of compulsory deposit collection.

e) In January 2016, Bradesco signed a non-binding Memorandum of Understanding with Banco do Brasil S.A., Banco Santander (Brasil) S.A., Caixa Econômica Federal and Itaú Unibanco S.A., in order to create a holding company of credit intelligence ("GIC"), which will develop a database with the goal of adding, reconciling and handling database and credit-related information, of individuals and legal entities, which expressly authorize their inclusion in the database, as required by the applicable rules.

f) In August, 2015, Bradesco finalized the Purchase and Sale of Shares Agreement with HSBC Latin America Holdings Limited to the acquisition of 100% of the equity of HSBC Bank Brasil S,A, ("HSBC Bank") and HSBC Serviços e Participações Ltda, ("HSBC Serviços"). In June 2016, the final approval of regulatory agencies was given in compliance with legal formalities. With the conclusion of the acquisition, on July 1, 2016, Bradesco assumed all operations of the HSBC in Brazil, including retail, insurance and asset management, as well as all the branches and clients.

We have presented below the composition of the values of the acquisition of HSBC Bank and HSBC Serviços:

| | R\$ thousand |
|--|-------------------|
| Payment to HSBC Latin America Holding Limited, net of adjustment after closure (1) | 15,665,367 |
| Costs incurred in the acquisition, related to the foreign currency hedge (2) | 1,623,103 |
| Total cost of acquisition | 17,288,470 |

(1) Considers the IOF collection, and withholding Income Tax; and

(2) Hired with the objective of protecting the effects of exchange rate variation of the firm commitment (Note 8d).

The financial statements of HSBC Bank and HSBC Serviços were, at the date of acquisition, adjusted by the accounting policies adopted by Bradesco.

December 2016

Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Notes to the Financial Statements of the Prudential Conglomerate

In December 2016, Bradesco, based on a study report on purchase price allocation ("PPA"), prepared by a contracted specialized and independent company, made the initial allocation of the fair value of assets acquired and liabilities assumed by HSBC Brasil.

The value of the investment recognized by Bradesco includes goodwill in the acquisition of shares in the amount of R\$4,221,787 thousand, as follows:

| | R\$ thousand |
|--|-------------------|
| Shareholders' equity acquired (I) | 7,639,301 |
| Fair value of assets acquired and liabilities assumed (II) | 1,655,708 |
| Intangible assets acquired (III) | 3,771,674 |
| Goodwill in the acquisition of the "HSBC Bank" and "HSBC Serviços" investments | 4,221,787 |
| Total of the acquired values | 17,288,470 |

I) Considers the sum of shareholders' equity of HSBC Bank and HSBC Serviços adjusted by the accounting criteria of Bradesco;

II) Refers to the allocation of the following fair values: (i) credit operations, net of PDD of R\$1,133,985 thousand (term between 1 to 5 years); (ii) debt instruments of (R\$64,701 thousand) (term of up to 1 year); (iii) fixed assets of R\$573,061 thousand (term of up to 25 years); and (iv) bonds and securities of R\$13,363 thousand (term of 34 years), totaling R\$1,655,708 thousand; and

III) Refers to the allocation of the following intangible assets: (i) relationship with clients of R\$1,799,226 thousand (term of 6 years); (ii) core deposits, of R\$1,601,970 thousand (term of 6 years) (iii) Value of Business Acquired "VOBA" (Insurance), of R\$316,278 thousand (term between 2 to 28 years); (iv) agreements not to compete with sellers, of R\$29,068 thousand (term of 2 years); (v) softwares, of (R\$70,387 thousand) (term of up to 5 years); and (vi) other intangible assets, of R\$95,519 thousand (term between 2 to 5 years), totaling R\$3,771,674 thousand.

In July 2016, there was a total division of HSBC Serviços, with version of equity tranches for HSBC Bank and Credival Participações, Administração e Assessoria Ltda, (Credival), wholly owned subsidiary of HSBC Bank.

In October 2016, approval was granted in an Extraordinary General Meeting for the partial spin-off of HSBC Brasil, through the absorption of portions of its equity by companies of the Organization, enabling progress with the integration of operational and technological platforms, resulting in the replacement of the HSBC brand in its service network, becoming Bradesco. Thus, Bradesco began to operate with a unified platform (branches, ATMs, and systems), to which all clients have access to. From now on, Bradesco will add to the products and services already offered to HSBC Brasil clients, a nationwide service network, a state-of-the-art technology platform, and an even more extensive portfolio of products and services.

g) In August 2016, the CMN issued Resolution No. 4,517/16, which establishes that, as from January 2017, in the preparation, of the consolidated financial statements of the prudential conglomerate to the Central Bank, corporate investments in companies Shares should be valued using the equity method. With this procedure and considering the corporate composition of December 31, 2016, we must stop consolidating 15 companies from those mentioned in Note 2. This change in the composition of the consolidated companies should not present significant impacts.

h) There were no subsequent events that need to be adjusted or disclosed in the consolidated financial statements as of December 31, 2016.

Marcos Aparecido Galende
Accountant - CRC 1SP201309/O-6

Bradesco _____

Financial Statements of the Prudential Conglomerate and Independent Auditor's Report

Report of Independent Auditors on the Consolidated Financial Statements of the Prudential Conglomerate

To

The Board of Directors and Shareholders of

Banco Bradesco S.A.

Osasco – SP

Opinion

We have audited the consolidated financial statements of the Prudential Conglomerate of Banco Bradesco S.A. (“Bradesco”), which comprise the consolidated statement of financial position as of December 31, 2016 and the respective consolidated statements of income, changes in shareholders’ equity and cash flows for the six-month period and for the year then ended, and notes, comprising significant accounting policies and other explanatory information. These special purpose financial statements have been prepared by Bradesco’s management as required by Resolution 4,280, dated October 31, 2013, of the National Monetary Council (CMN) and supplementary regulations of the Central Bank of Brazil (BACEN), described in the note 2 to the financial statements.

In our opinion, the accompanying consolidated financial statements of the Prudential Conglomerate present fairly, in all material respects, the consolidated financial position of the Prudential Conglomerate of Bradesco as of December 31, 2016, the consolidated performance of its operations and its consolidated cash flows statement, for the six-month period and for the year then ended, in accordance with the Resolution no 4,280/13 of CMN, and supplementary regulations of BACEN, which main criteria and accounting practices are described in note 2 to the financial statements.

Basis for opinion

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

Emphasis

Basis of preparation of the Prudential Conglomerate consolidated financial statements

Without modifying our opinion, we draw attention to note 2 to the consolidated financial statements that disclose that the Prudential Conglomerate consolidated financial statements of Bradesco were prepared by Bradesco’s management to meet the requirements of Resolution no 4,280/13, of CMN, and supplementary regulations of BACEN. Consequently, our report on these consolidated financial statements has been prepared solely for meeting these specific requirements and thus may not be appropriate for other purposes.

Key Audit Matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the six-month period and for the year ended on December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements of the Prudential Conglomerate as a whole, and in forming our opinion thereon, and, we do not express a separate opinion on these matters.

§ Allowance for doubtful accounts

As disclosed in Notes 3g and 9, for purposes of measuring the allowance for doubtful accounts, which total amount shown in the consolidated financial statements of Prudential Conglomerate is R\$ 40,713,074 thousand, Bradesco classifies its loans (which comprise loans, leasing, advances on foreign exchange contracts, other receivables with credit characteristics), into nine risk levels, taking into account inputs and assumptions such as late payments, economic and financial position, indebtedness level, sector of the economy, guarantee characteristics, and the other factors and assumptions described in CMN Resolution No. 2.682/1999, with rating “AA” being the minimum risk level, and “H” the maximum risk level. Bradesco initially applies the loss percentages established in such Resolution for each risk level for purposes of calculating the allowance and further increases the allowance, when necessary, based on additional

internal evaluations (excess provision). The classification of loans into risk levels as well as the loss percentages related to each risk level requires Bradesco to make assumptions and judgments, based on its internal risk classification methodologies, and the allowance for doubtful accounts represent Bradesco's best estimate of the portfolio losses. Due to the relevance of loans and the uncertainties related to the estimate of the allowance for doubtful accounts, we considered this as a significant matter in our audit.

How our audit addressed this matter

We evaluated the design, implementation and operating effectiveness of the internal controls related to the processes of approval, recording and accrual of loans as well as the internal risk rating methodologies that support the classification of transactions, the main assumptions used for calculation and the arithmetic accuracy of the allowance for doubtful accounts. We also evaluated, on a sampling basis, whether Bradesco met the minimum requirements established by the CMN Resolution No. 2.682/1999, related to the determination of the allowance for doubtful accounts. We also analyzed whether the disclosures made in the consolidated financial statements of Prudential Conglomerate, described in Notes 3g and 9, are in accordance with the applicable accounting practices.

Based on the evidence obtained from the procedures described above, we consider the level of provisioning and disclosures to be adequate in the context of the consolidated financial statements of Prudential Conglomerate taken as a whole.

§ Market value of financial instruments

As disclosed in the Notes 3e, 3f and 7, derivative financial instruments amount to R\$ 16,941,396 thousand (assets) and R\$ (13,406,387) thousand (liabilities), available-for-sale securities amount to R\$ 153,104,352 thousand and trading securities amount to R\$ 36,218,777 thousand. These instruments, measured at market value, are relevant to the consolidated financial statements of Prudential Conglomerate of Bradesco. For the financial instruments that are actively traded and those which market prices and parameters are available, there is a higher objectivity level in the determination of market values. However, when the market prices or parameters are not observable, the determination of the market values is subject to a higher uncertainty level, to the extent Bradesco makes significant judgments to estimate such amounts. Therefore, we considered the market value measurement of these financial instruments as a significant matter in our audit.

How our audit addressed this matter

As part of our procedures, we evaluated the design, implementation, and operating effectiveness of the internal controls implemented by Bradesco to mitigate the risk of material misstatement in the consolidated financial statements of Prudential Conglomerate arising from uncertainties in the market value measurement of financial instruments. For a sample of financial instruments for which market value measurement parameters are not observable, with the technical support of our professionals with knowledge of financial instruments, we evaluated the models developed by Bradesco for determining market values and the reasonableness of data, the parameters and information included in the pricing models used, and we recalculated the amount of operations. Our procedures also included the evaluation of the disclosures made by Bradesco in the consolidated financial statements of Prudential Conglomerate in Notes 3e, 3f and 7.

Based on the evidence obtained from the procedures described above, we consider the market value measurement of financial instruments and disclosures to be adequate in the context of the consolidated financial statements of Prudential Conglomerate taken as a whole.

§ Provisions and contingent liabilities - tax, civil and labor

As described in Notes 3p and 18, Bradesco is defendant in lawsuits of tax, civil and labor nature, related to the normal course of its activities, which total provision recognized in the consolidated financial statements of Prudential Conglomerate amounts to R\$ 7,302,534 thousand, R\$ 4,116,474 thousand, and R\$ 4,803,146 thousand, respectively. Some laws and regulations in Brazil have high complexity levels, and, therefore, the measurement, recognition and disclosure of Provisions and Contingent Liabilities, related to lawsuits, and/or, in certain cases, adherence to laws and regulations, require Bradesco's professional judgment. Due to the relevance, complexity and judgment involved in the evaluation, measurement, definition of recognition and disclosures related to Provisions and Contingent Liabilities, we considered this as a significant matter in our audit.

How our audit addressed this matter

Our audit procedures included the evaluation of the design, implementation and operating effectiveness of the internal controls related to the identification, evaluation, measurement and disclosure of Provisions and Contingent Liabilities, as well as those related to the compliance with laws and regulations. Additionally, on a test basis, we evaluated the sufficiency of the recognized provisions and disclosed contingency amounts, by evaluating the criteria and assumptions adopted in the measurement methodology, also considering the assessment of the internal and external legal advisors of Bradesco, as well as historical data and information. This work included the involvement of our legal experts in the evaluation of the likelihood of unfavorable outcome and of the documentation and information related to the main tax, civil and labor matters involving Bradesco. We also evaluated whether the disclosures made in the consolidated financial statements of Prudential Conglomerate are in accordance with the applicable accounting practices and provide information on the nature, exposure and amounts of provisions or disclosures related to the main tax, civil and labor matters in which Bradesco is involved.

Based on the evidence obtained from the procedures described above, we consider the level of provisioning and disclosures to be adequate in the context of the consolidated financial statements taken as a whole.

§ Impairment of assets

The consolidated financial statements of Prudential Conglomerate include deferred tax assets in the amount of R\$ 48,576,195 thousand (Note 33) and goodwill in the amount of R\$ 10,658,718 thousand (Note 15). The realization of these assets depends on future profitability based on business plans and budgets prepared by Bradesco and which are supported by several economic and business assumptions, among others. Since they require the exercise of judgment, such estimates are prepared and reviewed internally according to Bradesco's governance framework. As described in Notes 3h, 3m and 3n, considering the frequent changes that occur in the economic or regulatory environment of the markets where it operates, Bradesco continuously evaluate the assumptions and estimates of taxable profit, profitability of the cash generating units (CGU) to which goodwill and intangible assets are allocated, growth rates, discount rates, and cash flow projections. In view of the relevance of the future profitability estimates made and the impact that changes in the assumptions of such estimates would have on the consolidated financial statements of Prudential Conglomerate, we considered this area relevant to our audit.

How our audit addressed this matter

On a sampling basis, we tested the design, implementation and operating effectiveness of the relevant internal controls related to the preparation and review of the business plan, budget, technical studies and analyses of the recoverable value of the assets prepared by Bradesco. Additionally, we evaluated, with the technical support of our corporate finance specialists, the reasonableness and consistency of the data and assumptions used for preparing such documents, such as growth rates, discount rates, cash flow projections and taxable income estimates to which the deferred tax assets refer. We also performed an analysis of the reasonableness of the mathematical calculations included in such documents. Our procedures also included the evaluation of the disclosures made by Bradesco in the consolidated financial statements of Prudential Conglomerate.

Based on the evidence obtained from the procedures described above, we consider the measurement of the recoverable amounts of assets and related disclosures to be adequate in the context of the consolidated financial statements of Prudential Conglomerate taken as a whole.

§ Acquisition of control of HSBC Brasil

As described in Note 34f, in August 2015, Bradesco entered into a Purchase and Sale of Shares Agreement with HSBC Latin America Holdings Limited to acquire 100% of the capital of HSBC Bank Brasil S.A. and HSBC Serviços e Participações Ltda. (collectively, "HSBC Brasil"). The transaction was completed on July 1, 2016, after the approval from the regulatory bodies, fulfillment of the legal formalities, and the effective payment in the amount of R\$ 17,288,470 thousand. With the acquisition, Bradesco took over HSBC Brasil operations, including retail, wholesale, insurance and asset management. Accounting practices require the measurement of the fair value of acquired assets and assumed liabilities for purposes of determining goodwill as well as the identifiable acquired intangible assets. Such measurement involves Bradesco's judgment and includes the projection of future cash flows, discount rate, and definition of the useful lives of the identified assets. Later on, on October 7, 2016, Bradesco carried out the migration of the entire service network and operations of HSBC Brasil to the operational structures of Bradesco. In view of the relevance and the high judgment level involved in the accounting record process of the acquisition, as well as the complexity of the HSBC Brasil operations migration process, we considered this matter significant in our audit.

How our audit addressed this matter

Our audit procedures included the evaluation of the design, implementation and operating effectiveness of the internal controls related to the process of measurement, recognition and disclosures of transactions of such nature according to the applicable accounting practices. We also analyzed, with the technical support of our corporate finance specialists, the reasonableness and consistency of the methodology used for measuring the fair value assigned to the acquired assets and assumed liabilities, identified intangible assets as well as the assumptions used for making the projection of cash flows, discount rates and useful life estimates. We also conducted tests of the controls related to the HSBC Brasil acquisition. Additionally, we evaluated the controls related to the migration of the operations to Bradesco systems and considered the analysis of general controls related to migration governance, inspection of the migration plan, and the migration rules on data and obtaining evidences of the conducted data migration tests. We involved our Information Technology ("IT") specialists in order to analyze the migration interfaces, and we carried out the inspection/re-execution on test basis of the accounting and operating reconciliations of the migrated balances and data. It was also part of our procedures the evaluation of the disclosures made by Bradesco in the consolidated financial statements of Prudential Conglomerate in Note 34f.

Based on the evidence obtained from the procedures described above, we consider the recognition, measurement and disclosure of assets and liabilities related to HSBC acquisition to be adequate in the context of the consolidated financial statements of Prudential Conglomerate taken as a whole.

§ Technical Provisions – Insurance and Pension Plans – recorded as investments measured under the equity pick-up method

As mentioned in Notes 3j and 12, Bradesco invests in controlling subsidiaries of the insurance. These subsidiaries have liabilities related to insurance and pension plans contracts denominated Technical Provisions, in the amount of R\$ 215,839,999 thousand, which may significantly affect the net income presented in the Prudential Conglomerate consolidated financial statements. In view of the uncertainties and subjectivity inherent in insurance and pension plans contracts, the liability adequacy test and the process of determination and measurement of technical reserves involve a high judgment level. Bradesco's subsidiaries continuously evaluate methodologies and assumptions, which include, among others, expectations of loss ratio, mortality, longevity, persistency, and interest rates. In view of the involved relevance and uncertainty, and the impact that any change in assumptions would have in the amount of Technical Provisions and, consequently, in the net income of the Prudential Conglomerate consolidated financial statements, we considered this matter relevant to our audit.

How our audit addressed this matter

Our procedures included the planning and communication of the audit scope to the controlling subsidiaries, discussion of the risks of significant misstatements to instruct the auditors of these subsidiaries. We met with these auditors, reviewed and evaluated their work, which considered, among others, the matters described above that could significantly affect the net income of the Prudential Conglomerate consolidated financial statements. We also evaluated the audit evidence obtained and the documentation of the specialists involved by the auditor of the subsidiaries, as well as the procedures performed and conclusions obtained, specifically the determination of materiality, the effect of unadjusted audit differences and the procedures performed to address the risks. We also evaluated the adequacy of the disclosures made by Bradesco on the Prudential Conglomerate consolidated financial statements.

Based on evidence obtained from the procedures described above, we consider the level of provisioning in the subsidiaries and disclosures to be adequate in the context of the Prudential Conglomerate consolidated financial statements taken as a whole.

§ Application controls and information technology general controls

Bradesco has a technology structure for conducting its businesses, as well as continuous investment plans aimed at the improvement and maintenance of access management and changes in the relevant systems and applications, development of new programs, and automated controls and/or controls with automated components in relevant processes. In order to maintain its operations, Bradesco provides its employees with access to systems and applications, taking into account the duties performed by them and within its organizational structure. The controls to authorize, monitor, restrict, and/or revoke the respective accesses to this environment are important to ensure that the accesses and information updates are appropriately performed and by the appropriate professionals, to mitigate the potential risk of fraud or error arising from inappropriate access or change in a system or information, and to guarantee the integrity of the financial information and accounting records. In view of the high investment level and heavy dependence of Bradesco on its technology systems, the high daily volume of processed transactions, as well as the

importance of access controls and the management of changes in its systems and applications, we considered that this area is relevant to our audit.

How our audit addressed this matter

The design, implementation, and operating effectiveness of access controls, such as authorization of new users, timely revocation of terminated users, and periodic monitoring of active users were tested during our audit with the assistance of our information technology specialists, whenever we plan to rely on specific information extracted from a certain system considered relevant for the purpose of preparing the consolidated financial statements of Prudential Conglomerate. In areas where our judgment is highly dependent on information technology, our tests included assessing password policies, security settings, and control over developments and changes in systems and applications. In addition, when we identify key internal controls for the financial reporting process and other relevant fully automated processes or with some component dependent on systems and applications, we tested, with the assistance of our information technology specialists, the design, implementation and operating effectiveness of these controls.

The evidence from the control tests described above allowed us to consider information from certain systems to plan the nature, time and extension of our substantive tests in the context of the consolidated financial statements of Prudential Conglomerate taken as a whole.

Other matters

Responsibilities of management and those in charge with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements of the Prudential Conglomerate in accordance with Resolution no 4,280/13 of CMN, and supplementary regulations of BACEN, which main criteria and accounting practices are described in note no 2 to the financial statements, and the internal controls as management determines is necessary to enable the preparation of consolidated financial statements of the Prudential Conglomerate that are free from material misstatement whether due to fraud or error.

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

Those charged with governance are those responsible for overseeing Bradesco's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements of the Prudential Conglomerate, prepared by the management in accordance with Resolution no 4,280/13 of CMN, and supplementary regulations of BACEN, as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Brazilian and International Standards on Auditing will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements of Prudential Conglomerate.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, taking into account NBC TA 800 (Special Conditions - Auditing of Financial Statements according to Special Purpose Accounting Structures), we exercise professional judgment, and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for the one resulting from error, as fraud may involve collusion, forgery, intentional omission or misrepresentations, or the override of internal controls.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bradesco and its subsidiaries internal control.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting, and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions

that may cast significant doubt on Bradesco's ability to continue as going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements, or if such disclosures are inadequate to modify our opinion. Our conclusions are based on the audit evidences obtained up to the date of our auditor's report. However, future events or conditions may cause Bradesco and its subsidiaries to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements of Prudential Conglomerate represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements of Prudential Conglomerate. We are responsible for the direction, supervision and performance of group audit. We remain solely responsible for our audit opinion.

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

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

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

Osasco, February 24, 2017.

KPMG Auditores Independentes

CRC 2SP028567/O-1 F-SP

Original report in Portuguese signed by

Rodrigo de Mattos Lia

Accountant CRC1SP252418/O-3

December 2016

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Bradesco _____

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 22, 2017

BANCO BRADESCO S.A.

By:

/s/ Alexandre da Silva Glüher

Alexandre da Silva Glüher
Executive Vice-President and
Investor Relations Officer

FORWARD-LOOKING STATEMENTS

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.
