

Risk Management Report

Pillar 3

1st

Quarter
2019

 **bradesco**

► Summary

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Some numbers included in this report have been subject to rounding adjustments.

As a result, some amounts indicated as total amounts in some tables may not be the arithmetic sum of the preceding numbers.

Additionally, the values indicated as percentage variation in some tables may not be the arithmetical application of the preceding numbers.

1. Presentation of the Report

Financial market globalization has prompted the appearance of financial activities and instruments that are outside the reach of domestic bank oversight authorities. On the other hand, differences in national regulations to which banks were subject created inequalities in international competitive conditions. To mitigate the effects of these gaps and conditions, the Basel Committee on Banking Supervision was created in 1974 with the mission of promoting international convergence in capital standards and bank management practices. The need to add other financial segments to the convergence process led to the creation of the Financial Stability Board, in 2009, to coordinate the work of the Basel Committee and other financial activity supervisory bodies.

Currently, the banking segment guidelines defined by these two bodies are organized in accordance with a structure known as “the three pillars”.

Pillar 1 – Capital Requirement: Sets the minimum capital standards to be required from the banks, as well as the methodologies to be used to measure credit, market, and operational risks.

Pillar 2 – Supervision Process: Establishes the principles of performance of the banking system supervisors and sets criteria to address risks not covered under Pillar 1. The risk management processes are also included in this part of the guidance.

Pillar 3 – Market Discipline: Recommends banks to disclose broadly a set of basic information in such a manner as for financial market participants to be able to undertake well-grounded assessments of the risks these institutions incur.

This report complies with Basel Committee on Banking Supervision's recommendations (Pillar 3 – Market Discipline) and other Central Bank of Brazil's ('BCB') rules required through Circular Letter 3,678, of October 31, 2013. This report seeks to provide stakeholders with access to information on risk management in the Bradesco Organization (herein also referred to as 'Organization'), presenting a detailed picture of the practices and controls of the main risks to which it is exposed, thus allowing market agents to appraise the Organization's capital adequacy.

The Organization believes that risk management is essential to enable the long-term stability of financial institutions and that transparency in the disclosure of information regarding this activity strengthens the Organization, contributing to the solid health of the national financial system and society in general. As a consequence of the continuous risk management process and adoption of the best practices, the Organization was the first financial institution¹ in Brazil authorized by the BCB, since January 2013, to use its internal market risk models to calculate regulatory capital. Those models were already in use for managerial purposes.

This should be read with other documents disclosed by the Organization, such as the Report on Economic and Financial Analysis and the Consolidated Financial Statements, which presents other information about Organization's activities. For more information, access our Investors Relations website at www.bradescori.com.br.

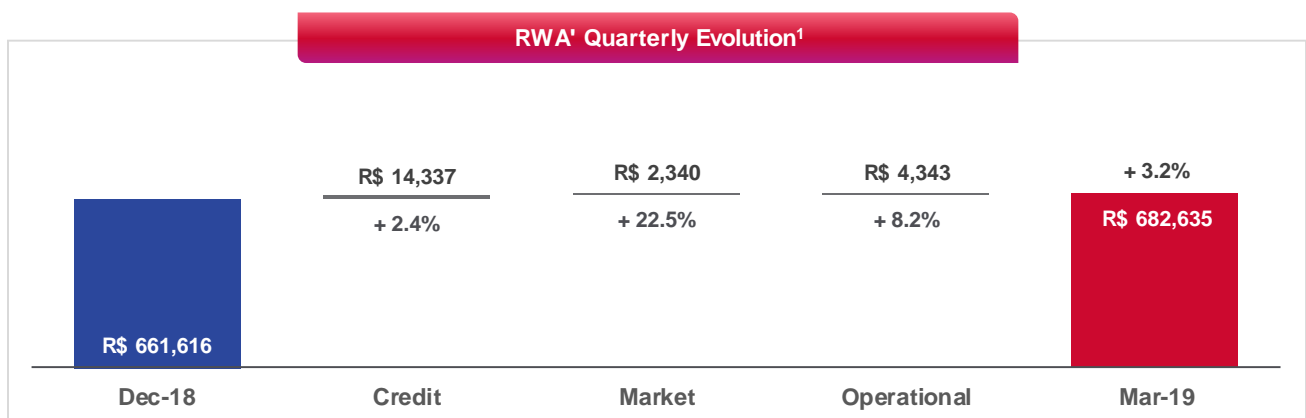
¹ As per BIS document named “Regulatory Consistency Assessment Programme (RCAP) – Assessment of Basel III regulations in Brazil”, of December 2013.

1.1. Main Indicators

The Bradesco Organization carries out the capital management aligned to the strategic guidelines, involving the Control and Business areas, according to the Executive Board and the Board of Directors guidance, aiming to provide conditions to the Organization's strategic targets achievement and support the inherent risk to its activities.

Below are presented the main indicators of Bradesco, obtained under the viewpoint of the Prudential Conglomerate:

Basel Ratio 18.1% + 0.3 p.p. in the quarter 4Q18: 17.8%	Tier I Ratio 14.4% + 0.8 p.p. in the quarter 4Q18: 13.7%	Common Equity Ratio 13.0% + 0.8 p.p. in the quarter 4Q18: 12.3%	Leverage Ratio 8.3% + 0.5 p.p. in the quarter 4Q18: 7.8%
Total RWA¹ R\$ 682,635 + 3.2% in the quarter 4Q18: R\$ 661,616	Credit Risk RWA¹ R\$ 612,394 + 2.4% in the quarter 4Q18: R\$ 598,058	Market Risk RWA¹ R\$ 12,747 + 22.5% in the quarter 4Q18: R\$ 10,407	Operational Risk RWA¹ R\$ 57,494 + 8.2% in the quarter 4Q18: R\$ 53,151



The minimum regulatory requirements determined by Central Bank of Brazil are presented below:

Basel Ratio 11.0% in 2018 11.5% as of 2019	Tier I Ratio² 8.4% in 2018 9.5% as of 2019	Common Equity Ratio² 6.9% in 2018 8.0% as of 2019	Leverage Ratio 3.0% <small>The minimum requirement was defined by Resolution 4,615, in 30/11/2017, effective as of 1/1/2018.</small>
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¹ Amount in million (BRL);

² The Tier I Ratio and the Common Equity Ratio encompass the Additional of Conservation, Systemic and Countercyclical, as per the Resolution 4,193/13 and Circular Letter 3,768/15 e 3,769/15, respectively.

2. Regulatory Risk Indicators – Prudential Conglomerate

	Mar-19	Dec-18	Mar-18
Capital Ratios			
Basel Ratio	18.1%	17.8%	15.9%
Minimum Regulatory Requirement + ACP	11.5%	11.0%	11.0%
Tier I Ratio	14.4%	13.7%	12.4%
Minimum Regulatory Requirement + ACP	9.5%	8.4%	8.4%
Common Equity Ratio	13.0%	12.3%	11.6%
Minimum Regulatory Requirement + ACP	8.0%	6.9%	6.9%
Capital Composition - R\$ million			
Reference Equity (A + B + C)	123,412	117,940	100,170
Tier I Reference Equity (A + B)	98,370	90,322	78,206
Tier II Reference Equity (C)	25,042	27,618	21,964
A. Core Capital	88,944	81,090	73,101
Shareholders' Equity	126,674	121,121	113,776
Prudential Adjustments	(37,731)	(40,031)	(40,675)
B. Additional Capital	9,427	9,232	5,105
C. Tier II	25,042	27,618	21,964
Subordinated Debt	25,042	27,618	21,964
Risk Weighted Assets	682,635	661,616	631,159
Credit Risk Weighted Assets	612,394	598,058	567,007
Market Risk Weighted Assets	12,747	10,407	10,642
Operational Risk Weighted Assets	57,494	53,151	53,510
LEVERAGE RATIO ⁽¹⁾	8.3%	7.8%	7.1%
Reference Equity Level I	98,370	90,322	78,206
Total Exposure	1,187,224	1,153,552	1,108,003
LIQUIDITY COVERAGE RATIO (LCR)	171.0%	171.8%	141.6%
Minimum Regulatory Requirement	100.0%	90.0%	90.0%

(1) The minimum requirement of the Leverage Ratio (Tier 1 Capital / Total Exposure) was defined in 3%, by the Resolution 4.615, of July 30th, 2017 effective as of January 1st, 2018.



3. Scope of Risk Management

The Organization applies the broadest scope to its risk management, allowing the risks inherent to the Economic-Financial Consolidated (includes the regulatory scope of the Prudential Conglomerate and other companies in the Consolidated) to be duly identified, measured, mitigated, monitored and reported, all in order to support the development of its activities. For this purpose, the acting of the Organization is performed through the three lines of defense in which all contributes in order to achieve all the objectives with a reasonable margin of security.

- **First line of defense**, represented by businesses and corporate support areas, is accountable for identifying, assessing and reporting the inherent risks as part of day by day activities and for implementing corrective actions, aiming to keep the controls effectiveness;
- **Second line of defense**, represented by centralized support areas, is accountable for setting policies and procedures of risk management and compliance to the development and/or monitoring of the controls of first line of defense. In this line, may be highlighted areas of Risks, Internal Controls, Compliance and Ethical Conduct, Legal, Corporate Safety, among others;
- **Third line of defense**, represented by General Inspectorate Department (Internal Audit), is accountable for assessing and reporting the governance effectiveness of the risk management and internal controls, including how the first and second lines of defense reach their objectives.

4. Risk Appetite Statement (RAS)

Risk appetite refers to the types and levels of risks that the Bradesco organization is willing to accept in the conduct of its business and objectives. The Risk Appetite Statement – RAS is an important tool that synthesizes Bradesco's risk culture.

At the same time, RAS emphasizes the existence of an effective process of responsibilities in the operational management of risks and in the execution of control functions, as well as for mitigating and disciplinary actions, escalation procedures and notification to the Senior Management when the risk thresholds and established control processes are breached.

The Risk Appetite Statement is annually² reviewed or whenever it is necessary by the Board of Directors, besides being continuously monitored by Senior Management's forums, as well as by business and control functions.

The RAS reinforces the dissemination of risk culture by enabling all your members to be aware of the main aspects of Bradesco organization's risk appetite.

Strategy

Bradesco is in constant evolution, in order to overcome challenges of an environment in continuous change, in an economy that shows recovery signs and opportunities that open up from new scenarios. We believe in people and use innovation to speed up transformation, anticipate changes and go beyond our customer expectations. These aspects are embedded in the strategy and in the view of future of the Organization, from four pillars:

- Sustainable growth with profitability;
- Relationship with customers;
- Efficiency and innovation; and

² The Risk Committee, related to the RAS, has the following attributions: a) assess the risk appetite levels stated in the Risk Appetite Statement and its management strategy, considering the risk individually and on an integrated basis; and b) supervise the fulfillment of the RAS terms by the Senior Management.

- Human capital.

In this context, supported on ethic values, respect and transparency, Bradesco Organization combines banking and insurance activities, on a segmented service structure, capable of offering a complete product and service portfolio aligned to the needs of each customer. Regarding this, it is intended to deepen the relationship and generate value in the long-term, including non-accounting holders, capturing their potential and stimulating the synergy among several businesses of the Organization.

Our positioning allows us to service all audiences, guiding them to the most convenient channels, present in all regions of Brazil. In a scenario of digital transformation, we seek to offer the clients innovative models of service, in order that the user experience becomes even more practical, fast and secure.

For individuals, we adopt a strategy of sub segmentation, seeking to strengthen the relationship with customers, delivering specific solutions according to the profile and life cycle, proportioning a personal experience in all channels of relationship. For high-income customer, the investment consultancy platform implementation represented an important step towards the quality improvement and service, providing a stronger support, assertive and aligned to the needs.

For companies (business to business – B2B), the Bank offers the best options for business, with suitable service and financial solutions to customer's needs and compatible profitability for each segment.

For Insurance, it is sought to wide open the business opportunities with customers from the Bank's portfolio, as well as explore the Brazilian Market growth potential, given the consumption indexes of these products by people in general.

A more effective management over expenses and revenue is also highlighted, contributing with projects and actions focused on optimization of channels, service cost reduction and continuous search for more efficiency.

Finally, is highlighted the relevance of people in the implementation of Bradesco Organization corporate strategy that heads and guides its leadership to a modern and aligned administration, to new demands from labor market, aiming to make sure diversified results, sound balance and consistent profitability.

Risk Governance and General Risk Statement

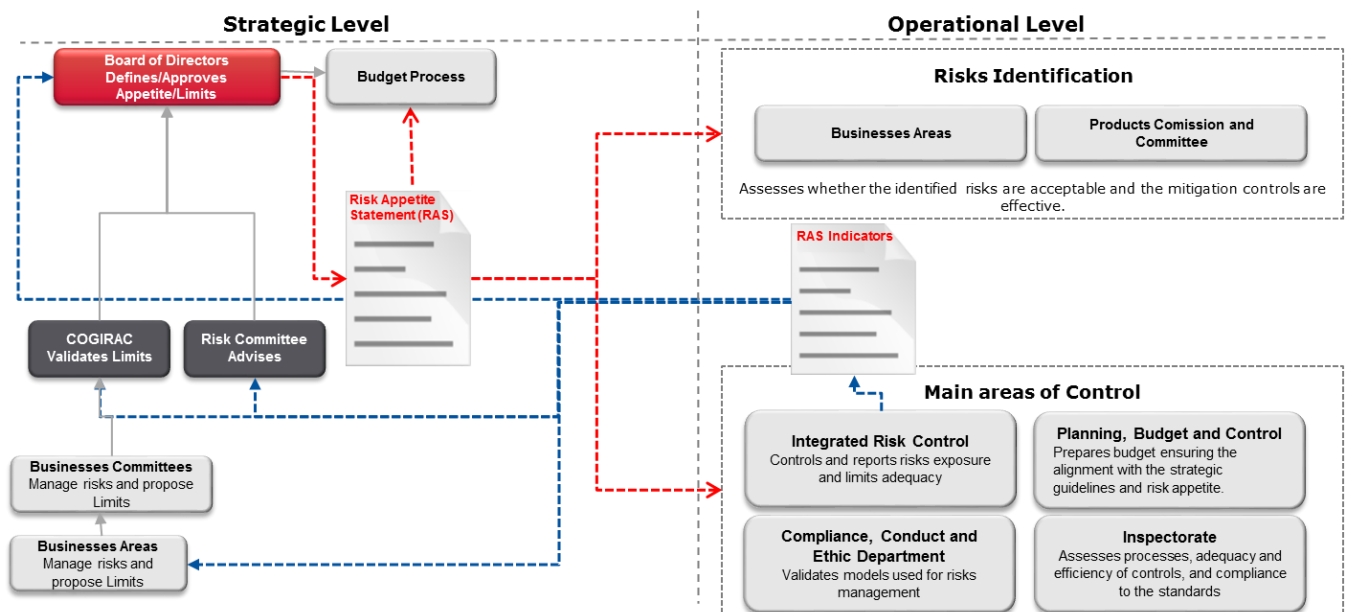
In order to achieve its strategic objectives, Bradesco organization takes different natures and types of risks inherent to the banking practice, and for this purpose, it defines the acceptable levels of risks, it is willing to incur and maintains strict controls for its identification, measurement, mitigation, monitoring and reporting, besides managing them through specific processes that emphasize the integrity, effectiveness, prudence, and public accountability.

These processes are embedded in the risk management framework, which is composed of several committees, commissions and departments that subsidize the Board of Directors and the Board of Executive Officers in the decision-making process.

As a corporate model, Bradesco adopts a collegiate decision-making method. This model permeates all Bradesco organization's levels, including the various committees, commissions and departments where the Board of Directors and Senior Management play a key role in the supervision and control of risks and capital.

Within the structure, it is worth highlighting the Integrated Risk Management and Capital Allocation Committee (COGIRAC) whose role is to assure the fulfillment of processes and risk management policies of the Organization and the Risk Committee, which main objective is to assess the Risk Management Framework of the Organization and eventually propose improvements. Both advise the Board of Directors on the performance of its attribution on risk and capital management and control.

The flow below demonstrates the definition and communication process of the Risk Appetite:



Risk Appetite from the Strategic Perspective

For the various types of risks, which are measurable and non-measurable, Bradesco organization has established controls, observing the main global dimensions:

Capital: to maintain an adequate level of capital, including in a prospective view, to cope with unexpected losses, stress situations and business opportunities, in compliance with regulatory requirements and assuring Bradesco organization's soundness.

Liquidity: to maintain pulverized and low cost sources of funding through a capillary network and dynamic and adequate segmentation to ensure a cash structure compatible with the size of its obligations, assuring survival in adverse scenarios.

Profitability: to remunerate its capital in a sustainable way, seeking to meet the shareholder's remuneration expectation in relation to the risks incurred in its business.

Credit: to focus on domestic customers, in a diversified and pulverized manner, both in terms of products and segments, striving for the portfolio's quality and solidness, with guarantees consistent with the undertaken risks, considering the amounts, the purposes and terms of the granted loans, maintaining adequate levels of impairment allowances as well as portfolio concentration.

Market: to align the exposures to the strategic guidelines, with specific limits established in an independent manner and with the risks properly mapped, measured and classified as to probability and magnitude.

Operational: to provide assurance regarding suitable conduct to the Organization's businesses, observing compliance to the law, regulations and rules, ensuring that processes comprise efficient controls.

Reputation: to monitor the Organization's reputation before clients, employees, regulator, investors and the market in general, aiming to assure the timely identification and assessment of potential sources of this risk and act a preventive manner for its mitigation.

Risk Appetite from an Operational Perspective

The following, describes the control approaches, according to the main global dimensions, from the operational perspective:

Capital

Bradesco organization seeks to maintain, on a permanent basis, a solid capital base to support the development of activities and to address the measurable incurred risks (in normal or stressful conditions), as well as to withstand any losses arising from non-measurable risks and to enable possible strategic acquisitions. In order to meet this objective, capital buffers have been established, which are part of the risk appetite framework and are defined and approved by the Board of Directors.

Liquidity

Liquidity risk control aims to ensure that Bradesco organization is able to honor efficiently its obligations, without affecting its daily operations and without incurring significant losses.

The liquidity risk control to the Prudential Conglomerate is performed through the Long and Short Term indicators. The Liquidity Coverage Ratio indicator (LCR) for short term, correspond to the ratio between the stock of High Quality Liquidity Index (HQLA) and the total net outflow, calculated as per the stress scenario standardized by the Central Bank of Brazil. The Net Stable Funding Ratio (NSFR) for long term, correspond to the ratio between the available stable fundings and the required stable funding.

Profitability

Bradesco organization zeal for the sustainable growth of its businesses and results and the adequate remuneration of its capital.

The main performance indicators are monitored periodically by line of business, segments and products (including portfolios, revenues, expenses, impairment allowances, and performance indicators, such as efficiency ratio, default rate and return on equity compared to the budget and to previous years). Based upon these indicators, a number of analyzes, projections and further deepening are carried out in order to inform the business areas and Senior Management about the Bank's individual and consolidated results, thus allowing conscious decision-making and eventual strategic reviews.

Additionally, the market and competition movements are monitored to allow Bradesco organization to review its position in the areas in which it operates to adapt the strategy to the competitive dynamics of the financial and insurance market, seeking to meet the shareholder's remuneration expectation in relation to the risks incurred in each of its businesses.

Credit Risk

The Organization has a robust Governance process, practices and monitoring. Among these practices, a mention can be made regarding the Governance of lending limits and recovering debts, which, depending on the size of the operation or the total exposure of the counterparty, may require an approval at the level of the Board of Directors. Furthermore, frequent monitoring of the portfolio is carried out, covering assessment of its evolution, non-performing loans, impairment allowances, vintage analysis, capital, among others.

In addition to the process and governance of credit approval limits and recovery debts, the Organization established limits on the concentration of operations in the following views: Economic Group, Transfer (Country) and Economic Activity sector. These indicators have already a governance process set, including levels of use limits, which may require actions from the Board of Directors.

Market Risk

The possibility of financial loss is monitored and controlled by Bradesco organization due to the fluctuation of prices and market rates of its financial instruments, since its assets and liabilities portfolios may present mismatches of maturities, currencies and indexes. Considering the dynamics of this type of risk and the characteristics of each investment portfolio, the Organization has established a number of limits of risks and results.

Operational Risk (including Legal Risk)

Before a wide range of products and services offered, as well as an expressive volume of activities and operations performed, the Organization may incur on losses resulted by failures, deficiency or internal process inadequacy, personnel and systems, or external events. Regarding this, within the framework of the Prudential Conglomerate, the Organization set appetite limits and tolerance to operational losses, monitored on a monthly basis. Additionally, the Organization monitors the availability of the main service channels and systems, aiming to provide an ongoing readiness on customer service.

Reputational Risk

The reputational risk control aims to ensure that the Organization monitors and assesses the various stakeholders' perception, seeking to detect potential sources of reputational risk and if necessary take actions on a timely basis in order to mitigate.

Control of this risk is performed through a Consolidated Index of Reputation, from which is possible to determine the Organization's reputation vis-a-vis customers, employees, regulators, investors and market in general.

Communication

Bradesco organization uses the Risk Appetite Statement as one of the communication elements from the risks taken to fulfill its strategic objectives, making it available to responsible managers enabling the risk monitoring and management on daily business conduction, respecting the established limits.

This communication process begins with the appetite incorporation into the annual budgetary process, which is the basis for their monitoring, and has continuity in the development of risk control reports in the responsible areas.

Monitoring Risk Appetite

The monitoring of risk appetite takes place through effective control processes, in which managers are informed about the exposures to risks and the respective usage of current limits. The report is carried through an alert system, which eases communication and highlights exceptions to the limits, which requires discussion, authorization for the exceptions and/or adequacy measures, permeating all Bradesco organization's spheres, supporting the Senior Management in the assessment whether the results are consistent with the risk appetite.

Final Considerations

This Statement considers the most relevant risks to which Bradesco organization is exposed to and addresses the approaching structure for the management of those risks. All business and strategic plans must be in line with this Statement.

5. Risk Map

Given the complexity and variety of products and services offered to its customers in all market segments, the Organization is exposed to diverse types of risks stemming from both internal and external factors. Thus, it is very important that the Organization constantly monitor all the risks in order to provide all stakeholders with security and comfort. Notable among the main risk types are:

■ **Credit Risk** – represented by the possibility of losses due to the borrower or the counterparty not meeting their respective financial obligations under the agreed-upon terms, as well as, the depreciation of the credit agreement, resulting from the downgrading of the borrower's credit rating, the reduction of gains or remuneration, advantages granted in renegotiation, recovery costs, and other amounts related to the counterparty not meeting its financial obligations. It also includes the possibility of losses related to non-fulfillment of obligations associated with a counterparty or mitigating instrument located outside of the Country, including sovereign risk and the possibility of losses due to, issues in the currency exchange of amounts received outside of the Country associated with the operation subject to the credit risk.

■ **Counterparty's Credit Risk** – represented by the possibility of loss due to the non-compliance by the counterparty with the obligations relating to the settlement of operations involving financial asset trading, including the settlement of derivative financial instruments or decrease of the counterparty's credit standing.

■ **Market Risk** – represented by the possibility of financial loss due to fluctuating prices and market interest rates of the Organization's financial assets as its asset and liability portfolios may show mismatched amounts, maturities, currencies and indexes.

■ **Operational Risk** – represented by the possibility of losses arising from faulty, deficient or inadequate internal processes, people and systems, or external events. This definition includes legal risk associated to activities developed by the Organization.

■ **Insurance Risk** – resulting from an adverse economic situation, which is contrary to insurance company's expectations upon the preparation of its insurance policy, as well as the uncertainties in estimated provisions.

■ **Liquidity Risk** – represented by the possibility of the Organization not being able to efficiently meet its obligations, without affecting its daily operations and incurring significant losses, as well as the possibility of the Organization not being able to trade a position at market price due to its high amount when compared to the usually traded volume or due to some market discontinuation.

■ **Concentration Risk** – represented by the possibility of loss due to significant exposure to a counterparty, risk factor, product, economic sector or geographic region.

■ **Social and Environmental Risk** – represented by potential damages that a business may cause to the society and environment. Most of social and environmental risks associated to financial institutions are indirect and result from business relations, including those with the supply chain and customers through financing and investing activities.

■ **Strategic Risk** – represented by the uncertainty in achieving the objectives established. It might be due to adverse changes on the business environment, the use of inappropriate assumptions in the decision-making or due to the strategy execution on a different way from what was planned.

■ **Reputational Risk** – represented by the loss of credibility before customers, counterparts, government agencies and market or community, resulting from undue and improper actions, acts and behavior.

■ **Model Risk** – represented by the possibility of losses due to models with errors or inconsistencies, deficiencies or inadequacies in the development process, implementation or use.

■ **Contagion Risk** – represented by the possibility of losses at financial institutions due to the occurrence of adverse events in its related companies and/or relevant equities.

■ **Corporate Conduct Risk** – represented by the possibility of loss, resulting from inappropriate behavior of the Organization to its customers and users, in relation to its products and services contracting and usage.

■ **Compliance Risk** – represented by the possibility of the institution incur on legal or administrative sanction, financial losses, reputation and other damages due to non-compliance or failure on observing the legal framework, the infralegal regulation, the regulators recommendations and the applicable self-regulatory codes.

In addition to the risks described in this map and considering the business environment in which the Organization operates, we are constantly monitoring emerging risks that may adversely impact the Organization's exposures. These risks are assessed through consistent processes and a sound governance structure. In this way, the emerging risks identified by the Organization are listed below:

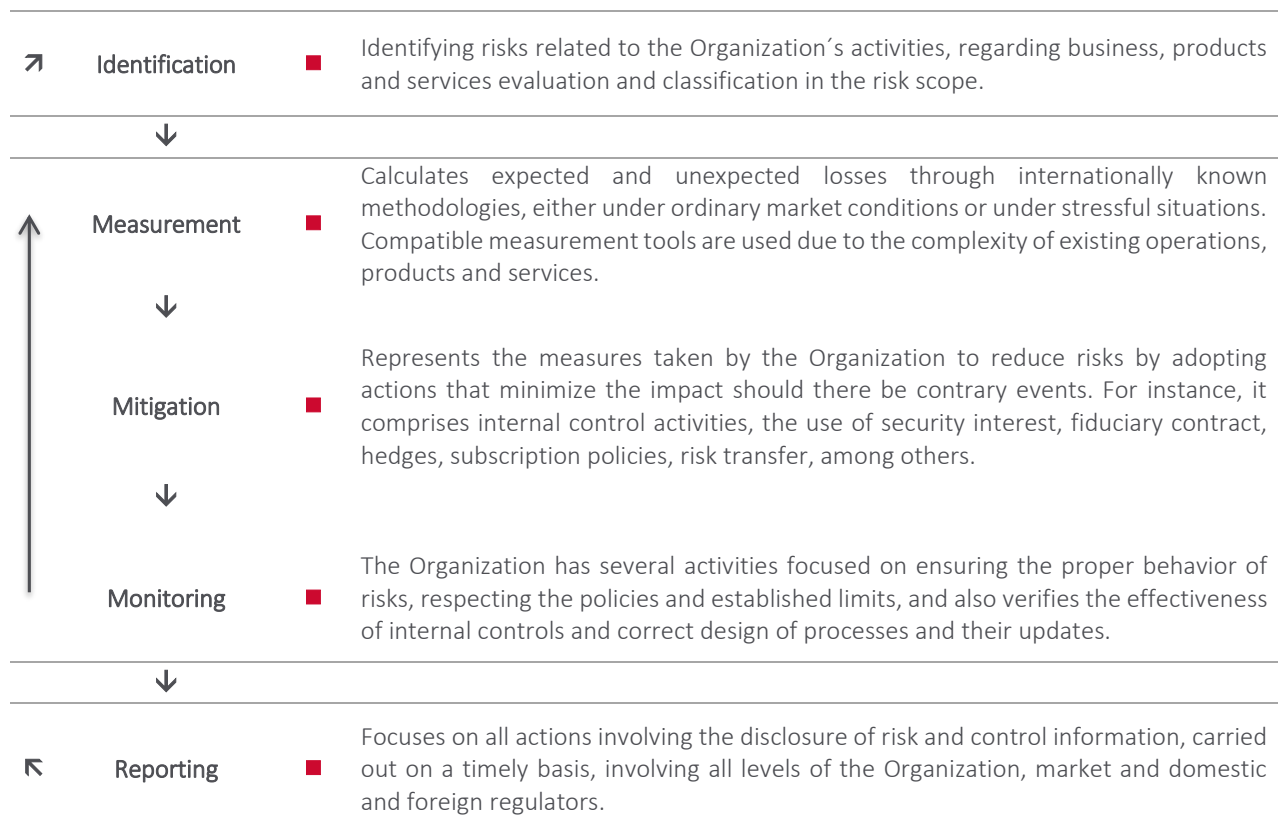
- **Deterioration of Brazil's economic and fiscal scenarios:** increase of instability, hindering governability and hindering or postponing the reform agenda for a proper fiscal adjustment, with adverse impacts, such as currency depreciation (with inflationary effects) and the possibility of once again hampering economic recovery;
- **Rising of global trade tensions:** uncertainty regarding the impact of the North American foreign trade policy, with possibility of eventual retaliation from other countries with potential impacts over trade and global growth (specially, on Chinese economy);
- **Rising of inflation and interest rates in the United States:** in a short term, increase of inflation higher than expected and faster rise of interest rates, leading to risk of capital flight from emerging countries;
- **Economic and political instability in Europe:** in the UK, Parliament with no absolute majority, may affect the Brexit negotiation. For the Euro Area, it is worth pointing out the political volatility in Italy, with possibility of questionings regarding solvency of Italian banks and rise of extreme right-wing parties in other countries;
- **Realization of assets prices:** risk of disorderly realization of prices of financial assets, mainly, on emerging markets, wheter due to macroeconomic fragility or fears of a more intense Chinese economic slowdown;
- **Frustration of global growth:** new negative shocks may create adverse conditions in the financial markets, given the limited room for monetary and tax stimuli in some developed countries;
- **Geopolitical conflict:** geopolitical conflict in the Middle East and risk of terrorist attack in other countries.

6. Risk Management Corporate Process

The activity of risk management is of great strategic importance due to the increasing complexity of services and products and the globalization of the Organization's business. The dynamic nature of the market is conducive to the constant improvement of risk management activity.

The Organization conducts corporate risk control in an integrated and independent manner, preserving and valuing an environment of collective decision-making in which methodologies, models and tools to measure and control risks are developed. The Organization also works on training its employees at all levels, from business areas to the Board of Directors.

The risk management process allows the proactive identification, measurement, mitigation, monitoring and reporting of risks, which is necessary for the complexity of financial products and services and the profile of the Organization's activities, is made up of the following stages:



6.1. Risk and Capital Management Policies

The Organization has policies, rules and procedures to manage risks and capital. These instruments establish the basic operational guidelines laid out by Senior Management in accordance with the institution's standards of integrity and ethics and cover all the activities performed by the Organization and associated companies.

Policies, standards and procedures ensure that the Organization is structured in accordance with the nature of its operations, the complexity of its products and services, activities, processes, systems and the dimension of its risk exposure.

The risk and capital management policies are in line with the Organization's strategic objectives, the best national and international practices and in compliance with laws and regulations issued by oversight bodies. They are reviewed at least once a year by the Board of Directors and disseminated to all employees and associated companies via the corporate intranet.

Risk and Capital Management Policies

- Corporate Governance
 - Credit Risk Management
 - Market Risk Management
 - Liquidity Risk Management
 - Operational Risk Management
 - Insurance Risk Management
 - Business Continuity Management
 - Hiring and Management of Outsourced Services
 - Corporate Sustainability
 - Strategy Risk Management
 - Capital Management
 - Internal Control
 - Compliance
-

6.2. Risk and Capital Management Structure

The risk and capital management structure is made up of committees, which assist the Board of Directors, the CEO and the Board of Executive Officers in their strategic decision-making process.

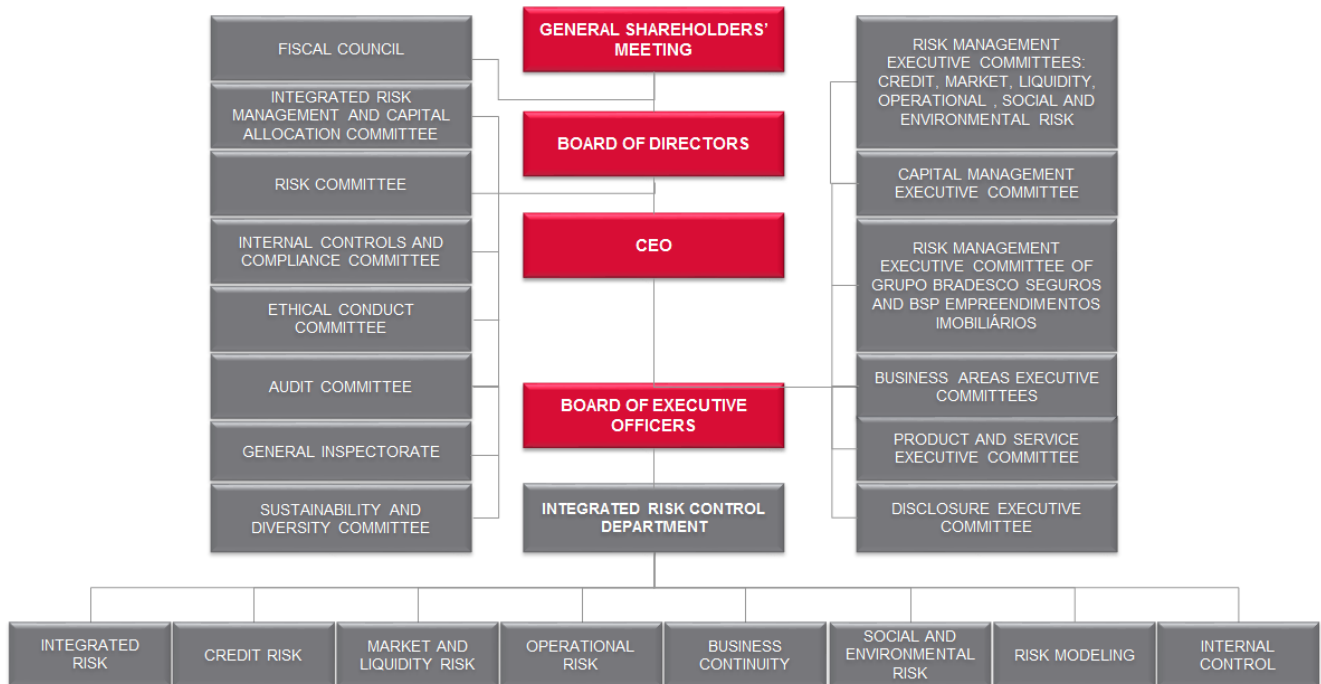
The Organization has a committee known as the Integrated Risk and Capital Allocation Management Committee, whose duty are to assure process compliance and risk management policies of the Organization, and advise the Board of Directors in performing its duties in the Capital and Risk Management and Control.

The bodies that assist this committee are Capital Management Executive Committee and Risk Management Executive Committees for a) Credit, b) Market and Liquidity, c) Operational and Social and Environmental and d) Grupo Bradesco Seguros and BSP Empreendimentos Imobiliários. In addition, it also is supported by the Products and Services Executive Committee and the Executive Committees in business areas, which, among other duties, suggest exposure thresholds for their respective risks and prepare mitigation plans to be submitted to the Integrated Risk and Capital Allocation Management Committee and the Board of Directors.

In compliance with National Monetary Council's (CMN) Resolution 4,557 from February 23rd,2017, the Risk Committee has been created and it represents a consultative forum to the Board of Directors for the performance of its responsibilities related to risk and capital management, as well as the appointment of the Chief Risk Officer (CRO), who among other duties, supervises the development, implementation and performance of the risk management framework, including its improvement, in an independent manner and reporting to the Risk Committee, Chief Executive Officer and the Board of Directors.

The Bradesco Organization's Board of Directors approved the information disclosed in this report regarding the Risk and Capital management structure description.

It is worth highlighting the Department of Integrated Risk Management - DCIR, responsible for implementing risk control and capital allocation through solid practices and certification of the existence, execution and effectiveness of controls which ensure acceptable risk levels in the Organization's processes, on an independent, consistent, transparent and integrated manner. This Department is also responsible for complying with the Central Bank of Brazil rules for risk management activities.



6.3. Risk and Capital Management Governance

All the levels of the Organization participate in its corporate governance with the aim of optimizing the Company's performance and safeguard stakeholders' interests, also facilitating access to capital, adding value to the Organization and contributing to its sustainability, mainly through transparency, equal treatment and accountability. This framework complies with guidelines laid out by the Board of Directors.

In this context, risk and capital are managed through collegiate decisions based on specific committees. This process relies on the participation of all corporate governance segments, ranging from Senior Management to the diverse business, operational, product and service areas.

Board of Directors	<ul style="list-style-type: none"> Approves and revises risk management strategies, and risk and capital management structures and policies, including risk appetite and exposure limits by types of risk, as well as the stress testing program, its results, scenarios and assumptions applied.
Integrated Risk Management and Capital Allocation Committee	<ul style="list-style-type: none"> Validates and submits exposure appetite and limits by types of risk for approval by the Board of Directors; Validates and submits risk and capital management policies for approval by the Board of Directors; Validates and submits for approval by the Board of Directors the stress testing program, including the parameters, scenarios, assumptions, its results and the management mitigating actions for the impacts; Ensures compliance with risk management policies; Monitors risk profile, performance, capital requirements and sufficiency exposure versus limits and risk control; Takes note of the rules issued by the Basel Committee on Banking Supervision (BCBS), estimate the impacts for its adjustment and monitor its implementation.



Risk Committee	<ul style="list-style-type: none"> ■ Evaluates risk appetite levels set in the Risk Appetite Statement (RAS) and the strategies for its management; ■ Oversees the CRO's activities and performance, and ensures Senior Management's compliance with the terms of the Risk Appetite Statement; ■ Evaluates the levels of adherence of the risk management processes structure to established policies; ■ Proposes recommendations to the Board of Directors on policies, strategies and limits for risk and capital management, stress testing program, business continuity policy, capital and liquidity contingency plans, and capital planning.
Audit Committee	<ul style="list-style-type: none"> ■ Revises the integrity of financial statements; ■ Recommends to the Board of Executive Officers corrections or improvements to policies, practices and procedures identified within the scope of its duties.
Internal Controls and Compliance Committee	<ul style="list-style-type: none"> ■ Assesses the effectiveness and compliance of Internal Controls System and the compliance risk management of the Organization; ■ Assesses whether the internal control improvements recommendations have been properly implemented by managers; ■ Keeps aware of High and Maximum residual risks; ■ Assesses and validates the maximum residual risk acceptance, whose action plan exceeds 12 months; ■ Certifies the compliance of procedures with rules, regulations and applicable laws; ■ Follows policies, procedures, accountabilities and relevant definitions to the management structure of operational risk and compliance; ■ Submits the Annual Reports of Internal Controls and Compliance and conformity of Internal Controls (compliance) of the Organization's companies to the Board of Directors; ■ Assesses the reports issued by Regulators and Internal and External Audits, regarding deficiencies of internal controls and compliance and related actions taken by the engaged area.
Ethical Conduct Committee	<ul style="list-style-type: none"> ■ Ensures that infractions and violations of corporate and sectoral Codes of Ethical Conduct; and breaches of anti-corruption and competitive conduct are followed by applicable disciplinary actions, regardless of hierarchical level, and without prejudice to applicable legal penalties; ■ Ensures that the Board of Directors is aware of matters that may have a significant impact on the Bradesco Organization's image; ■ Forward for deliberation of the Board of Directors, the subjects related to the Bradesco Organization's Directors.
Inspectorate/Internal Auditors	<ul style="list-style-type: none"> ■ Certifies the business risk management process; ■ Ensures compliance with policies, rules, standards, procedures and internal and external regulations; ■ Recommends improvements to the internal control environment.
Executive Committee	
Disclosure	<ul style="list-style-type: none"> ■ Supports Senior Management in evaluating the disclosure of transactions and relevant information related to the Organization; ■ Evaluates reports to ensure they are prepared in accordance with controls and procedures defined for their preparation.

Risk – Market and Liquidity – Credit – Operational and Social and Environmental – Grupo Bradesco Seguros and BSP Empreendimentos Imobiliários	<ul style="list-style-type: none"> ■ Guarantee compliance with risk management policies; ■ Ensure the effectiveness of the risk management process; ■ Approve definitions, criteria and procedures to be adopted, in addition to methodologies, models and tools used in management and measurement of risk; ■ Monitor and evaluate information on risk exposure level, both consolidated and by area; ■ Monitor market movements and developments, evaluating the implications and risks thereof.
Capital Management	<ul style="list-style-type: none"> ■ Approves capital management methodologies, definitions, criteria and tools; Evaluates and submits for approval by the Integrated Risk Management and Capital Allocation Committee the policy, structure, documents, responsibilities, risk appetite, capital plan and capital adequacy report.
Product and Service	<ul style="list-style-type: none"> ■ Ensures that all risks have been pointed out and are acceptable, resolving on the creation, change, suspension or discontinuity of products and services, taking into consideration the customer's profile.
Collection and Recovery	<ul style="list-style-type: none"> ■ Resolves on proposals for the renegotiation of debts overdue or with potential risk loss; ■ Approves corporate rules, procedures, measures and guidelines related to the Credit Collection and Recovery; ■ Defines limits of authorization to approve debt renegotiation.
Credit	<ul style="list-style-type: none"> ■ Makes collegiate decisions to verify limits or operations involving credit risk, proposed by Bradesco Organization's Premises and Companies.
Treasury for Asset and Liability Management	<ul style="list-style-type: none"> ■ Define strategies for managing assets and liabilities based on an analysis of the domestic and international political and economic scenarios and for pricing asset, liability and derivative operations with Bradesco Organization customers; ■ Evaluate external asset hedging strategies; ■ Validates the proposed risk exposure tolerance limits and liquidity rule and submit them for approval to the Integrated Risk Management and Capital Allocation Committee.
Treasury	<ul style="list-style-type: none"> ■ Define Treasury strategies to optimize results based on the analysis of domestic and international economic and political scenarios; ■ Validates and submits for the Integrated Risk Management and Capital Allocation Committee's approval of the proposals for tolerance thresholds of exposure to Treasury risks; ■ Monitors results, behaviors and risks of the Trading Portfolio, the mismatches of assets and liabilities, and the clients' portfolio.
Strategic Planning	<ul style="list-style-type: none"> ■ Evaluates positions on the strategy risk and defines actions for its mitigation.

Aiming at the search for the best practices of Governance and Corporate Conduct within the highest ethical standards and principles, it has been created The Department of Compliance, Conduct and Ethics - DCCE, whose mission is to independently ensure that the Organization is aligned with its principles, legislation and regulations, contributing to the sustainable and ethical development of its business, society in general and the continuous improvement of Risk Management.



6.4. Stress Testing Program

The risk management framework relies on a stress-testing program, which is defined as a coordinated set of processes and routines, endowed with its own methodologies, documentation and governance, with the main objective of identifying potential institution's vulnerabilities. The stress tests are forward looking exercises of potential impacts of adverse events and circumstances on the capital, liquidity or in portfolio value within the Organization.

In the Stress Test Program, scenarios are prepared by the Department of Studies and Economic Research - DEPEC and discussed with Business, Department of Integrated Risk Control - DCIR, Department of Budget Planning and Control - DPOC, among other areas. Those scenarios and results are discussed and approved by a specific collegiate body for this topic. Subsequently, they are submitted to the Executive Committee and to the Board of Directors, that besides scenarios and stress tests results are responsible for approving the program and the guidelines to be followed.

Stress tests are used as a tool for risk management, in the identification, measurement, evaluation, monitoring, control and mitigation of the institution's risks. The stress tests results are inputs for assessing the institution's capital and liquidity levels, for the preparation of respective contingency plans, for the capital adequacy assessment and for the recovery plan. Likewise, the results are taken into account in the decisions related to strategic guidelines, in the definition of risk appetite levels and limits applied to risk and capital management, as well as in the definition of governance actions with the objective of mitigating identified risks, aligning them with the Organization's risk appetite.

7. Risks: Process, Measurement and Control

7.1. Credit Risk

Credit risk refers to the possibility of losses associated with the borrower's or counterparty's failure to comply with their financial obligations under the agreed upon terms; as well as the depreciation of loan agreements resulting from deterioration, in the borrower's risk rating; the reduction in gains or remunerations and also with benefits granted in renegotiations; recovery costs and other amounts related to the counterparty's default with their financial obligations.

Credit risk management in the Organization is a continuous and evolving process of mapping, development, assessment and diagnosis through models, instruments and procedures that require a high degree of discipline and control during the evaluation of credit proposals in order to preserve the integrity and autonomy of the processes.

The Organization controls its exposure to credit risk, which mainly results from credit operations, securities and derivative financial instruments. Credit risk also stems from financial obligations related to credit commitments or financial guarantees.

In order to ensure the quality expected from the portfolio, special attention to all aspects of the lending process, credit concentration, guarantee requirements, maturities, amongst others has been given.

The Organization continuously maps all the activities that could possibly generate exposure to credit risk, classifying them by their probability and magnitude, identifying their managers, as well as their measurement and mitigation plans.

Counterparty Credit Risk

The counterparty credit risk, to which the Organization is exposed, is represented by the possibility of loss due to the counterparty default of their obligations relating to the settlement of operations involving financial asset trading, including the settlement of derivative financial instruments or reduction of the counterparty's credit standing.

The Organization exercises complete control over its net position (the difference between purchase and sale agreements) and the potential future exposure of operations involving counterparty risk. All exposure to counterparty risk is part of the general credit limits set for the Organization's customers.

In conclusion, the Counterparty Credit Risk management encompasses modeling and monitoring (i) of counterparties credit limits consumption, (ii) of the adjustment of parcel to the credit fair value of derivatives portfolio (CVA, Credit Value Adjustment) and (iii) of the respective regulatory and economic capital. The methodology adopted by the Organization, establishes that, exposition of the credit portfolio to a given counterparty, can be calculated from the Reposition Cost (RC) of its operations in different scenarios of the financial market, what is possible through the process of Monte Carlo simulation.

Regarding the mitigation manners of the Counterparty Credit Risk that the Organization is exposed, the most usual is the composition of guarantees like, deposits of margin and disposal of Government bonds, which are, performed by the counterparty in the Organization or in other custodian institution, which has its counterparties risks duly assessed.

7.1.1. Credit Risk Management Process

The credit risk management process is conducted in a corporation-wide approach. This process involves several areas with specific duties, ensuring structural efficiency. Credit risk measurement and control are conducted in a centralized and independent manner.

The credit risk monitoring area actively participates in improving customer risk rating models, following up large risks by periodically monitoring major delinquencies and the provisioning levels for expected and unexpected losses.

This area continuously reviews the internal processes, including the roles and responsibilities and IT training and requirements, as well as conducts periodical reviews of risk evaluation processes to incorporate new practices and methodologies.

7.1.2. Lending Process

In the Credit Department, the lending process is based on the Organization's Credit Policy, which lays emphasis on safety, quality and liquidity while investing in credit assets. The risk management governance permeates the entire process, which fully complies with Central Bank of Brazil rules.

The methodologies adopted value business agility and profitability, with targeted and appropriate procedures, oriented to the granting of credit transactions and establishment of operating limits.

The assessment and classification of the total risk of customers and economic groups, the Organization considers the quantitative (economic and financial indicators) and qualitative (registration and behavioral data) aspects of the customers' capacity to pay their debts.

All business proposals are subject to operational limits, which are included in the Loan Guidelines and Procedures. At branches, the delegation of power to grant a loan depends on its amount, the customer's total exposure to the Organization, the collaterals and guarantees posted, the level of restriction and their credit risk rating. Business proposals with risks beyond these limits are submitted to technical analysis and approval by the Credit Department.

The Executive Credit Committee was created to decide, within its authority, on queries about assignment of limits or operations proposed by business areas, previously analyzed and with analysis from the Credit Department. Depending on the financial amount, operations/limits proposed, from this Committee, may be submitted for approval by the Board of Directors.

Loan proposals pass through an automated system with parameters to provide indispensable information for analysis and granting of loans, in addition to the follow-up of the loans granted, minimizing the risks inherent to the operations.

There are exclusive Credit and Behavior Scoring systems for the assignment of mass loans in the Retail segment, intended to provide speed and reliability, while standardizing the procedures for loan analysis and approval.

Business is diversified, widespread and aimed at individuals and companies with a proven payment capacity and solvency, seeking to support them with collaterals and guarantees that are adequate to the risk assumed, considering the credit lines, amounts and the maturities of the granted loans.

7.1.3. Credit Risk Mitigation

Potential credit losses are mitigated by the use of a series of collaterals formally stipulated through legal instruments, such as conditional sales, liens, mortgages, by guarantees such as third-party sureties or guarantees and also by financial instruments such as credit derivatives. The efficiency of these instruments is evaluated considering the time to recover and realize an asset given as collateral, its market value, the guarantors' counterparty risk and the legal safety of the agreements. The main types of collaterals include, term deposits; financial investments and securities; residential and commercial properties; movable properties such as vehicles, aircrafts; furthermore, security interest also include commercial bonds such as invoices, checks and credit card bills. Securities and guarantees may also include bank guarantees.

Credit derivatives are bilateral agreements where one of the counterparties buys hedge against credit risk of a specific financial instrument and its risk is transferred to the selling counterparty. Usually, the later receives a linear remuneration during transaction's effectiveness. In the event of default, the counterparty who bought the hedge will be paid, the purpose of which is to mitigate the financial instrument impairment. In this case, the selling counterparty receives the underlying asset in exchange for referred payment.

7.1.4. Credit Risk Rating

The credit risk assessment methodology, in addition to providing data to establish the minimum parameters for lending and risk management, also enables the definition of special Credit Rules and Procedures according to customer characteristics and size. Thus, the methodology provides the basis not only for the correct pricing of operations, but also for defining the appropriate guarantees.

The methodology used also follows the requirements established by National Monetary Council ('CMN') Resolution 4,327 and includes analysis of social and environmental risk in projects, aimed at evaluating customers' compliance with related laws and the Equator Principles, a set of rules that establish the minimum social and environmental criteria, which must be met for lending.

In accordance with its commitment to the continuous improvement of methodologies, the credit risk rating of the Organization's economic groups/customers uses an eighteen-level scale, in which fourteen levels represent performing loan operations, ensuring greater compliance with the requirements of the Basel Capital Accord.

The risk ratings for economic groups (companies) are based on statistical parameterized procedures, using quantitative and qualitative information and judgments. Classifications are made on a corporate basis and periodically monitored to preserve loan portfolio quality.

With respect to individuals, risk ratings are generally defined based on their registered reference variables, namely: income, equity, restrictions and indebtedness, as well as their past relationship with the Organization, also using statistical models for credit assessment.

The criteria set forth by National Monetary Council Resolution 2,682 for recording the necessary impairment allowances were maintained according to the rating equivalence shown in the table above.

CMN Resolution 2,682 Rating	Internal Rating Grades
■ AA	AA1
	AA2
	AA3
■ A	A1
	A2
	A3
■ B	B1
	B2
	B3
■ C	C1
	C2
	C3
	C4
■ D	D
■ E	E
■ F	F
■ G	G
■ H	H

7.1.5. Controlling and Monitoring

The Organization's credit risk is controlled and monitored by the credit risk area of the DCIR - Department of Integrated Risk Management. The department advises the Executive Credit Risk Management Committee, in which methodologies for credit risk measurement are discussed and formalized. Significant issues discussed in this committee are reported to the Integrated Risk Management and Capital Allocation Committee, which is subordinated to the Board of Directors.

Additionally, to the committee, the area holds monthly meetings with all product and segment executives and officers, with a view to informing them about the evolution of the loan portfolio, delinquency, adequacy of allowance for loan losses, loan recoveries, gross and net losses, portfolio limits and concentrations, regulatory and economic capital allocation, among others. This information is also reported to the Audit Committee on a monthly basis.

The area also monitors any internal or external event that may cause a significant impact on the Organization's credit risk, such as mergers, bankruptcies and crop failures, in addition to monitoring industries in which the company is exposed to significant risks.

Both the governance process and existing limits are sanctioned by the Integrated Risk Management and Capital Allocation Committee, which are submitted for the approval of the Board of Directors, and are revised at least once a year.

7.1.6. Internal Reporting

Credit risk is monitored on a daily basis in order to maintain the risk levels within the limits established by the Organization. Managerial reports on risk control are provided to all levels of business, from branches up to Senior Management.

Pointing out the risk situations that would impact the liquidity of loans granted to customers, the credit risk monitoring area provides daily reports, through a corporate system, to the branches, business segments, as well as the lending and loan recovery areas. This system provides dynamic information about the loan portfolios and credit bureau information of customers, in addition to enabling comparison of past and current information, highlighting points requiring a more in-depth analysis by managers.

The Organization also has a corporate system of credit risk indicators to provide the lending and loan recovery areas, business areas, regional managers and branches with information on assets by segment, product, region, risk rating, delinquency and expected and unexpected losses, amongst others. This system provides both a macro-level and detailed view of the information, and also enables a specific loan operation to be viewed.

The information is viewed and delivered via reports, allowing queries at several levels such as business segment, divisions, managers, regions, products, employees and customers, and under several aspects (asset, delinquency, provision, write-off (loss), restriction levels, use of collaterals and portfolio quality by rating, among others).

7.2. Social and Environmental Risk

Social and environmental risk refers to the potential damage that an economic activity can cause to society and the environment. Those risks associated with financial institutions are mainly indirect ones, arising from business relationships, including those in the supply chain and with customers, in the form of financing and investment activities.

In constantly seeking to perfect its organizational structure, the Organization centralized the control of social and environmental risk to DCIR - Department of Integrated Risk Management in 2014.

7.2.1. Management Process of Social and Environmental Risk

The process of managing social and environmental risk permits risks to be identified in advance, measured, minimized, monitored and reported; this is necessary in view of the complexity of the Organization's financial products and the nature of its activities.



In this context, the Organization has issued its Social and Environmental Risk Regulations to determine which credit transactions, real estate guarantees, investments and suppliers, donations and sponsorship should be analyzed in terms of social and environmental risk. These rules fulfill the Organization's commitment to implement Equator Principles III, indicating the situations where credit transactions or financial advice must meet these requirements.

Equator Principles

A signatory to Equator Principles since 2004, the Organization has since the beginning of 2014 complied with version III, which introduced a number of changes including broadening the scope of application of the commitment to corporate project finance and bridge loans. Among the requirements of Equator Principles III are working conditions and the impact on the community and the environment of projects financed by the Organization, subject to Brazilian law and the standards and guidelines of the International Finance Corporation (IFC). During the credit process, these projects undergo a thorough Social and Environmental Risk analysis that includes the details obtained from studies, licenses, authorizations, information on the project, and data such as the venture's georeferencing.

In granting loans for major projects, the Organization follows the guidelines contained in the Equator Principles III, and assesses and monitors projects that present significant risks covered by these principles.

Implementation of Equator Principles III

The Organization's Financial Advisory and Project Finance service is performed by Banco Bradesco de Investimentos – BBI, with the support of the DCIR – Department of Integrated Risk Management Social and Environmental Risk Control Area in presenting the content, application and benefits of compliance with Equator Principles III by the proposed project.

Transactions involving Project Finance, Project Related Corporate Loans and Bridge Loans are structured mainly for the Corporate customers, which is responsible for obtaining and registering business by means of credit proposals. The economic and financial aspects of these proposals are analyzed by the Credit Department and social and environmental risk is assessed by the Social and Environmental Risk Control Area.

This area assesses proposals, analyzes documents, and categorizes projects under Equator Principles III classifications of High Risk (Category A), Moderate Risk (Category B) or Low Risk (Category C). It then issues an opinion on social and environmental risk, according to the guidelines contained in the Principles:

High Risk (Category A) – Projects with potential for significant risks and/or social or environmental impact, which are multiple, irreversible or unprecedented.

Moderate Risk (Category B) – Projects with potential for limited risks and/or social or environmental impact, in small numbers, limited in area, easily reversible and speedily controlled by mitigation measures.

Low Risk (Category C) – Projects with no or very little risk or negative social or environmental impact, or with minimal, reversible risks that can be mitigated.

Loan agreements for transactions approved according to the established internal flow contain social and environmental obligations, which are monitored periodically.

The period that elapsed between the publication of the Principles and their implementation was very important in terms of lessons learned. During this period, it was possible to hold meetings with other Brazilian bank signatories to discuss the issues involved in implementing Equator Principles III.

Internally, it was possible to plan for suitable processes, training the staff who would be dealing with the issue and involving the executive forums that are part of the social and environmental risk management process in the Organization.

For training on the new processes and procedures arising from Equator Principles III, meetings were arranged with the analysts and managers of the areas involved within the Organization.

To add value to the analysis and control of social and environmental risk, and to help train the team, the analysts are allocated to working groups on specific issues such as: Contaminated Areas, Sustainable Finance, Biodiversity and so on. They are also members of the Equator Principles LATAM Brazilian Task Force and attend meetings with other Brazilian bank signatories to update themselves and share experiences in respect of Equator Principles III guidelines.

7.2.2. Controlling and Monitoring

Credit Operations

The Organization oversees the process of analysis, approval, documentation and subsequent monitoring of transactions covered by Equator Principles III. To this end, the following items are analyzed:

- Project Finance Advisory Services for transactions exceeding US\$10 million;
- Project Finance for transactions exceeding US\$10 million;
- Corporate Project Lending where:
 - a) the greater part of the loan is directed towards a single project over which the customer has effective operating control;
 - b) the total value of the transaction exceeds US\$100 million;
 - c) the Organization's individual commitment (as a member of a syndicate) exceeds US\$50 million; or
 - d) the loan has a duration over two years.
- Bridge loans for less than two years to be refinanced by Project Finance or Corporate Project Lending.

In addition to complying with Equator Principles III, the Organization also obeys a set of criteria applying to social and environmental issues in credit analysis for projects where there is potential social or environmental risk.

This analysis includes checking for the existence of contaminated areas, as disclosed by the states of São Paulo, Minas Gerais and Rio de Janeiro, or areas embargoed or assessments drawn up by the Brazilian Institute for the Environment and Natural and Renewable Resources (IBAMA), licenses, certificates, archeological reports, environmental impact reports and other environmental studies, as well as undertaking technical visits when required. To put the potential impact of projects into context, satellite images with public information are also used to indicate the location of Brazil's biomes, conservation units, indigenous lands, caves, mining activities, biodiversity and cities, and to provide other information to help with a detailed analysis of the place where the project to be financed is located. These studies help to identify potential social and environmental risks, to be discussed with the customers.

Decisions taken by the Executive Credit Committee take into consideration social and environmental risks as well as other economic and financial aspects. Once a loan has been approved, negotiations take place with the customer and the loan agreement will include social and environmental obligations. Thereafter, projects that represent potential social and environmental risks are regularly monitored to ensure that these contractual obligations are fulfilled.

The subjects related to Social and Environmental Risk are discussed in the Operational and Social and Environmental Risk Management Executive Committee (CEROS).

The Sustainability and Diversity Committee is responsible for validating the Corporate Sustainability Policy, and helps senior management to define strategies where involving organizational sustainability, and reports to the Board of Directors.

Supply Chain

The Organization conducts a Social and Environmental Assessment for Suppliers, to ensure that social and environmental risks in the supply chain are minimized. Under this program, suppliers are constantly and permanently assessed for



compliance with environmental, labor and occupational health and safety legislation, and with the international standards and internal guidelines adopted by the Organization.

7.2.3. Internal Reporting

The topics relating to the analysis and monitoring of social and environmental risks are reported to the areas involved in the credit transaction and supplier processes, being regularly reported to the Executive Board and to the Board of Directors.

7.3. Market Risk

Market risk is represented by the possibility of financial loss due to fluctuating prices and market interest rates of financial instruments held by the Organization, as its asset and liability transactions may show mismatched amounts, maturities, currencies and indexes.

Market risk is identified, measured, mitigated, controlled and reported. The Organization's exposure profile to market risk is in line with the guidelines established by the governance process, with limits timely monitored on an independently way from the businesses areas.

All transactions that expose the Organization to market risk are mapped, measured and classified according to probability and magnitude, and the whole process is approved by the governance structure.

In line with the best Corporate Governance practices, to preserve and strengthen the management of market risk in the Organization, as well as to meet the requirements of CMN Resolution 4,557, the Board of Directors approved the Market Risk Management Policy, reviewed at least once a year by the competent committees and the Board of Directors itself, providing the main operational guidelines for accepting, controlling and managing market risk. In addition to this policy, the Organization has several specific rules that regulate the market risk management process, as follows:

- Classification of Operations;
- Reclassification of Operations;
- Trading of Government and Private Bonds;
- Use of Derivatives; and
- Hedge.

7.3.1. Market Risk Management Process

The market risk management process is conducted in a corporate manner, comprising from business areas to the Board of Directors; it involves diverse areas, with specific duties in the process, thereby ensuring an efficient structure, and the measurement and control of market risk is conducted in a centralized and independent manner. This process allowed the Organization to be the first financial institution in Brazil authorized by Central Bank of Brazil to use, since January 2013, its internal market risk models to calculate regulatory capital requirements. This process, approved by the Board of Directors, is also revised at least once a year by the Committees and the Board itself.

7.3.2. Limit Definition

Market risk limit proposals are validated by specific committees, ratified by the Integrated Risk Management and Capital Allocation Committee and submitted for approval by the Board of Directors, according to the business' characteristics, and are classified as follows:

Trading Book: it comprises all operations involving financial instruments, including derivatives, held-for-trading or used to hedge other instruments in the Trading Book, which have no trading restrictions. Held-for-trading operations are those

destined for resale, to obtain benefits from actual or expected price variations, or for arbitrage. The Trading Book is monitored by the limits of:

- Value at Risk (VaR);
- Stress;
- P&L (profit and loss);
- Financial Exposure / Concentration.

Banking Book: it comprises operations not classified in the Trading Book, arising from Organization's other businesses and their respective hedges. The Banking Book is monitored by the limit of:

- Interest Rate Risk.

7.3.3. Market Risk Measurement Models

Market risk is measured and controlled using the Stress, VaR, the EVE and Sensitivity Analysis methodologies, as well as limits for the Management of P&L and Financial Exposure. Using several methodologies to measure and evaluate risks is of great importance, because they can complement each other and their combination allows the analysis of different scenarios and situations.

Trading and Regulatory Books

Trading Book risks are controlled using Stress and Value at Risk (VaR) methodologies. The Stress methodology quantifies the negative impact of economic shocks and extreme economic events that are financially unfavorable to the Organization's positions. The analysis uses stress scenarios prepared by the Market Risk area and the Organization's Economic area based on historical and forward looking data for the risk factors in which the Organization holds a position.

The methodology adopted to calculate VaR is the Delta-Normal, with a confidence level of 99% and considering the number of days necessary to unwind the existing exposures. The methodology is applied to the Trading and Regulatory Books (Trading Book positions plus Banking Book foreign currency and commodities exposures). It is worth noting that the historical simulation and the Delta-Gama-Vega models are applied to measure all risk factors to an options portfolio, whichever is the most conservative. A minimum 252-business-day period is adopted to calculate volatilities, correlations and historical returns.

For regulatory purposes, the capital requirements relating to shares of the Banking Book Prudential Conglomerate are determined through the credit risk evaluation, as per Central Bank of Brazil resolution, i.e., they are not considered in assessing market risk.

Interest Rate Risk of the Banking Book

The interest rate risk of the Banking Book is measured and controlled, mainly, using the Economic Value of Equity (EVE) variation methodologies, and the Net Interest Income (NII), which respectively measure, the economic impact on the positions and the impact on the result of the Organization, according to scenarios prepared by the Organization's economic area. These scenarios determine the positive and negative movements of interest rate curves that may affect Organization's investments and capital raising.

The EVE methodology consists of re-pricing the portfolio subject to interest rate variation based on increases or decreases in the rates used to calculate the present value and the total term of assets and liabilities. Thus, the economic value of the portfolio is calculated both based on the market interest rates on the analysis date as well as on scenarios projected. Thus, the difference between the amounts obtained for the portfolio will be Delta EVE.

For NII, the methodology aims to determine the variation in the interest net income of the Organization (gross margin), due to eventual variations in the level of interest rate, through the same scenarios previously mentioned, i.e., the difference between the NII calculated in the base scenario and the NII calculated in the increase or decrease scenario of the interest index, will be Delta NII.

To measure the Banking Book interest rate risk, the premises related to the customer behavior, are used when necessary.. As a reference, for demand and savings deposits with undetermined maturity, it is studied their historical behaviors and the possibility of maintaining them. Through these studies, are defined the stable amount (core portion), as well as, its criteria for the long term allocation.

7.3.4. Financial Instrument Pricing

To adopt the best market prices related to the assessment of financial instruments' market value, the Market and Liquidity Risk Management Executive Committee (CEGRIMEL) established the Mark-to-Market Commission ('CMM'), which is responsible for approving or submitting mark-to-market models to CEGRIMEL. CMM is composed of business, back-office and risk representatives, and the risks area responsible for the coordination of the Commission and for the submission of the matters assessed to the CEGRIMEL, for reporting or approval, whichever is the case.

Whenever possible, the Bank adopts prices and rates practiced by the Securities, Commodities and Futures Exchanges and the Secondary Markets. Should these market references not be found, prices made available by other sources (such as Bloomberg, Reuters and Brokerage Firms) are used. As a last resort, proprietary models are adopted to price instruments, which also follow the Mark-to-Market Commission (CMM) approval procedure and are submitted to the Organization's validation and assessment processes.

Mark-to-market criteria are periodically reviewed, according to the governance process, and may vary due to changes in market conditions, creation of new classes of instruments, establishment of new sources of data or the development of models considered more appropriate.

The financial instruments to be included in the Trading Book must be approved by the Treasury Executive Committee or the Product and Service Executive Committee and their pricing criteria must be defined by the CMM.

The following principles for the mark-to-market process are adopted by the Organization:

- Commitment: The Organization is engaged in guaranteeing that the prices used reflect the market value of the operations. Should information not be found, the Organization will use its best efforts to estimate the market value of the financial instruments;
- Frequency: the formalized mark-to-market criteria are applied on a daily basis;
- Formality: the CMM is responsible for ensuring the methodological quality and the formalization of the mark-to-market criteria;
- Consistency: the process to gather and apply prices is carried out consistently, to guarantee equal price to a type of instrument within the Organization;
- Transparency: the methodology must be accessible by the Internal and External Audit and Independent Model Validation areas and by Regulatory Agencies.

In December 2014, the Brazilian National Monetary Council published Resolution 4,389, which amended Resolution 4,277. These resolutions set forth the basic procedures that entities must follow in pricing financial instruments to market value and the guidelines to apply prudential adjustments to these instruments. According to the abovementioned procedures, the Organization is already aligned with these resolutions' guidelines, including applying due prudential adjustments required by regulations.

7.3.5. Hedge and Use of Derivatives

In order to standardize the use of financial instruments used to hedge the operations and use of derivatives by the Treasury Department, the Organization created specific rules that were approved by the competent Committees.

The hedge operations executed by Organization's Treasury Department must necessarily cancel or mitigate risks related to mismatches quantities, terms, currencies or indexes of the positions in Treasury's books, for which they must use assets and derivatives authorized to be traded in each of their books to:

- Control and classify the operations, respecting the exposure and risk limits in effect;
- Alter, modify or revert positions due to changes in market and operating strategies; and
- Reduce or mitigate exposure of operations in idle markets, under stress or low liquidity conditions.

For derivatives classified under the 'hedge accounting' category, their effectiveness and accounting implications are monitored.

Standardized Derivatives and Continued Use Derivatives

The Organization's Treasury Department may use standardized derivatives (traded in stock exchanges) and continued use derivatives (traded in over-the-counter markets) to obtain results and create hedges. The derivatives classified as continuous use, ordinarily traded in over-the-counter markets, such as vanilla swaps (interest rates, currencies, Credit Default Swap, among others), forward contracts (i.e., currencies), vanilla options (currency, Bovespa Index), among others. Non-standardized derivatives not classified as continued use or structured operations depend upon the authorization of the competent Committee.

7.3.6. Control and Monitoring

Market risk is controlled and monitored by an independent area, the DCIR – Department of Integrated Risk Management, which, on a daily basis, measures the risk of outstanding positions, consolidates results and prepares reports required by the existing governance process.

In addition to daily reports, Trading Book positions are discussed on a fortnightly basis by the Treasury Executive Committee, while Banking Book positions and liquidity reports are examined at the Asset and Liability Management Treasury Executive Committee. At both meetings, results and risks are assessed and strategies are discussed. Both the governance process and existing thresholds are ratified by the Integrated Risk Management and Capital Allocation Committee and submitted to approval of the Board of Directors, and they are revised at least once a year.

In case of any threshold controlled by the DCIR – Department of Integrated Risk Management being exceeded, the Head of the business area responsible for the position is informed that the threshold was reached, and the Integrated Risk Management and Capital Allocation Committee is called upon in a timely fashion to make a decision. If the Committee decides to raise the threshold and/or maintain the positions, the Board of Directors is called upon to approve the new threshold or revise the strategy position.

7.3.7. Internal Reporting

The market risk area provides daily managerial control reports on the positions to the business areas and Senior Management, in addition to weekly reports and periodic presentations to the Board of Directors.

Reporting is conducted through an alert system, which determines the addressees of risk reports as a previously determined risk threshold percentage is reached; therefore, the higher the risk threshold consumption, more Senior Management members receive the reports.

7.4. Liquidity Risk

The Liquidity Risk is represented by the possibility of the institution not being able to efficiently meet its obligations, without affecting its daily operations and incurring significant losses, as well as the possibility of the institution not being able to trade a position at market price due to its high value when compared to the usually traded volume or due to some market discontinuity.

Knowledge and monitoring of this risk is crucial to enable the Organization to settle operations in a timely and safe manner.

7.4.1. Liquidity Risk Management Process

The liquidity risk management is conducted in a corporate approach. This process involves several areas with specific attributions. The measurement and control of liquidity risk is conducted in a centralized and independent manner, including the daily monitoring of available funds, the compliance with the liquidity levels according to the risk appetite defined by the Board, in addition to the contingency and recovery plans for possible stress situations.

The Organization has a Liquidity Risk Management Policy approved by the Board of Directors, which has as one of its objectives to ensure the existence of standards, criteria and procedures for the proper monitoring of this kind of risk, as well as the strategy and action plans for liquidity crises. The policy and controls established fully comply with National Monetary Council Resolution 4,557.

7.4.2. Controlling and Monitoring

The liquidity risk management process is conducted by the Treasury Department following the positions determined by independent area. The DCIR - Department of Integrated Risk Management is responsible for the methodology for measuring, controlling the established limits for each entity of the Group, including non-financial firms, and for each type of currency; reviewing the policies, rules, criteria and procedures; and conducting studies for new recommendations.

Liquidity risk is daily monitored by the business and control areas and at the meetings of the Treasury Asset and Liability Management Executive Committee, which manages liquidity reserves, with term and currency mismatches. Monitoring is also observed by the Risk Committee, the Integrated Risk Management and Capital Allocation Committee and, the Board of Directors.

Since October 2017, the Organization has adopted as a metric, the Liquidity Coverage Ratio (LCR), even for internal management, as provided by National Monetary Council Resolution 4,401/2015 and Central Bank of Brazil Circular Letter 3,749/2015.

In the third quarter of 2018, Bradesco already started to use also in the internal management the structural risk of long term liquidity, through NSFR (Net Stable Funding Ratio), according to the National Monetary Council Resolution 4,616/2017 and Central Bank of Brazil Circular Letter 3,869/2017.

7.4.3. Liquidity Coverage Ratio (LCR)

The Liquidity Coverage Ratio (LCR) aims to ensure that the Organization maintains a sufficient level of liquid assets to cover liquidity needs on an eventual stress scenario. The LCR is the ratio between the stock of High Quality Liquid Assets (HQLA) and total net cash outflow, calculated based on a generic stress scenario.

The following formula shows the main components of the indicator:

$$\text{LCR} = \frac{\text{HQLA}}{\text{Cash Outflows} - \text{Cash Inflows} *} \geq \% \text{Required}$$

*Limited to 75% of outflows

In accordance with the LCR implantation schedule defined by Basel, the level of the ratio between high quality liquid assets and total net cash outflows must comply with the following schedule:

Year	2016	2017	2018	As of 2019
% Required	70%	80%	90%	100%

The stress scenarios parameterization was conducted by the Regulator to capture idiosyncratic and market shocks, considering the period of thirty days. The items below show some of the shocks included in the methodology:

- The partial loss of retail and uncollateralized wholesale funding, as well as short-term funding capacity;
- The additional outflow of funds, contractually foreseen, due to the downgrading of the institution's credit rating by up to three levels, including eventual additional collateral requirements;
- An increase in the volatility of factors that impact collateral quality or the potential future exposure of derivative positions, resulting in the application of larger collateral discounts or a call for additional collateral or in other liquidity requirements;
- Withdrawals of higher than expected amounts from credit/liquidity lines granted; and
- The potential need to repurchase debt or honor non-contractual obligations in order to mitigate reputational risk.

High Quality Liquid Assets (HQLA)

HQLA are assets that maintain their market liquidity in periods of stress and that meet the minimum requirements established by the Central Bank of Brazil, such as, among others, being free of any legal impediment or restriction; suffering little or no loss in market value when converted into cash; having a low credit risk; easy and accurate pricing; and being traded in an active and important market, with little difference between the purchase and sale price, high traded volume and a large number of participants, among other criteria. These assets are subject to weighting factors, which may reduce their value, for example in accordance with the risk rating of their issuer or the historic variation in their market price, among other requirements.

Cash Outflows and Inflows

Cash outflows are the result of a reduction in deposits and funding; the maturity of securities issued; scheduled contractual obligations for the next 30 days; margin adjustments and calls in derivative operations; the utilization/withdrawal of credit and liquidity lines granted by the Bank; and contingent cash outflows.

Cash inflows for the next thirty days correspond to the expected receipt of loans and financings; deposits; securities; and margin adjustments and easing in derivative operations.

7.4.4. Net Stable Funding Ratio (NSFR)

The net stable funding ratio aims to assess whether the Organization is financing its activities (assets) with sources of funding more stable (liabilities). NSFR corresponds to the ratio between Available Stable Funding (ASF) and the Required Stable Funding (RSF), which are defined according to the assets and liabilities structures of the institution that are weighted as per the Regulator definitions.

The following formula shows the main components of the indicator:

$$\text{NSFR} = \frac{\text{Available Stable Funding (ASF)}}{\text{Required Stable Funding (RSF)}} \geq 100\%$$

Available Stable Funding (ASF)

The available stable funding are represented by Liabilities and Net Equity, which are weighted as per its stability, and the resources considered more stable are determined mainly by the behavioral aspects of the clients, considering also its relationship with the institution, legal aspects and other implicit variables.

Required Stable Funding (RSF)

The required stable funding are determined according to the Balance Sheet assets and the other financial instruments, for example, credit limits and guarantees provided, which are weighted by aspects, related to the operation, maturity, counterparty, among others.

7.4.5. Internal Reporting

The liquidity risk management process, submits reports on a daily basis to the areas involved in its management and control, as well as the Senior Management. This process comprises several analytical instruments used to monitor liquidity, such as:

- Daily distribution of liquidity control instruments;
- Automatic intra-day update of the liquidity reports for appropriate management by the Treasury Department;
- Preparation of reports with past behavior and future simulations based on scenarios;
- Daily verification of compliance with minimum liquidity levels;
- Preparation of further reports where the funding concentrations by sort of product, maturity and counterparty are presented;
- Weekly reports to the Senior Management, showing the behavior and expectations related to the liquidity situation.

The liquidity risk management process also has an alert system that selects the appropriate reporting level according to the percentage of use of the established limits. Thus, the lower the liquidity ratio, the higher the number and echelon of Senior Management members who receive the reports.

7.5. Operational Risk

Operational risk is represented by the possibility of losses resulting from failure, deficient or inadequate internal processes, people, systems, or external events. This definition includes the legal risk associated with activities performed by the Organization.

7.5.1. Operational Risk Management Process

The operational risk management is conducted in a corporate approach. It involves several areas with specific duties, ensuring an efficient structure. Operational risk measurement and control are conducted in a centralized and independent manner. Therefore, the following activities are carried out:

- Identify, evaluate and monitor operational risks inherent to the Organization's activities, as well as new products/services and their conformity with procedures and controls;
- Map and treat operational losses recorded to comprise an internal database;

- Ensure the integrity of the loss data collected and provide analyses that generate quality information to the branches, aiming at improving operational risk management;
- Measure, control and report the evolution of operational losses assessing effective mitigation initiatives with the premises;
- Assess with managers, indicators, scenarios, and external operating loss data aiming at, possibly, incorporating/adjusting processes and controls, as well as at quantifying the impact on the economic capital;
- Assess and calculate the capital necessary for operational risk from the Regulatory and Economic Capital points of view; and
- Prepare reports on operational risk to present to the Committees, to the Board of Executive Officers and related areas.

These procedures are supported by several internal controls, independently certified as to their efficacy and execution, aiming at ensuring acceptable risk levels in the Organization's processes.

7.5.2. Methodology to Measure the Operational Risk

Pursuant to Central Bank of Brazil Circular Letter 3,640, the Organization adopted the Alternative Standardized Approach to calculate the risk-weighted assets corresponding to the Operational Risk.

Moreover, the Organization uses the operational loss internal data, which are used to measure the operational risk based on internal models. In this context, the Organization classifies the operational risk events as follows:

Operational Risk Events	
■ Internal Fraud	■ External Events
■ External Fraud	■ Information Technology
■ Human Resources	■ Processes
■ Commercial Relations	

The Organization is a member of the worldwide consortium of operational losses database called Operational Riskdata Exchange ('ORX') and uses its information to analyze scenarios and compare operational losses events with major global banks.

7.5.3. Controlling and Monitoring

The operational risk is mainly controlled and monitored by the DCIR - Department of Integrated Risk Management, an independent area supported by several areas composing the risk management process.

The DCIR - Department of Integrated Risk Management is responsible for coordinating the Internal Control and Operational Risk Commission (CIRO), which reports to the Operational and Social and Environmental Risk Management Executive Committee (CEROS), and whose main objectives are to analyze the behavior of operational losses of the business areas/Departments, the efficiency and efficacy of the processes and controls adopted, the methodologies for provision and their impacts on operational risk management, as well as assess indicators, scenarios and external data regarding operational losses in order to incorporate/adjust processes and controls.

The DCIR - Department of Integrated Risk Management is CEROS' advisory Body, whose purpose is to advise the Chief Executive Officer in the performance of his or her attributions related to operational risk management, business continuity, social and environmental risk. Topics of relevance debated at this level are reported to the Integrated Risk Management and Capital Allocation Committee and to the Risk Committee, both subordinated to the Board of Directors.

The Board of Directors approves the governance process, which is revised at least once a year.

7.5.4. Internal Reporting

Issues related to operational losses, as well as controls and initiatives adopted for their mitigation, are presented and discussed periodically with the areas involved in the operational risk management process, including the Senior Management.

7.6. Business Continuity Management (BCM)

The Organization establish the Business Continuity program according to ABNT NBR ISO 22300, which defines as “the ability of the organization to keep on delivering goods or services according to previously defined and acceptable levels after disruption incidents.”

The procedures adopted after an disruption, which must ensure an acceptable operational level for critical business processes – whether internal or outsourced –, are included into a BCP – Business Continuity Plan or in a defined continuity strategy whose purpose is to recovery the activities reducing potential impacts for our customers.

The organizational and the governance structures established regarding Business Continuity include policies and standards that define the roles and responsibilities that must ensure the update and efficiency of the plans and strategies in use through the application of tests and exercises in business units on a regular basis. This process also takes into account the critical processes carried out by service providers who are considered “Material Third Parties.”

These policies and standards are in line with the Central Bank of Brazil regulations and the recommendations of the Basel Committee on Banking Supervision. Business Continuity Management is under the responsibility of the Integrated Risk Management Department – DCIR - Department of Integrated Risk Management of the Business Continuity Management - BCM area.

7.6.1. Business Continuity Management Process

The business continuity management process is carried out in a corporate and integrated manner, in order to accomplish the annual cycle of this activity in the Organization. According to this process, the units must:

- Review critical business processes based on the Business Impact Assessment (BIA) on a quarterly basis;
- Assess Business Continuity strategies;
- Keep all plans duly reviewed and updated in a corporate tool;
- Promote awareness on Business Continuity to the persons involved in the activities;
- Test all plans and strategies according to the annual planning;
- Analyze the outcomes and make the adjustments and improvements required;
- Identify, assess and handle all continuity procedures that involve third parties that are deemed material for the unit’s activities.

The business continuity actions are developed internally, based on the best practices issued by the key international entities in the sector: DRI International (USA) and BCI - Business Continuity Institute (UK). It also takes into account national rulings and frameworks, such as ABNT NBR ISO 22301 and ABNT NBR ISO 22313 standards.

7.6.2. Control and Monitoring

All stages of the Management process are controlled and followed up through tests and exercises, whose results are assessed and provided to the respective dependencies and to forums of the Organization, making available to the Regulatory Agencies, and Internal and External Audits.

7.6.3. Internal Communication

All communication actions are accessible to all departments and employees through: Policies and Standards on Business Continuity and Material Third Parties, available at the Normative system; On-line training programs offered in the corporate intranet system; Meetings held with BCM Representatives; and on-site awareness trainings.

8. Capital Management

8.1. Capital Management Corporate Process

The Capital Management Corporate Process provides the conditions required to meet the Organization's strategic goals and support the risks inherent to its activities. Thus, adopts a prospective approach when developing its capital plan, forecasting the need of capital for the next 3 (three) years, as well as, setting procedures and contingency actions that might be considered in adverse scenarios.

The Organization manages capital, in line with the strategic guidelines, involving the control and business areas, in accordance with the guidelines of the Board of Executive Officers and Board of Directors.

The governance structure for the capital management and the Internal Capital Adequacy Assessment Process (ICAAP) is composed by Committees and its highest-level body is the Board of Directors. The most important is the Planning, Budget and Control Department - DPOC, whose mission is to provide the efficient and effective management of the business through strategic management and planning. The DPOC supports the Senior Management by providing analyses and projections of capital requirements and availability, identifying threats and opportunities that help plan towards the sufficiency and optimization of capital levels. The Department is responsible for complying with the impairment allowances of the Central Bank of Brazil regarding capital management activities.

8.2. Capital Adequacy

Total Capital adequacy is checked daily, aiming to make sure the Organization maintains a solid capital base in normal situations or in extreme market conditions and meets the regulatory requirements.

According to a requirement of the Central Bank of Brazil determination, financial institutions must maintain, permanently, capital (Total Capital) and additional core capital (conservation, countercyclical and systemic) compatible with the respective risk activities. They are represented by Risk Weighted Assets (RWA), which is calculated based on, at least, the sum of Credit, market and operational risk installments.

Additionally, the Organization must maintain enough capital to meet the interest rate risk from operations not included in the Trading Book (Banking Book's interest rate risk), calculated using the EVE method.

8.3. Capital Sufficiency

The capital management process is in line with the strategic planning and considers an outlook, which anticipates any changes in the economic and business environment conditions in which Bradesco Organization operates.

The Organization's capital management aims to ensure, in a permanently way, a solid capital composition in a permanent way to support the development in its activities and ensure appropriate coverage of all risks involved. The Organization maintains a managerial capital margin (buffer), which is added to the minimum regulatory requirements.

The management buffer definition is aligned to the market practices and regulatory requirements, observing aspects such as additional impacts generated by stress scenarios, qualitative risks and risks not captured by the regulatory model. The Organization considers it appropriate to maintain a Tier I Capital margin of at least 25% in relation to the minimum capital

requirements in the medium and long term, pursuant to the schedule established by the Central Bank of Brazil for the full adoption of Basel III guidelines.

The Organization's regulatory capital sufficiency is demonstrated by calculating the Total Capital adequacy ratio, which in this period was 18.1%, of which 14.4% and 13.0% under Tier I and Common Equity Tier I. In terms of margin, the amount totaled R\$ 33.5 billion, allowing for an increase of up to R\$ 533.222 billion in credit exposures (considering the current mix of loans).

It is important to highlight that since January 2015, according to the CMN's Resolution 4,192, which deals with the methodology for calculating the ratios of Common Equity Tier 1, Tier 1 and Total Capital, the regulatory scope became the Conglomerate Prudential.

Capital Forecast

The Capital Management area is responsible for making simulations and projections of the Organization's capital, in accordance with the strategic guidelines, the impacts arising from variations and trends of the economic and business environment as well as regulatory changes. The results from the projections are submitted to the Senior Management, pursuant to the governance established.

Projections for the next three years show adequate levels of Common Equity and Tier I Capital Ratios, considering the incorporation of net profits and the evolution for need of capital.

8.4. Recovery Plan

The disclosure of the Resolution 4,502, of June 30th 2016, by Central Bank of Brazil, set out procedures to prepare the recovery plan, aiming to keep proper levels of capital and liquidity on stress situations for financial institutions considered systemically important.

On its recovery plan formalization, the Organization describes its critical functions and essential services and evidence a robust integrated mechanism of governance for normality and stress situations, which includes a program of daily monitoring of realized and prospective indicators, essential to its solvency and liquidity, among others, besides severe stress tests (systemic and idiosyncratic) that may threaten the institution's viability and the mapping and measurement of potential strategies of capital and liquidity recovery. Additionally, a communication plan has been established that aims to guarantee transparency to the stakeholders.

As a result, it's been highlighted the Organization's governance structure, the importance of the Plan as an instrument of planning and management of crisis, and the potential of the available strategies for capital and liquidity ratios reestablishment, against situations of severe stress, allowing the soundness and stability maintenance.

The first exercise was sent to the Central Bank of Brazil in December 2017 and a summarized version is available at the Investors Relationship website (www.bradeskori.com.br), Market information, section Risk Management. In December 2018, a revision and update of the information was performed.

9. Model Management

The use of models to support the decision making for business is a more and more frequent practice, it makes easier the structure of critical subjects, creates and improves processes, standardize and streamline decisions in the context that are inserted, besides being an important mean of knowledge retention.

On the other hand, there is a potential risk associated to its inadequate conception, development and maintenance, being necessary a suitable structure of roles and responsibilities, besides processes to identify and mitigate risks arising from the models use.

In Bradesco Organization, to support and respond for this process there is an area named Model Management, responsible for the Independent Validation of Models activity and for the Models Governance.

9.1. Model Governance

It's main role is the establishment of rules and procedures, aiming the procedures standardization, management of the models inventory of the Organization, as well as to provide inputs to the Department of Integrated Risk Management (DCIR), providing the due rating and control of the model risk.

9.2. Independent Validation of Models

The main purpose of the Independent Model Validation Area - AVIM, is to assess whether the models are working as expected as well as whether their results are suitable to the use, which they have been designed for.

The Independent Models Validation adopts a methodology that includes quantitative and qualitative aspects, assessing the adaptation of processes, governance, construction of models and their assumptions and the use and monitoring of models, which are:

Qualitative

- Model scope: scope or coverage of the model, that encompasses the intended purpose, the kind of risk treated, the group enterprises exposed to this kind of risk, portfolios, products, segments, channels, and others;
- Application of the Model: aspects related to the model usage, includes the definition, reasonability in the use of the model's factors, the flow and the timing of the information for the decision-making process;
- Technological Environment and Data Consistency: structure of systems and controls involved in the calculations performed by the model and the process in which the model is inserted. It also includes data consistency, taking into consideration the functionalities of version and access controls, backup, traceability, changes in parameters, data quality, system contingency and automated controls.

Quantitative

- Measurement System: challenge to the risk measurement procedures, both base and stress, including the definition, implementation and internal validation of the method, which consists of methodology, assumptions, parameters, calculation routine, input data and results;
- Backtesting: statistic procedure used to assess the model by comparing the amounts estimated by the model and the amounts observed within a previously defined period. It includes methodological, formalization and utilization aspects for model improvement.

In order to perform its activities AVIM, may use structures that are already implemented and established in the Organization, in order to avoid overlapping tasks. The results are reported to the managers and to the Integrated Risk Management and Capital Allocation Committee.

10. Details of Assets and Risk Exposure

10.1. Capital Breakdown

The following are details on the required Total Capital of the Prudential Conglomerate, under the regulatory approach:

R\$ million	Mar-19	Dec-18	Mar-18
Tier I Capital	98,370	90,322	78,206
Common Equity	88,944	81,090	73,101
Shareholders' Equity	126,674	121,121	113,776
Non-controlling Interest	152	170	186
Prudential adjustments ⁽¹⁾	(37,883)	(40,200)	(40,861)
Additional Capital	9,427	9,232	5,105
Subordinated Debt (according to CMN resolution 4,192/13)	9,427	9,232	5,105
Eligible Instruments for Tier II Capital	25,042	27,618	21,964
Subordinated Debt (according to CMN resolution 4,192/13)	21,988	22,417	16,313
Subordinated Debt (previous to CMN Resolution 4,192/13)	3,054	5,201	5,651
Total Capital	123,412	117,940	100,170

(1) According to CMN resolution 4,192/13.

From January 2018 onwards, the factor applied to the prudential adjustments changed from 80% to 100%, as planned on prudential adjustments schedule, defined on Art.11 of 4,192/13 resolution.

For more information on Capital and details of subordinated debts, see “Exhibit 1 – Breakdown of Regulatory Capital and information on adjustments to Capital” and “Exhibit 2 - Key Features of the Instruments of the Total Capital”, available on the website www.bradescom.br.

10.2. Risk-Weighted Assets (RWA)

Below is the evolution of risk-weighted assets (RWA) for the Prudential Conglomerate, regulatory approach:

R\$ million RWA	Mar-19	Dec-18	Mar-18
Credit Risk	612,394	598,058	567,007
Risk Weight of 0%	-	-	-
Risk Weight of 2%	72	83	340
Risk Weight of 20%	2,514	3,230	2,038
Risk Weight of 35%	11,987	11,394	10,352
Risk Weight of 50%	32,385	32,072	26,100
Risk Weight of 75%	132,665	130,209	117,676
Risk Weight of 85%	114,969	115,192	103,082
Risk Weight of 100%	272,319	265,578	276,558
Risk Weight of 250%	33,354	30,409	27,413
Risk Weight of 300%	6,329	6,634	-
Formulas ⁽¹⁾	12	7	298
Risk Weight to 1250%	5,789	3,250	3,152
Market Risk⁽²⁾	12,747	10,407	10,642
Fixed Rate in Reais	3,953	3,622	6,220
Foreign Currency Coupon	3,638	6,950	2,598
Price Index Coupon	3,636	1,399	1,314
Interest Rate Coupon	-	-	-
Shares	1,443	1,088	329
Commodities	884	757	49
Exposure to Gold, Foreign Currencies and Exchange	2,379	4,424	3,367
Operational Risk	57,494	53,151	53,510
Retail	11,071	10,032	9,968
Commercial	25,746	23,508	23,383
Corporate Finance	1,880	1,656	1,598
Trading and Sales	1,805	2,444	3,398
Payment and Settlement	7,461	6,835	6,701
Financial Agent Services	4,323	4,056	4,041
Asset Management	5,045	4,466	4,262
Retail Brokerage	164	155	158
Total Risk Weight Asset	682,635	661,616	631,159
Total Capital Requirement	54,611	57,064	54,437
Banking Book's Interest Rate Risk	5,270	5,180	3,617
Additional Capital (ACPs)⁽³⁾	23,892	15,713	14,990
ACP _{Conservation}	17,066	12,405	11,834
ACP _{Systemic}	6,826	3,308	3,156

(1) According to established by BCB, through the circular letter # 3,848 and 3,849.

(2) In order to calculate the portion relating to exposures to market risk, the capital requirement will be the maximum between the internal model and 80% of the standard model, according to Central Bank of Brazil Circular Letters 3,646 and 3,674.

(3) In 2019, the amount of the ACP-Conservation represents 2.5% of the RWA amount. The ACP-Systemic represents 1,0% of the RWA amount (Systemically Importance Factor calculated according to Central Bank of Brazil Circular Letter 3,768 - Total Exposure: R\$1.1 trillion and GDP: R\$6.6 trillion). The ACP-Countercyclical remains 0% of the RWA amount, according to Central Bank of Brazil Statement # 33,240, with RWA of Credit Risk to the private sector non-banking (RWACPrNB) of R\$ 541 billion in Brazil.

10.3. Leverage Ratio (LR)

In compliance with Basel Committee's recommendations, in October 2015 BCB Circular Letter 3,748, which provides for Leverage Ratio (LR) was enacted. This ratio, combined with Basel Ratio, limits the risk exposure level assumed by financial institutions. This index evaluates leverage using only exposure values with no risk weighting.

In 30 July 2017, the National Monetary Board published the Resolution 4,615, which defined the minimum level for Leverage Ratio in 3% effective as of 01/01/2018. Below, a comparison is presented between total exposure and the Organization's financial statements, followed by the LR calculation statement:

Comparative Summary of Published Financial Statements and Leverage Ratio

R\$ million	Mar-19	Dec-18	Mar-18
1 Total assets according to published financial statements	1,315,562	1,287,611	1,231,409
2 Adjustment for differences in account consolidation	(219,353)	(223,897)	(201,514)
3 Adjustment for assets assigned or transferred with substantial transfer of risks and benefits and recognized in the books	(6,740)	(8,059)	(7,895)
4 Adjustment for changes in reference values and potential future gains on derivative financial instruments	3,286	3,331	1,469
5 Adjustment for repurchase transactions and securities lending	17,538	23,328	16,030
6 Adjustment for transactions not booked in the prudential conglomerate total assets	106,866	107,197	100,057
7 Other adjustments	(29,935)	(35,958)	(31,552)
8 Total Exposure	1,187,224	1,153,552	1,108,003
Leverage Ratio (LR)			
R\$ million	Mar-19	Dec-18	Mar-18
Items accounted in the Balance Sheet			
1 Balance sheet items other than derivative financial instruments, securities received on loan and resales for settlement under repurchase transactions	985,525	957,341	881,267
2 Adjustments for equity items deducted in calculating Level I	(40,637)	(42,537)	(52,528)
3 Total exposure accounted in the Balance Sheet	944,888	914,804	828,739
Transactions using Derivative Financial Instruments			
4 Replacement value for derivatives transactions	13,751	14,141	15,274
5 Potential future gains from derivatives transactions	6,478	7,485	22,673
6 Adjustment for collateral in derivatives transactions	-	-	-
7 Adjustment for daily margin held as collateral	-	-	-
8 Derivatives in the name of customers where there is no contractual obligation to reimburse in the event of bankruptcy or default of the entities responsible for the settlement system	(5,026)	(5,414)	(3,915)
9 Reference value adjusted for credit derivatives	3,286	3,331	1,469
10 Adjustment of reference value calculated for credit derivatives	-	-	-
11 Total exposure for derivative financial instruments	18,488	19,542	35,501
Repurchase Transactions and Securities Lending			
12 Investments in repurchase transactions and securities lending	99,807	88,211	127,141
13 Adjustment for repurchases for settlement and creditors of securities lending	-	-	-
14 Amount of counterparty credit risk	3,767	7,995	6,398
15 Amount of counterparty credit risk in transactions as intermediary	2,671	6,310	2,610
16 Total Exposure on Repurchase Transactions and Securities Lending	106,245	102,516	136,149
Off-balance sheet items			
17 Reference value of off-balance sheet transactions	316,325	311,493	292,667
18 Adjustment for application of FCC specific to off-balance sheet transactions	(198,723)	(194,803)	(185,053)
19 Total off-balance sheet exposure	117,603	116,690	107,614
Capital and Total Exposure			
20 Level I (A)	98,370	90,322	78,206
21 Total Exposure (B)	1,187,224	1,153,552	1,108,003
22 Leverage Ratio (A/B)	8.3%	7.8%	7.1%

10.4. Credit Risk

The tables below show the total exposure of assets for the purpose of ascertaining capital needs by Type of Exposure, Country, Region and Economic Sector.

By Type of Exposure, Country and Region

R\$ million	Mar-19	%	Dec-18	%	Mar-18	%
By Type						
Credit Operations (Non-Retail)	152,847	10.4	152,855	10.5	137,102	9.7
Credit Operations (Retail)	212,392	14.4	205,658	14.1	186,821	13.2
Guarantees	53,640	3.6	54,890	3.8	54,605	3.8
Credit Limit	103,146	7	103,616	7.1	92,823	6.5
Repurchased operations	446,767	30.3	445,810	30.5	484,868	34.1
Securities, Derivatives and Interbank Investments	312,791	21.2	312,916	21.4	281,431	19.8
Other Assets ⁽¹⁾	192,781	13.1	184,762	12.7	182,759	12.9
By Country						
External Market	52,612	3.6	46,911	3.2	47,631	3.4
Internal Market	1,421,751	96.4	1,413,596	96.8	1,372,776	96.6
By Region (Domestic Market)						
Southeast	1,214,301	85.4	1,186,838	84	1,178,688	85.9
South	80,051	5.6	85,754	6.1	77,275	5.6
North	19,735	1.4	21,200	1.5	17,956	1.3
Northeast	68,384	4.8	72,697	5.1	63,589	4.6
Midw est	39,280	2.8	47,107	3.3	35,268	2.6
Total Exposure	1,474,363		1,460,507		1,420,408	
Quarter Average	1,460,552		1,446,560		1,390,942	

(1) Other Assets refer to Tax Credits and Advances Granted, among others.



Sector of the Economic Activity

R\$ millions	Mar-19		Dec-18		Mar-18	
Sector of the economic activity		%		%		%
Public Sector	223,122	15.1	264,331	18.1	221,169	15.6
Government	205,192	13.9	249,551	17.1	208,888	14.7
Oil and Petrochemical	11,776	0.8	10,747	0.7	10,406	0.7
Electrical Energy	5,170	0.4	3,236	0.2	1,212	0.1
Other Sectors	984	0.1	797	0.1	663	0
Private Sector	838,985	56.9	800,625	54.8	834,402	58.7
Legal Entity	588,085	39.9	532,722	36.5	579,541	40.8
Financial	229,780	15.6	175,060	12	285,818	20.1
Real Estate and Construction Activities	35,924	2.4	40,518	2.8	36,513	2.6
Retail	38,614	2.6	40,184	2.8	30,578	2.2
Miscellaneous Services	32,918	2.2	33,233	2.3	30,501	2.1
Transportation and Concession	26,592	1.8	31,182	2.1	23,969	1.7
Electrical energy	15,472	1	22,693	1.6	17,416	1.2
Holding	18,291	1.2	21,113	1.4	16,377	1.2
Wholesale	15,239	1	17,651	1.2	13,044	0.9
Automotive industry	19,278	1.3	15,875	1.1	12,883	0.9
Food Industry	14,492	1	14,133	1	10,739	0.8
Steel and Metallurgy	13,261	0.9	11,695	0.8	10,482	0.7
Extraction	15,302	1	9,869	0.7	9,762	0.7
Smoke and drinks	11,230	0.8	9,073	0.6	7,184	0.5
Sugar and Alcohol	8,010	0.5	8,532	0.6	7,011	0.5
Health	11,410	0.8	8,091	0.6	6,695	0.5
Construction Material	5,680	0.4	7,540	0.5	5,725	0.4
Telecommunications	9,901	0.7	7,482	0.5	5,502	0.4
Chemistry	5,870	0.4	7,209	0.5	4,742	0.3
Paper and Pulp	12,820	0.9	5,923	0.4	4,673	0.3
Other sectors	48,001	3.3	45,665	3.1	39,926	2.8
Individual	250,900	17	267,903	18.3	254,861	17.9
Other Exposures	412,255	28	395,551	27.1	364,836	25.7
Total Exposure	1,474,363	100	1,460,507	100	1,420,408	100

10.4.1. Credit Transactions

The following charts contain information on the loan portfolio (concept defined by the Central Bank of Brazil), including exposure to individual credit card limits.

By Type and Industry

R\$ million	Mar-19							Dec-18	Mar-18
	Public Sector	Private Sector					Total	Total	Total
		Agribusiness	Commerce	Industry	Services	Individuals			
Rural Loan	-	1,892	300	2,468	358	7,860	12,879	13,446	14,280
BNDES/Finame Onlending	0	767	2,003	4,040	11,633	6,221	24,663	25,170	28,321
Imports and Exports	4,109	4,548	1,863	42,521	8,081	-	61,121	54,477	47,383
Working Capital, Discount of Bills and Overdraft Account	160	839	21,960	13,141	32,476	-	68,576	67,656	63,818
Other	4,530	700	15,185	11,227	35,930	205,647	273,218	268,150	236,507
Total	8,798	8,746	41,311	73,397	88,478	219,728	440,457	428,900	390,308

Note: In Individuals, includes the balances of limits in the Credit Card segment.

By Type and Region

R\$ million	Mar-19							Dec-18	Mar-18	
	Domestic Market					Foreign Market	Total	Quarter Average	Total	Total
	Southeast	South	North	Northeast	Mid-West					
Individuals	136,269	23,131	9,507	31,107	18,437	1,276	219,728	217,341	214,955	195,900
Rural Loan	3,060	1,630	335	320	2,514	-	7,860	7,920	7,979	8,032
Mortgage	22,804	5,890	1,543	5,118	4,404	-	39,759	39,022	38,284	34,142
Personal Line of Credit (including payroll-deductible loan)	40,101	6,808	4,661	18,454	4,971	0	74,996	72,802	70,608	62,739
CDC/Vehicle Leasing	20,728	1,246	542	1,193	918	-	24,628	24,162	23,696	21,584
Credit Card	41,339	4,595	1,604	4,466	2,561	1,080	55,645	56,904	58,163	52,619
BNDES/Finame Onlending	1,765	1,564	334	363	2,195	-	6,221	6,225	6,229	6,376
Other	6,472	1,398	486	1,193	875	196	10,620	10,308	9,995	10,407
Corporate	137,852	25,418	3,664	10,638	8,222	34,936	220,730	217,337	213,945	194,408
Rural Loan	2,652	2,020	14	151	182	-	5,019	5,243	5,467	6,248
BNDES/Finame Onlending	12,333	3,661	324	1,165	959	-	18,443	18,692	18,941	21,945
Imports and Exports	36,319	5,302	36	501	520	18,442	61,121	57,799	54,477	47,383
Working Capital, Discount of Bills and Overdraft Account	33,870	9,369	2,050	4,790	3,992	14,505	68,576	68,116	67,656	63,818
Other	52,678	5,065	1,240	4,032	2,567	1,989	67,571	67,487	67,404	55,015
Total	274,121	48,550	13,171	41,745	26,659	36,213	440,457	434,679	428,900	390,308

Note: In Individuals, includes the balance of limits in the Credit Card segment.

By Type and Remaining Maturity

R\$ million	Mar-19					Dec-18	Mar-18
	Contracts with Remaining Maturity					Total	Total
	Up to 6 months	Between 6 months and 1 year	Between 1 year and 5 years	Above 5 years	Total		
Individuals	49,668	26,881	70,523	72,655	219,728	214,955	195,900
Rural Loan	3,460	1,892	2,472	35	7,860	7,979	8,032
Mortgage	119	37	919	38,684	39,759	38,284	34,142
Personal Line of Credit (includes payroll-deductible loan)	4,136	3,536	37,055	30,269	74,996	70,608	62,739
CDC/Vehicle Leasing	487	1,239	22,687	215	24,628	23,696	21,584
Credit Card	35,135	19,035	1,466	9	55,645	58,163	52,619
BNDES/Finame Onlending	177	112	2,906	3,026	6,221	6,229	6,376
Other	6,154	1,031	3,019	416	10,620	9,995	10,407
Corporate	70,555	27,198	86,513	36,464	220,730	213,945	194,408
Rural Loan	2,213	1,215	1,591	-	5,019	5,467	6,248
BNDES/Finame Onlending	403	666	9,434	7,939	18,443	18,941	21,945
Imports and Exports	26,637	11,761	13,627	9,096	61,121	54,477	47,383
Working Capital, Discount of Bills and Overdraft Account	21,375	8,621	36,454	2,126	68,576	67,656	63,818
Other	19,927	4,935	25,407	17,303	67,571	67,404	55,015
Total	120,223	54,079	157,036	109,119	440,457	428,900	390,308

Note: In Individuals, includes the balance of limits in the Credit Card segment.



By Past due Loans, Industry and Region

R\$ million	Mar-19					Total	Dec-18	Mar-18
	Past due 15 to 60 days	Past due 61 to 90 days	Past due 91 to 180 days	Past due 181 to 360 days	Past due more than 360 days		Total	Total
Sector								
Government	1	0	0	0	-	1	2	0
State	1	0	0	0	-	1	2	0
Private Sector	13,228	3,112	5,900	7,709	162	30,111	28,976	31,804
Agribusiness	44	58	80	134	0	316	352	431
Commerce	990	270	663	804	24	2,751	2,722	2,738
Industry	848	294	412	982	67	2,603	2,761	2,397
Services	2,312	570	952	953	27	4,813	4,961	7,707
Individuals	9,034	1,920	3,793	4,836	44	19,627	18,180	18,530
Overall Total	13,230	3,112	5,900	7,709	162	30,112	28,978	31,804
% Total	43.9%	10.3%	19.6%	25.6%	0.5%	100%	100%	100%
Domestic Market	13,066	3,020	5,735	7,442	158	29,421	27,729	31,116
Southeast	8,311	1,958	3,716	4,985	101	19,070	18,402	20,691
South	1,540	425	739	945	28	3,676	3,264	3,482
North	524	124	253	299	12	1,212	1,126	1,175
Northeast	1,543	303	631	780	12	3,270	2,940	3,136
Mid-West	1,148	210	397	434	4	2,192	1,998	2,632
Foreign Market	164	92	165	267	3	691	1,248	687
Overall Total	13,230	3,112	5,900	7,709	162	30,112	28,978	31,804

By Borrower Concentration

% From the total book	Prudential Conglomerate				
	Mar-19	Dec-18	Sep-18	Jun-18	Mar-18
largest debtor	2.1	2.2	2.3	2.3	2.4
10 largest	9.1	9.1	8.6	8.6	8
20 largest	13.3	12.9	13.2	13.3	11.8
50 largest	19.1	18.7	18.9	18.9	17.7
100 largest	23.5	23.1	23.6	23.4	22.2

10.4.2. Changes in Allowance for Loan Losses (ALL)

The changes in allowance for loan losses, including the flow of write-off of the loan portfolio (concept defined by Central Bank of Brazil):

R\$ million	Government	Private Sector					Total
	Public	Agribusiness	Commerce	Industry	Services	Individuals	
Opening balance - ALL as of Dec-18	1	980	3,501	5,395	10,574	14,556	35,007
Net Additions	(0)	36	85	200	3,190	2,754	6,264
Write-offs	-	(12)	(62)	(168)	(1,618)	(2,507)	(4,367)
Closing balance - ALL as of Mar-19	1	1,005	3,524	5,426	12,146	14,803	36,904

Note: Include, on March 31, 2019, the amount of R\$ 1,309,044 thousand, related to the surplus provision of the loan operations covered by standby letter of credit.

10.4.3. Loan Assignments and Securitization

A loan assignment is a bilateral agreement by which a financial institution transfers its receivables to another institution. The Organization uses these operations to seek opportunities in the financial market. Assignment for real estate financing operations is one of the most used instruments, and is conducted with securitization companies, as well as loan assignments to FIDCs (Credit Rights Investment Funds), which create an alternative to raising funds from investors.

Financial asset acquisition, sale or transfer operations, and securitization

R\$ million	Mar-19	Dec-18	Mar-18	
Operations assigned with co-obligation recorded in memorandum accounts	73	815	950	
Exposures assigned with substantial retention of risk and benefits	8,077	9,344	10,587	
FIDC	-	-	-	
Securitization companies	-	-	-	
Financial institutions	-	-	-	
Special Purpose Entity	6,380	7,644	7,453	
Other	1,698	1,700	3,134	
	Jan-19 a Mar-19	Oct-18 a Dec-18	Jul-18 a Sep-18	Apr-18 a Jun-18
Exposures assigned over the last 12 months which have been honored or repurchased	1,551	29	43	38
Exposures acquired - Risk Retention ⁽¹⁾	Mar-19	Dec-18	Mar-18	
Type of exposure	18,609	20,627	10,156	
Working Capital	1	20	55	
CDC Vehicles	272	207	171	
Payroll-deductible Loans	3,335	3,024	3,286	
Credit Card	187	235	448	
Real Estate Credit	-	-	-	
Finame	8	20	91	
Leasing	-	-	-	
Sundry Receivables	14,806	17,121	6,106	
Type of assignor	18,609	20,627	10,156	
Financial Institutions	3,320	3,041	3,404	
Companies	15,289	17,586	6,752	
Exposures acquired - Without risk Retention ⁽²⁾	Mar-19	Dec-18	Mar-18	
Type of exposure	861	1,011	822	
Working Capital	-	-	-	
CDC Vehicles	861	1,011	822	
Payroll-deductible Loans	-	-	-	
Credit Card	-	-	-	
Real Estate Credit	-	-	-	
Finame	-	-	-	
Leasing	-	-	-	
Sundry Receivables	-	-	-	
Type of assignor	861	1,011	822	
Financial Institutions	861	1,011	822	
Companies	-	-	-	

(1) Risk retention: Operations in which seller or assignor retains all or substantial part of the risk and transfer the benefits of the underlying financial assets (CMN Resolution 3,533);

(2) Without risk retention: Operations in which the seller or assignor transfers all or substantial part of the risk along with the benefits of the underlying financial assets (CMN Resolution 3,533).

Bellow, we present the information related to proprietary operations assigned with substantial risk retention and benefits:

R\$ million	Mar-19	Dec-18	Mar-18
Securitized Exposures - Type of underlying asset	8,077	9,344	10,587
Mortgage	6,380	7,644	7,453
Rural Loan ⁽¹⁾	1,698	1,700	3,134

(1) Compliant to the requirements of CMN Resolution 2,238.

Below is the total of securitization exposures composed of investments in securities:

R\$ million	Mar-19	Dec-18	Mar-18
Type of securitization			
Traditional Securitization ⁽¹⁾	4,913	7,512	6,888
Type of securitization bond ⁽²⁾	4,913	7,512	6,888
FIDC - Without subordination ⁽³⁾	1,938	2,153	690
Sundry Receivables ⁽⁴⁾	1,938	2,153	690
CRI - Without subordination ⁽³⁾	2,975	5,358	6,198
Mortgage ⁽⁴⁾	2,975	5,358	6,198

(1) Traditional securitization is the process where the receivables flow associated with a group of underlying assets is used to remunerate securitization bonds;

(2) Securities derived from securitization process (CRI, FIDC);

(3) Class of security and its subordination to the others for redemption purposes: without subordination. The Organization has no credit exposures assigned without any transfer or substantial retention of risks and benefits on the dates referred in this report;

(4) Type of underlying asset backing the issuance: flow of receivables from customers, rentals, purchase and sale agreements between parties, as well as apartment, houses and lot mortgage contracts.

10.4.4. Risk Mitigation Instruments

In order to calculate capital requirement for credit risk, following is the total mitigated amount pursuant to instruments provided in the Central Bank of Brazil Circular Letter 3,809, by type of mitigation instrument and risk weight:

R\$ million	Risk Weight	Mar-19	Dec-18	Mar-18
Type of Mitigation Instrument				
Demand, time and savings account deposits, gold or government securities	0%	326,838	305,624	472,330
Financial Institution Guarantee	50%	28,252	27,348	25,486

10.4.5. Counterparty Credit Risk Exposure

Below is the notional value of agreements subject to counterparty credit risk to be settled in the clearing houses where they act as the central counterparty and the amounts related to agreements in which the clearing houses do not act as the central counterparty, classified as secured and unsecured agreements:

R\$ million	Mar-19	Dec-18	Mar-18
Agreements in which the clearing house:			
Acts as a central counterparty	406,999	442,985	292,695
Does not act as a central counterparty (secured agreements) ⁽¹⁾	827,744	700,728	957,250
Does not act as a central counterparty (unsecured agreements) ⁽¹⁾	59,216	40,732	63,378

(1) Increase as of March/18 due to starting into effect of the Circular 3,849 from BCB, in September 9, 2017, effective as of January 1st, 2018.

Below is the positive gross amount of collaterals received at operations subject to credit risk:

R\$ million	Mar-19	Dec-18	Mar-18
Collaterals amounts	698,936	626,151	1,091,536

Below, is the net overall exposure to counterparty credit risk:

R\$ million	Mar-19	Dec-18	Mar-18
Net Global Exposure	13,729	14,073	15,243

Below, is the notional value of credit derivatives held in the institution's portfolio:

R\$ million	Mar-19	Dec-18	Mar-18
Transferred Risk	487	-	-
Credit Default Sw ap (CDS)	487	-	-
Received Risk	3,286	3,331	1,469
Credit Default Sw ap (CDS)	3,286	3,331	1,469
Total	3,773	3,331	1,469

Below is the positive gross amount of collaterals received at operations subject to counterparty credit risk:

R\$ million	Mar-19	Dec-18	Mar-18
Gross positive amount of collaterals	312,635	292,969	957,250

10.5. Social and Environmental Risk

10.5.1. Transactions required from Equator Principles (January to March 2019)

In the first quarter of 2019, the Advisory and Financing Services for Project Finance were not contracted, as well as Corporate Loan to Projects under the criteria of Equator III Principles.

10.6. Market Risk

In this section, we present the evolution of the financial exposure, the VaR calculated using the internal model and its backtesting, and the Stress Analysis.

10.6.1. Financial Exposure – Trading Book

R\$ million Risk Factors	Mar-19		Dec-18		Mar-18	
	Asset	Liability	Asset	Liability	Asset	Liability
Fixed Rate	13,763	7,918	8,132	6,082	8,714	6,682
IPCA / IGP-M	1,712	217	250	191	986	256
Exchange Coupon	2,190	1,879	1,090	786	380	806
Foreign Currency	3,106	2,843	1,472	1,611	524	1,045
Equity	1,158	1,211	776	777	403	397
Sovereign/Eurobonds and Treasuries	3,708	1,732	3,805	1,100	2,489	775
Other	597	553	686	32	232	31
Total at the End of the Quarter	26,233	16,351	16,211	10,578	13,728	9,992

10.6.2. VaR Internal Model – Trading Book

The VaR of Trading Book, net of tax effects and on a one-day horizon in the end of the first quarter of 2019 was R\$ 12.9 million. An increase has been observed on VaR mainly, due to an increase on exposures on “Fixed” risk factors and on IPCA when compared against the fourth quarter of 2018.

R\$ million Risk Factors	Mar-19	Dec-18	Mar-18
Fixed	4.5	0.8	2.8
IPCA / IGP-M	5.1	0.3	4.2
Exchange Coupon	0.2	0.1	0.1
Foreign Currency	3.7	0.7	4.9
Equity	1.3	0.7	0.2
Sovereign / Eurobonds and Treasury	3.8	3.8	4.7
Other	1.6	1.6	0.0
Correlation / Diversification Effect	(7.3)	(2.2)	(1.3)
VaR at the end of the quarter	12.9	5.8	15.6
Average VaR in the quarter	15.5	13.7	18.1
Minimum VaR in the quarter	5.7	4.3	12.4
Maximum VaR in the quarter	29.6	23.5	25.8

The risk factor “Others” comprises investment funds, commodities, non-linear instruments and unencumbered public securities (Financial Treasury Bills).

10.6.3. VaR Internal Model – Regulatory Book

This capital is calculated by the Delta-Normal VaR model based on the Regulatory Book composed by the Trading Book and the Foreign Exchange and Commodities exposures of the Banking Book. In addition, the historical simulation and the Delta-Gama-Vega VaR models are applied to measure all risk factors to an options portfolio, and the most conservative model is utilized, and this options risk is added to the VaR of the Portfolio. It is worth noting that the value at risk is extrapolated to the regulatory time horizon (the greater between 10 days and the portfolio horizon), through the root of time method. The VaR and Stressed VaR values shown below are net of tax effects.

R\$ million Risk Factors	Mar-19		Dec-18		Mar-18	
	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR
Interest rate	32.0	53.0	8.1	47.9	36.1	66.4
Exchange rate	33.0	68.5	5.7	21.0	20.0	53.2
Commodity price	11.1	23.8	8.2	14.7	0.3	0.4
Share prices	7.8	9.5	3.4	4.8	0.7	2.3
Correlation / Diversification Effect	(26.7)	(47.8)	(7.6)	33.2	(4.5)	(15.5)
VaR at the end of the quarter	57.2	107.0	17.8	121.5	52.6	106.7
Average VaR in the quarter	48.7	135.5	42.1	122.6	60.5	88.1
Minimum VaR in the quarter	20.5	71.6	17.8	57.5	38.3	61.7
Maximum VaR in the quarter	97.7	203.9	90.1	174.4	92.9	136.3

To calculate the regulatory capital requirement according to the internal model, it is necessary to take into consideration the rules described by BCB Circular Letters 3,646 and 3,674, such as the use of VaR and Stressed VaR net of tax effects, the average in the last 60 days and its multiplier.

10.6.4. VaR Internal Model – Backtesting

The risk methodology applied is continuously assessed using backtesting techniques, which compare the one-day period VaR with the hypothetical P&L, obtained from the same positions used in the VaR calculation, and with the effective P&L, also considering the intraday operations for which VaR was estimated.

The main purpose is to monitor, validate and assess the adherence of the VaR model, and the number of disruptions occurred must be compatible with the number of disruptions accepted by the statistical tests conducted for the confidence level established. Another objective is to improve the models used by the Organization through analyses carried out for different periods and VaR confidence levels, both for Portfolio Total VaR and risk factor.

Daily hypothetical and effective P&L over the last 250 business days surpassed their respective VaR with a confidence level of 99% for four times.

According to the document published by the Basel Committee on Banking Supervision³, disruptions are classified as “either bad luck or the markets not behaving as expected by the model”, i.e., volatility was significantly higher than expected and/or the correlations differed from those forecasted by the model.

10.6.5. Stress Analysis – Trading Book

The Organization assesses daily the possible impacts on positions in stress scenarios for the next 20 days, with the limit established via the governance process. Thus, considering the effect of diverse risk factors and amounts net of tax effects, the possibility of average loss estimated in a stress situation would be R\$ 155 million in the first quarter of 2019, and the maximum estimated loss would be R\$ 286 million.

R\$ million	Mar-19	Dec-18	Mar-18
Quarter-end	118	59	157
Quarter average	155	134	141
Quarter minimum	64	53	47
Quarter maximum	286	205	213

³ Supervisory Framework for the use “Backtesting” in Conjunction with the Internal Models Approach to Market Risk Capital Requirements of January 1996.

10.6.6. Derivatives

The tables below present the exposures to derivative financial instruments held by the Organization, according to its place of operation (Brazil or abroad) and the portfolio where it is booked (Trading or Banking). Exposures are segregated by risk factor (interest rate, exchange rate, stock price and commodities) and market (over-the-counter and stock market):

R\$ million				Mar-19		Dec-18		Mar-18	
Brazil Portfolio	Risk Factor	Market	Long Position	Short Position	Long Position	Short Position	Long Position	Short Position	
TRADING	Interest Rate	OTC	0	(0)	0	-	9	(0)	
		Exchange	12,031	(13,104)	3,586	(6,741)	3,449	(5,818)	
	Exchange Rate	OTC	0	-	0	-	0	-	
		Exchange	5,445	(5,129)	1,903	(1,400)	380	(806)	
	Stock Price	OTC	-	-	-	-	-	-	
		Exchange	222	(213)	125	(32)	57	(30)	
Commodities Prices	OTC	-	-	-	-	-	-		
	Exchange	-	-	-	-	-	-		
BANKING	Interest Rate	OTC	48,900	(56,942)	45,710	(53,584)	38,676	(47,209)	
		Exchange	107,909	(118,521)	77,758	(93,899)	56,964	(92,913)	
	Exchange Rate	OTC	25,673	(43,137)	20,126	(41,375)	15,088	(36,389)	
		Exchange	32,365	(68,055)	21,669	(43,132)	13,646	(49,723)	
	Stock Price	OTC	0	(668)	50	(608)	28	(896)	
		Exchange	132	(176)	3	(217)	41	(252)	
	Commodities Prices	OTC	263	(313)	153	(107)	7	(331)	
		Exchange	1	(0)	1	(0)	5	-	

R\$ million				Mar-19		Dec-18		Mar-18	
Abroad Portfolio	Risk Factor	Market	Long Position	Short Position	Long Position	Short Position	Long Position	Short Position	
TRADING	Interest Rate	OTC	111	(119)	89	(149)	106	(171)	
		Exchange	5	(531)	-	(163)	4	(545)	
	Exchange Rate	OTC	109	(100)	89	(88)	103	(106)	
		Exchange	63	(49)	45	(36)	25	(22)	
	Stock Price	OTC	-	-	-	-	-	-	
		Exchange	0	(14)	4	-	-	(4)	
Commodities Prices	OTC	-	-	-	-	-	-		
	Exchange	-	-	-	-	-	-		
BANKING	Interest Rate	OTC	15,105	(17,423)	11,324	(14,111)	12,493	(14,033)	
		Exchange	2	(11,133)	5	(22,160)	64	(41,348)	
	Exchange Rate	OTC	15,316	(16,847)	12,375	(14,024)	12,915	(13,099)	
		Exchange	0	(2)	0	(4)	13	(21)	
	Stock Price	OTC	-	-	-	-	-	-	
		Exchange	-	(0)	1	(0)	13	(54)	
	Commodities Prices	OTC	-	-	-	-	-	-	
		Exchange	184	(197)	191	(169)	329	(5)	

It is worth pointing out that the derivative positions registered in the Banking portfolio have the strict intention of serving as a hedge for the Organization's commercial portfolio.

10.7. Liquidity Risk – LCR

The table below shows the average LCR of the Prudential Conglomerate for the first quarter of 2019 and fourth and first quarters of 2018:

R\$ thousand	Mar-19 ¹		Dec-18 ²		Mar-18 ³	
	Average Amount ⁽⁴⁾	Weighted Average Amount ⁽⁵⁾	Average Amount ⁽⁴⁾	Weighted Average Amount ⁽⁵⁾	Average Amount ⁽⁴⁾	Weighted Average Amount ⁽⁵⁾
High Quality Liquid Assets (HQLA)						
1 Total High Quality Liquid Assets (HQLA)		135,362,637		140,377,669		107,854,226
Cash Outflows						
2 Retail funding:	237,898,457	22,269,459	235,539,799	21,919,302	222,301,949	20,641,715
3 Stable funding	120,716,472	6,035,824	119,809,242	5,990,462	113,604,275	5,680,214
4 Less stable funding	117,181,985	16,233,635	115,730,557	15,928,840	108,697,674	14,961,501
5 Non-collateralized wholesale funding:	120,962,462	47,627,826	125,136,834	50,927,871	101,533,087	46,137,286
6 Operating deposits (all counterparties) and affiliated cooperative deposits	8,752,455	437,623	8,648,728	432,436	8,325,493	416,275
7 Non-operating deposits (all counterparties)	112,078,235	47,058,432	115,864,088	49,871,416	91,419,564	43,932,981
8 Other non-collateralized w wholesale funding	131,771	131,771	624,019	624,019	1,788,030	1,788,030
9 Collateralized wholesale funding		5,249,221		5,361,781		4,811,756
10 Additional requirements:	105,812,453	14,979,757	104,341,246	14,181,344	97,071,471	13,647,904
11 Related to exposure to derivatives and other collateral requirements	14,607,883	7,454,123	14,419,270	6,741,269	14,251,632	6,851,908
12 Related to funding losses through the issue of debt instruments	572,070	572,070	554,811	554,811	401,819	401,819
13 Related to lines of credit and liquidity	90,632,500	6,953,564	89,367,165	6,885,263	82,418,021	6,394,177
14 Other contractual obligations	32,276,662	30,260,937	33,875,647	31,857,396	28,472,571	26,792,032
15 Other contingent obligations	124,921,702	5,054,849	122,319,336	4,915,397	123,374,161	4,891,454
16 Total cash outflows		125,442,048		129,163,091		116,922,147
Cash Inflows						
17 Collateralized loans	108,568,179	-	95,238,798	-	140,158,813	-
18 Outstanding loans whose payments are fully up-to-date	34,526,652	20,284,448	30,039,902	16,950,831	27,896,615	15,963,574
19 Other cash inflow s	32,590,453	26,000,125	37,235,944	30,511,989	32,315,507	24,794,266
20 Total cash inflows	175,685,283	46,284,573	162,514,644	47,462,820	200,370,935	40,757,841
		Total Adjust. Amount⁽⁶⁾		Total Adjust. Amount⁽⁶⁾		Total Adjust. Amount⁽⁶⁾
21 Total HQLA		135,362,637		140,377,669		107,854,226
22 Total net cash outflow		79,157,475		81,700,271		76,164,306
23 LCR (%)		171%		171.8%		141.6%

- (1) Calculated based on the simple daily average of the quarters (61 observations);
(2) Calculated based on the simple daily average of the quarters (62 observations);
(3) Calculated based on the simple daily average of the quarters (61 observations);
(4) Total balance of cash inflow/outflow item;
(5) Total balance of cash inflow/outflow item after application of weighting factors;
(6) Total balance of cash inflow/outflow item after application of weighting factors and limits.

The reported amount of net assets (HQLA) comprises besides returns from compulsory and reserves in the Central Bank of Brazil, essentially from federal public securities. These net assets amounted R\$ 135.4 billion, on average, in the first quarter of 2019, versus R\$ 140.4 billion, on average, in the fourth quarter of 2018 and R\$ 107.9 billion, on average, in the first quarter of 2018.

Related to the cash outflows, based on the regulatory stress scenario (item 16), about 55.7% are redemptions and non-renewal retail and wholesale funding without collateral (unsecured), as shown in items 2 and 5 in the above table.

Another relevant group refers to the item "Other contractual obligations" (item 14), which mainly includes the output streams of on lending operations, credit cards and trade finance.

Regarding cash inflows, corresponding to R\$ 46.3 billion on average in the first quarter of 2019, the receiving of credit operations (partial renewal) stand out, the inflows of Trade Finance operations, cash and redemptions of securities, besides the inflow of transfer and credit card operations.



10.8. Liquidity Risk – NSFR

The following table shows the Prudential Conglomerate NSFR related to the first quarter of 2019 and fourth quarter of 2018:

R\$ thousand	Mar-19				Dec-18	
	Amount per effective term of residual maturity ⁽¹⁾				Weighted Amount ⁽²⁾	Weighted Amount ⁽²⁾
No maturity	Less than 6 months	More or equal to 6 months and less than 1 year	More or equal to 1 (one) year			
Available Stable Funding (ASF)						
1 Capital:	126,824,653	-	-	47,316,471	174,141,124	168,471,055
2 Total Capital, gross of regulatory deductions	126,824,653	-	-	-	126,824,653	121,289,750
3 Other instrument not included on line 2	-	-	-	47,316,471	47,316,471	47,181,305
4 Retail funding, of which:	121,914,612	120,555,086	943,550	3,518,350	228,934,179	232,929,002
5 Stable funding	79,090,433	47,720,675	67,005	2,771	120,536,978	120,591,728
6 Less stable funding	42,824,179	72,834,411	876,545	3,515,579	108,397,201	112,337,274
7 Wholesale funding, of which:	20,636,860	364,679,317	44,202,878	112,343,378	199,724,628	203,870,597
8 Operating deposits and affiliated cooperative deposits	8,964,700	-	-	-	3,959,169	4,157,051
9 Other wholesale funding	11,672,160	364,679,317	44,202,878	112,343,378	195,765,459	199,713,546
Operations that the institution acts exclusively as an intermediary, assuming no rights or obligations, even if contingent:	-	25,516,823	14,190	174,127	-	-
11 Other Liabilities, of which:	51,119,423	56,043,610	-	-	2,813,823	2,394,664
12 Derivatives in which replacement value is less than zero	-	15,697,425	-	-	-	-
13 Other liabilities elements or shareholders' equity not included in the previous lines	51,119,423	40,346,185	-	-	2,813,823	2,394,664
14 Total Available Stable Funding (ASF)					605,613,754	607,665,317
Required Stable Funding (RSF)						
15 Total High-Quality Liquid Assets (HQLA)					9,747,974	10,978,040
16 Operational deposits held in other financial institution	-	-	-	-	-	-
17 Bonds, securities and operations with financial institutions, non-financial institutions and central banks, of which:	4,969,551	218,599,139	51,331,134	247,213,295	291,080,295	281,492,138
18 Operations with financial institutions collateralized by Level 1 HQLA	-	8,970,568	-	-	897,057	558,377
19 Operations with financial institutions collateralized by Level 2A, 2B HQLA or non-collateralized	-	104,000,504	1,792,073	2,211,513	4,599,449	5,077,176
20 Loans and financing granted for retail and wholesale customers, central government and central banks operations, of which:	-	99,108,932	47,179,730	143,529,395	198,505,058	195,963,868
21 The Risk Weighting Factor, referred by Central Bank Circular 3,644, from 2013, is less than or equal to 35% (thirty five percent)	-	-	-	-	-	-
22 Mortgages, of which:	-	936,304	941,059	32,296,180	21,931,198	20,859,110
23 Referred by Central Bank Circular 3,644 from 2013, article 22	-	936,304	941,059	32,296,180	21,931,198	20,859,110
24 Bonds and securities non eligible to HQLA, including shares traded in the Stock Market	4,969,551	5,582,831	1,418,272	69,176,206	65,147,533	59,033,607
Operations that the institution acts exclusively as an intermediary, assuming no rights or obligations, even if contingent	-	26,750,196	5,410,108	232,630	-	-
26 Other assets, of which:	165,781,802	71,773,461	4,108,950	30,063,190	184,848,809	178,448,718
27 Gold and commodities transaction, including ones with physical settlement	-	-	-	-	-	-
28 Assets provided, due to initial margin deposit as collateral for derivatives operation and participation in mutualized guarantee funds of clearing house or service providers of clearing and settlement that may arbitrate as central counterparty	-	-	-	11,342,545	9,641,163	7,728,105
29 Derivatives in which replacement value is more than or equal to zero	-	-	-	13,750,752	-	-
30 Derivatives in which replacement value is less than zero, gross of any collateral deduction due to deposit for variation margin	-	-	-	-	784,871	806,181
31 Other assets not included in the previous lines	165,781,802	71,773,461	4,108,950	4,969,893	174,422,774	169,914,433
32 Off-balance sheet operations		305,989,909	-	-	11,094,723	11,028,648
33 Total Required Stable Funding (RSF)					496,771,801	481,947,545
34 NSFR (%)					121.9%	126.1%

(1) Corresponding to the total of the balance sheet;

(2) Corresponding to the value after applying the weighting factors.

The long-term indicator NSFR, presented weighted volume of available stable funding, higher than the required stable funding, exceeding the weighted balance around R\$ 109 billion, resulting the indicator in 121.9%.



The amount of available stable funding (ASF) is largely composed by customer fundings, considering the level of stability as the main factor supporting the ASF. The verification of the ASF in March/2019, presented a sharing of 38%, originated from Retail fundings and 33% of Wholesale fundings.

The required stable funding (RSF) are composed by Assets and items off-balance sheet. These balance are weighted according to the respective liquidity profile, so the items related to lending and other assets in low or non-liquidity are highlighted in the RSF (high weight), while high liquidity operations, e.g. free federal government bonds, receive low weight. For March/2019, the lending operations (item 20) represented 40% out of the total of RSF, while other assets (Item 31) shared 35% of the RSF.

11. Exhibits

The exhibits described below are available at www.bradescori.com.br

Total Capital Structure and Suitability Information of Total Capital (Exhibit 1)

Exhibit 1 shows the calculation of the Total Capital.

Key features - Total Capital Instruments (Exhibit 2)

Exhibit 2 shows the information about each integral instrument according to the Total Capital.

Balance sheet (Exhibit 3)

Exhibit 3 presents a comparison between the Prudential Conglomerate balance sheet and the balance sheet published in the Full Accounting Statements.

Institutions Participating in the Prudential Conglomerate (Exhibit 4.a.)

Exhibit 4.a. shows the scope of the publication, in addition to the Prudential Conglomerate's institutions, the following companies are also part of the consolidation.

The regulatory scope to measure capital sufficiency since January 2015 is the Prudential Conglomerate, according to Central Bank of Brazil's rules. However, it is worth noting that other companies of the Economic and Financial Consolidated Group also participate in the Organization's risk management process. For these companies, all the risks inherent to their activities are evaluated, especially Bradesco's Insurance Group companies, which also comply with regulatory capital rules, either through the rules of Superintendence of Private Insurance ('SUSEP') or National Regulatory Agency for Private Health Insurance and Plans ('ANS'), depending on their operating segment.

At Bradesco's Insurance Group, besides market, credit, operational, liquidity risk, among others, we point out the insurance risk, which is the main risk an insurance company is exposed. This risk results from an adverse economic situation that would go against the insurance company's expectations, at the time of preparing the insurance policy, with regard to existing uncertainties, both in terms of definition of actuarial premises and the creation of technical provisions and calculation of premiums and contributions. Thus, it is the risk that the frequency or severity of claims or benefits is greater than those estimated by the company.

Insurance risks are managed by the General Risk Management Directors, Bradesco's Insurance Group, which also belongs to the Organization's risk management structure. One of its main duties is to develop an internal model for the calculation of economic capital based on insurance risks. The management process complies with all policies, rules and procedures of the Organization and seeks to diversify insurance operations in order to ensure a balanced portfolio sustained by the grouping of risks with similar characteristics, thereby reducing the impact of isolated risks.

Relevant Institutions (Exhibit 4.b.)

In Exhibit 4.b., we present the list of the main companies, with a direct and indirect interest, included in the accounting statements.

Equity Interests (Exhibit 4.c.)

We highlight in Exhibit 4.c. the information on the companies' equity interests.

The equity interests are measured by the equity method or by the cost method. The equity interests abroad are recorded by the original amount in foreign currency, converted into Brazilian Reais, by the conversion rate on the investment acquisition

date. The foreign exchange rate is updated by the variation of PTAX selling rate released by Central Bank of Brazil related to foreign currencies in countries where investments are made.

The selection of the method to be used observes prevailing laws, namely:

Equity method: the investment measured by the equity method is calculated monthly based on the statement of financial position or interim statement of financial position drawn up on the same date, or until, at most, two months before, and in this assumption, the necessary adjustments are made to consider the non-recurring and/or relevant facts impacts in the period. The statement of financial position or interim statement of financial position of investments abroad are adjusted to the accounting criteria effective in Brazil and converted into Real (by the closing quote), and its effects recognized in the net income for the period.

Cost method: investments in equity instruments of other entities are measured by cost, when classified in the sub-group Non-Current Asset Investments, provided that these entities are not considered associated companies or subsidiaries (including jointly controlled entities). Through this method, the investments are recorded by acquisition cost, less provisions for losses.

12. Glossary

A

ACP – Additional Principal Capital

ANS – National Regulatory Agency for Private Health Insurance and Plans

ASF – Available Stable Funding

AVIM – Independent Model Validation Area

B

BBI – *Banco Bradesco de Investimentos*

BCB – Central Bank of Brazil's

BCBS – Basel Committee on Banking Supervision

BCI – Business Continuity Institute

BCM – Business Continuity Management

BCP – Business Continuity Plan

BIA – Business Impact Assessment

BNDES – *Banco Nacional de Desenvolvimento Econômico e Social* (National Economic and Social Development Bank)

C

CDC – Crédito Direto ao Consumidor (Direct Consumer Credit)

CDS – Credit Default Swap

CEGRIMEL – Market and Liquidity Risk Management Executive Committee

CEO – Chief Executive Officer

CEPE – Executive Committee for Strategic Planning

CEROS – Environmental Risk Management Executive Committee

CIRO – Internal Control and Operational Risk Commission

CMM – Mark-to-Market Commission

CMN – National Monetary Council's

COGIRAC – Integrated Risk Management and Capital Allocation Committee

CRI – *Certificado de Recebível Imobiliário* (Securitized Real Estate Loans)

CRO – Chief Risk Officer

CVA – Credit Value Adjustment

D

DCCE – Department of Compliance, Conduct and Ethics

DCIR – Department of Integrated Risk Control

DLO – *Demonstrativo de Limites Operacionais* (Operational Limit Demonstration)

DEPEC – Department of Studies and Economic Research

DPOC – Department of Budget Planning and Control



E

EVE – Economic Value of Equity

F

FIDC – *Fundo de Investimento em Direito Creditório* (Credit Rights Investment Funds)

H

HQLA – High Quality Liquid Assets

I

IBAMA – Brazilian Institute for the Environment and Natural and Renewable Resources

ICAAP – Internal Capital Adequacy Assessment Process

IFC – International Finance Corporation

IGP-M – *Índice Geral de Preços do Mercado* (Brazilian Market Price Index)

IPCA – *Índice Nacional de Preços ao Consumidor Amplo* (Brazilian Broad Consumer Price Index)

L

LCR – Liquidity Coverage Ratio

LR – Leverage Ratio

N

NII – Net Interest Income

NSFR – Net Stable Funding Ratio

O

ORX – Operational Riskdata Exchange

OTC – Over-the-counter

P

P&L – Profit and Loss

R

RAS – Risk Appetite Statement

RSF – Required Stable Funding

RWA – Risk Weighted Assets

S

SUSEP – Superintendence of Private Insurance

U

UK – United Kingdom

USA – United States of America

V

VaR – Value at Risk



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