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# Risk Management Report – Pillar III

4Q16





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## Abbreviations Glossary

ACP	Core Capital Additional
Audit	Internal Audit
Bacen	Central Bank of Brazil
CA	Board of Directors
CD	Board of Officers
CF	Supervisory Board
Coaud	Audit Committee
Coger	Accounting Directorship
CEGC	Capital Management Executive Committee
CERC	Credit Risk Executive Committee
CERML	Market and Liquidity Risks Executive Committee
CERO	Internal Controls and Operational Risk Executive Committee
CSGAP	Asset-Liabilities and Liquidity Management Superior Committee
CEGAP	Asset-Liabilities and Liquidity Management Executive Committee
CSRG	Global Risk Superior Committee
Dicoi	Internal Controls Directorship
Dicre	Credit Directorship
Difin	Finance Directorship
Dined	Digital Business Directorship
Dirao	Operational Assets Reestructuring Directorship
Dirco	Controlling Directorship
Diref	Employees and Sponsored Entities Relationship Directorship
Direo	Strategy and Organization Directorship
Diris	Risk Management Directorship
Disin	Institutional Security Directorship
DRL	Availability of Free Resources Indicator
ECBB	Banco do Brasil Corporative Strategy
ELBB	Banco do Brasil Linked (Related) Entities
EMLI	Liquidity Maximum Requirement Intraday
Fampe	Endorsement for Micro and Small Enterprises Fund
FGI	Investment Guarantee Fund
FGO	Operations Guarantee Fund
FPR	Risk Weighting Factor
Funproger	Generation of Employment and Earnings Guarantee Fund
HIBP	IBP projected mismatching minimum time horizon
HICNI	ICNI projected mismatching minimum time horizon
HICP	ICP projected mismatching minimum time horizon
IB	Capital Adequacy Ratio
IBA	Amplified Capital Ratio (IB ascertained by considering the capital necessity for Pillar I and Pillar II risks)
IBP	Prudential minimum Capital Ratio (Minimum IB defined by management)
IBR	Minimum Regulatory Capital Ratio
Icaap	Internal Capital Adequacy Assessment Process
ICNI	Tier I Capital Ratio
ICP	Core Capital Ratio
Icred90	Credit as of 90 days default ratio
IDS	Subordinate Debt Instrument
IHCD	Capital and Debt Hybrid Instruments
Iprov	Provisioning Ratio (PCLD balance over the portfolio balance)
MCC	Capital Contingency Measures
MCL	Liquidity Contingency Measures
MP	Prudential Margin in reais equivalent to the difference between the IBP and the IBR
PCC	Capital Contingency Plan
PR	Reference Equity
PRE	Required Reference Equity (nomenclature changed for PRMR as of the changes made by CMN Resolution 4,193/13)
PRMR	Minimum Required Reference Equity to cover Pillar I risks
PRMRA	Amplified Minimum Required Reference Equity (corresponding to the required capital sum for Pillars I and II risks)
RL	Liquidity Reserve
RSPL	Shareholder Equity Return
RWA	Risk-Weighted Assets
RWAACS	Risk Weighted Assets for the Shares Market Risk exposures





RWACAM	Risk Weighted Assets for the Exchange Market Risk exposures
RWACIRB	Risk Weighted Assets for the Credit Risk ascertained by internal models based approach
RWACOM	Risk Weighted Assets for the Commodities Market Risk exposures
RWACPAD	Risk Weighted Assets for the Credit Risk ascertained by standardized approach
RWAJUR	Risk Weighted Assets for the Interest Rate Market Risk exposures
RWAMINT	Risk Weighted Assets for the Market Risk ascertained by internal models
RWAMPAD	Risk Weighted Assets for the Market Risk ascertained by standardized approach
RWAOPAD	Risk Weighted Assets for the Operational Risk ascertained by standardized approach
URO	Operational Risk Unit
Vicri	Risk Management and Internal Controls Vice-President



## Banco do Brasil

Banco do Brasil (BB) has the largest servicing network in the country and abroad among the Brazilian financial institutions. Present in almost all Brazilian municipalities, BB makes more than 57 thousand servicing locations available in the Brazilian territory. Founded in 1808, BB is a mixed-capital company that is controlled by the Brazilian Government and has been listed in BM&FBovespa New Market, which is a segment that gathers the companies with the best corporative governance practices.

As one of the main economic and social development agent, as well as public policies executor in the country, BB supports agribusiness, infrastructure, small and micro companies and the foreign trade, by acting in a responsible way to promote social inclusion by means of labor and income generation.

Our belief, “a good world for everyone requires a public spirit in each one of us”, based on the constant search for the conciliation of the necessities and interests of the Bank and all its relationship public. In that sense, the individual and collective dimensions are considered, by acting as a market bank, doing social businesses or as a protagonist of the country development.

**Mission:** “*Market bank with a public spirit. Being a competitive and profitable bank, by acting with a public spirit in each one of its actions along with all the society.*”



## 1. Introduction

Banking system sustainability is indissolubly linked to risk-management and capital policies and mechanisms. The methods of identifying, assessing, controlling, mitigating and monitoring risk safeguard financial institutions in adverse situations and provide support for the generation of positive results that are recurring in the long run. Banco do Brasil (BB) considers essential risk and capital management to the process of decision-making, providing optimization of risk-return ratio to the operations.

Changes in the global financial environment, such as market integration through globalization, the emergence of new transactions and products, increasing technological sophistication and new regulations have made financial activities and their risks more and more complex.

Brazil's participation in the Basel Committee on Banking Supervision stimulates the timely implementation of international prudential norms in the Brazilian regulatory framework.

Additionally, the lessons learned from financial disasters reinforce the importance of risk and capital management in the banking industry.

Those factors influence regulatory agencies and financial institutions to invest in risk management, seeking to strengthen their financial health.

In line with that perspective, BB has invested in the continuous improvement of its risk and capital management process and practices, in line with international market benchmarks of regulation and supervision.

BB remains continuously aligned with the best management practices, among which, the risk management architecture with multidimensional scope whose specificities are described in this report.

### 1.1 Objective

The current report aims to disclose the information related to risk management, to the measurement of the amount of Risk Weighted Assets (RWA) and to the Reference Equity (PR), in accordance with Circular nº 3,678, published by the Central Bank of Brazil (Bacen) on 10.31.2013, and it is aligned with the guidelines of Pillar III of Basel II. This report includes information about structures, processes and risk and capital management policies of Banco do Brasil (BB).

The measurement of PR and RWA considers the consolidation scope of the Prudential Conglomerate<sup>1</sup>, in accordance with the Financial Institutions Chart of Accounts (Cosif), which covers financial institutions, consortium-managing companies, payment institutions, companies that acquire operations or that direct or indirectly have credit risk and investment funds in which the conglomerate considerably holds risks and benefits.

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1 Prudential Regulation Details on the link: <http://www.bcb.gov.br/?REGPRUDENCIAL>



## 1.2 Main Regulatory Indicators

BB Prudential Conglomerate main risks and capital indicators are shown below considering the position of the previous three quarters:

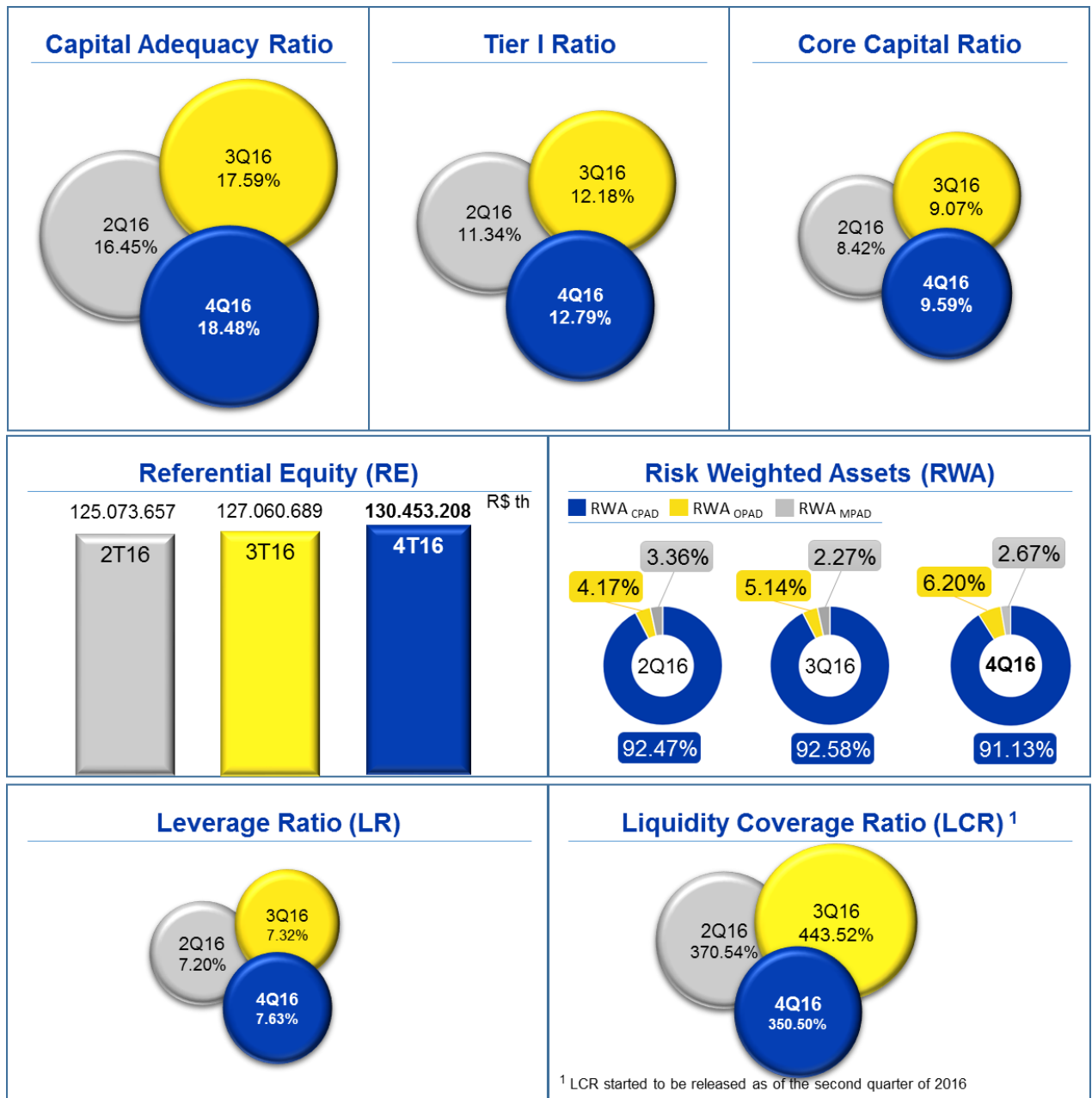


Figure 1 - Regulatory Capital Indicators



## 2 Risks and Capital Governance

### 2.1 Risk and Capital Internal Governance

Banco do Brasil's corporate governance structure has:

- the Board of Directors (CA), assisted by the Audit Committee (Coaud), by the Compensation Committee (Corem) and by the Internal Audit (Audit);
- the Executive Board, composed by the Board of Officers (CD) and by the Statutory Directors;
- the Fiscal Council (CF).

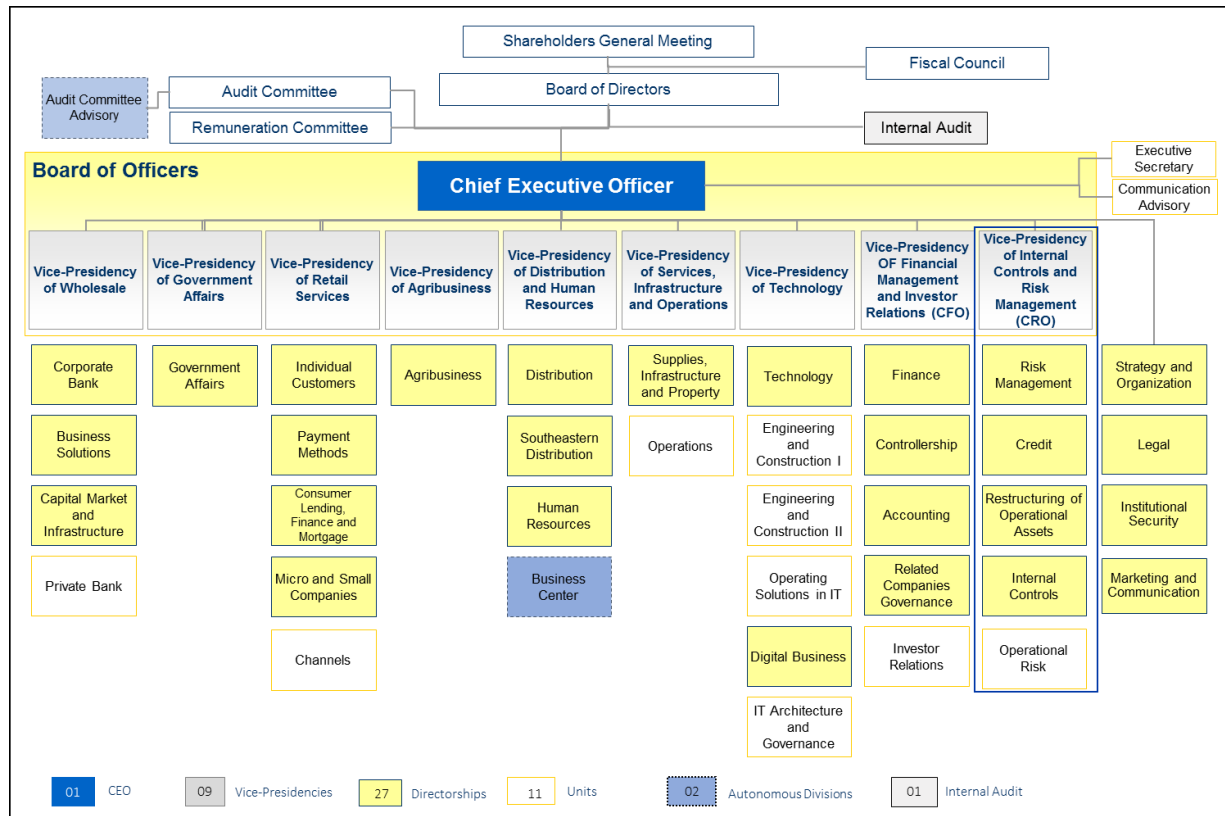


Figure 2 - Corporate Governance Structure

The decisions, in any level of the Company, are made in a collegiate way, except for the situations in which a minimum organizational structure does not allow it. Aiming to involve all officers with the definition of strategies and the appreciation of proposals for Banco do Brasil's different businesses, the Management uses strategic level committee, which warrant speed, quality and safety to decision making.

Decisions are reported to participating units through documents that objectively express the position taken by the Senior Management, guaranteeing application throughout the Bank.

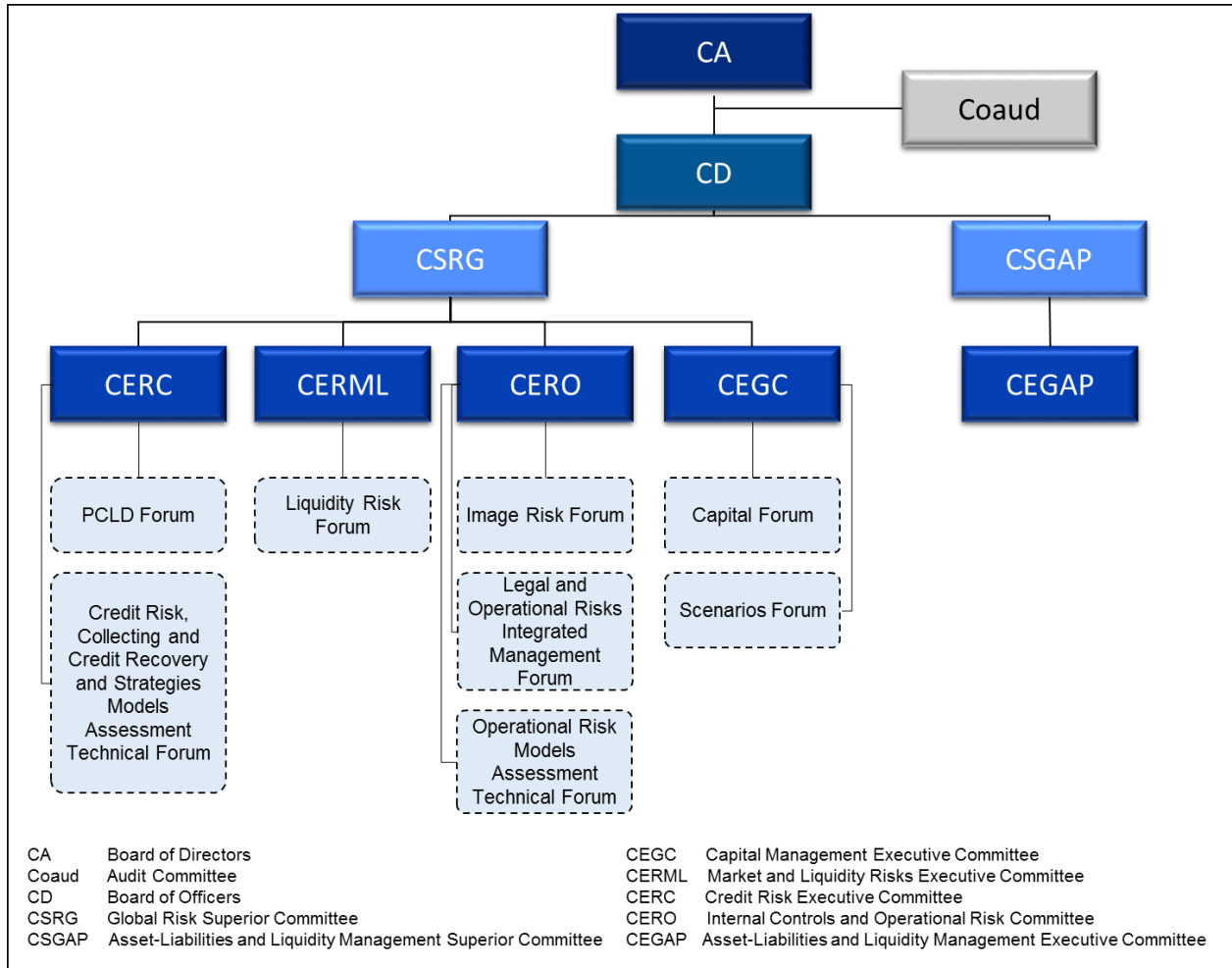
The risk and capital governance model adopted by BB involves a superior committee and executive committee structure, with the participation of many units at the Bank, addressing the following issues:

- separation of duties: business versus risk;
- specific structure for risk management;
- defined management process;



- d) decisions in several hierarchical levels;
- e) clear rules and authority structure; and
- f) reference to best management practices.

The figure below represents BB's structure of risk and capital governance:



**Figure 3** - Organizational Structure involved in the capital and risk management

The Committees involved with BB's risk and capital management, as well as their main purposes are described in the following chart:



Chart 1 - Main Purposes of the Committees involved with risks and capital management

Strategic Committees	Main Purposes
Global Risk Superior Committee (CSRG)	<ul style="list-style-type: none"> <li>• establish a strategy for risks management;</li> <li>• define global limits for the exposure to risks;</li> <li>• establish a strategy for capital management;</li> <li>• decide on capital contingency plan constant measures.</li> </ul>
Asset-Liabilities and Liquidity Management Superior Committee (CSGAP)	<ul style="list-style-type: none"> <li>• establish a strategy for assets and liabilities and liquidity management;</li> <li>• define guidelines for the acting of treasury, by observing the global limits defined by CSRG and for the Conglomerate liquidity management;</li> <li>• approve the correcting measures of mismatching and other correcting measures related to Funding and Collectabilities management.</li> </ul>
Capital Management Executive Committee (CEGC)	<ul style="list-style-type: none"> <li>• approve models, methodologies, criteria and parameters for capital management;</li> <li>• define the scenarios to be used in the capital management process;</li> <li>• analyse and propose to CSRG the strategy for capital management and the adoption of the capital contingency plan constant measures;</li> <li>• assess the capital stress tests result;</li> <li>• monitor the capital plan and the capital contingency measures and the Icaap.</li> </ul>
<p>The Executive Committees:</p> <ul style="list-style-type: none"> <li>• Market and Liquidity Risks (CERML)</li> <li>• Credit Risk (CERC)</li> <li>• Internal Controls and Operational Risk (CERO)</li> </ul>	<ul style="list-style-type: none"> <li>• approve <ul style="list-style-type: none"> <li>• models, methodologies, criteria and parameters for risk management;</li> <li>• specific limits to risks exposure;</li> <li>• the risk management contingency plans;</li> <li>• actions and mitigating instruments, when necessary;</li> </ul> </li> <li>• analyse and propose to CSRG: <ul style="list-style-type: none"> <li>• global limits to risks exposure;</li> <li>• risk management strategy;</li> <li>• minimum reserve and the global limits for liquidity risk;</li> </ul> </li> <li>• Monitor: <ul style="list-style-type: none"> <li>• recommendations and guidelines deliberated by the Committee;</li> <li>• measures implemented for the risks mitigation;</li> <li>• risks exposure evolution.</li> </ul> </li> </ul>
Asset-Liabilities and Liquidity Management (CEGAP)	<ul style="list-style-type: none"> <li>• approve guidelines for: <ul style="list-style-type: none"> <li>• funding and collectabilities management;</li> <li>• funding products ranking;</li> </ul> </li> <li>• analyse and propose to CSGAP correcting measures of mismatching and other correcting measures related to Funding and Collectabilites Financial Management.</li> </ul>



Chart 2 - Main Purposes of the Forums involved with risk and capital management

Forums	Main Purposes
Capital Forum	<ul style="list-style-type: none"> <li>assist the Capital Management Executive Committee (CEGC) with technical analyses on topics related to capital management, the Internal Capital Adequacy Assessment Process (Icaap) and the Capital Plan;</li> <li>analyse: <ul style="list-style-type: none"> <li>the behavior of capital requirement based on the consolidation rule defined by the Central Bank of Brazil (Bacen);</li> <li>impacts derived from changes in the legislation regarding the calculation of capital adequacy indicators: Core Capital Ratio (ICP), Tier I Capital Ratio (ICNI) and Capital Adequacy Ratio (IB);</li> <li>the projections of capital indicators before the risks tolerance and appetite limits;</li> <li>the stress tests applied to the capital indicators; and</li> <li>the impacts on the capital derived from strategic decisions that can affect it meaningfully.</li> </ul> </li> </ul>
Scenarios Forum	<ul style="list-style-type: none"> <li>analyse the corporate scenarios and their integration with the strategy, the budget and relevant risks incurred by the Conglomerate;</li> <li>promote the unicity and synergy in the usage of macroeconomic scenarios, including in relation to stress tests;</li> <li>assist the Capital Management Executive Committee (CEGC) with the deliberations that require an analysis of the assumptions and variables from the macroeconomic scenarios.</li> </ul>
PCLD Forum	<ul style="list-style-type: none"> <li>identify incorrections in the operations risk classification;</li> <li>propose proactive actions that can prevent improper variations in the Allowance for Loan Losses (PCLD) and correct inconsistencies in the operations risk classification;</li> <li>identify the origin, evolution and tendency of PCLD and the usage of provisions (losses);</li> <li>monitor indicators related to PF and PJ credit portfolio default;</li> </ul>
Image Risk Forum	<ul style="list-style-type: none"> <li>promote the integration and the alignment of actions related to the image risk management and technical analyses for the image risk management to subsidize CERO and CSRG discussions and decisions;</li> <li>accompany and assess the image risk monitoring actions and the works of updating and evolution of the image risk methodology;</li> <li>assess the effectiveness of the image risk mitigating actions;</li> </ul>
Legal and Operational Risks Integrated Management Forum	<ul style="list-style-type: none"> <li>assess the operational and legal risks of greater relevance to the Bank and discuss possible control measures;</li> <li>identify the Judicial Power jurisprudence and decisions that can cause operational and legal losses to the Bank;</li> <li>promote the integration and alignment of actions related to the management of operational and legal risks;</li> <li>assess the models used by the Bank to identify the legal and operational risks and the models of Contingent Demands Provision (PDC), methodologies and backtesting results.</li> </ul>
Liquidity Risk Forum	<ul style="list-style-type: none"> <li>promote, whenever required, the assessment of the Liquidity situation and recommendation to either adopt or not the Liquidity Risk Prudential Measures (MPRL).</li> </ul>
Credit Risk, Collecting and Credit Recovery and Strategies Models Assessment Technical Forum	<ul style="list-style-type: none"> <li>analyse the credit risk, collecting and credit recovery and/or collecting strategies models;</li> <li>promote the integration and the alignment of actions developed by areas that integrate the Forum regarding the technical aspects and the impacts of the models and/or strategies of collecting that were proposed.</li> </ul>
Operational Risk Models Assessment Technical Forum	<ul style="list-style-type: none"> <li>analyse: <ul style="list-style-type: none"> <li>the proposals of definition or change of the operational risk models;</li> <li>the results of the operational risk models backtesting reports.</li> </ul> </li> </ul>

Banco do Brasil's Prudential Conglomerate risks and capital management is made based on the Market best practices and observes the banking regulation and supervision rules.

The risk management structure involves: specific policies, the Risks Appetite and Tolerance Statement, the strategies, the processes, the procedures and the management structures, by observing the specificities of each risk, which considers the following standard:





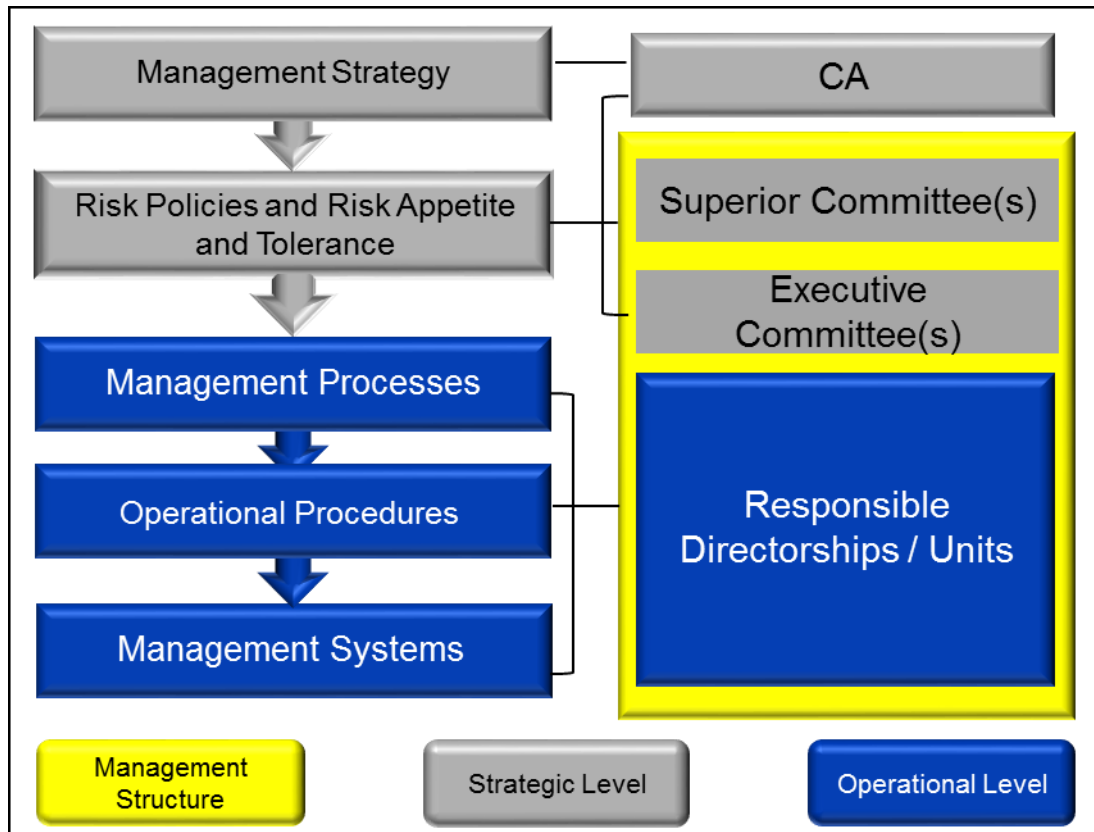


Figure 4 - Risk Management Structure

The Risk Management Directorship (Diris) is the area of the Bank that is responsible for the risks global management and, since it does not activities linked to the management of resources from third parties or operations that are subject to risk, CA pointed out the Risk Management Director to be responsible for the risk management before Bacen. It is important to mention that the Operational Risk Unit (URO) is responsible for the operational and legal risks management. Those structures are subordinated to the Risk Management and Internal Controls Vice-Presidency (Vicri).

Banco do Brasil's capital management consists of a continuous process of planning, assessment, control and monitoring of the capital that is necessary to cover the company relevant risks and bear the capital requirements made by the regulator, or the ones that are internally defined by the Institution, by considering the strategic planning and budget, aiming to optimize its allocation and structure.

The capital management process is done based on the policies and strategies of the Bank's Senior Management and permeates several areas, in the Institution's governance levels, covering the Board of Directors, the Board of Officers, the Strategic Committees, Directorships and the Capital Forum.

Banco do Brasil defined the Risk Management (Diris), Controlling (Dirco), Finance (Difin) and Accounting (Coger) Directorships as members of its capital management structure. BB's Board of Directors designated the Controlling Director as the one responsible for the Capital Management before Bacen.

The areas that were defined in the capital management structure are collective or individually responsible for:

- a) identification of relevant risks;
- b) assessment of the capital required to bear them;



- c) projection of risk and capital indicators;
- d) calculation of the Referential Equity (PR);
- e) elaboration of the capital plan and contingency plan and;
- f) evaluating capital sources and its restoration.
- g) Icaap (Internal Capital Adequacy Assessment Process);
- h) Stress Tests;
- i) Managerial Reports; and
- j) Capital Management Specific Policy.

Banco do Brasil's capital management structure enables the monitoring and control of the capital kept by the Institution, the assessment of capital necessity to cover the risks the Institution is exposed to and the planning of goals and capital necessity, by considering the Institution's strategic goals. That way, BB adopts a forward-looking position, by anticipating the capital necessity derived from the market conditions possible changes.

The Internal Controls Directorship (Dicoi) is responsible for the validation of the Prudential Conglomerate's risks measuring models and for the assessment and certification of the Bank's internal controls system. The Internal Audit (Audit) periodically assesses the risk management processes aiming to check if they are in accordance with the strategic guidelines, the specific policies and the internal and regulatory rules.

## 2.2 Strategic Definitions

### 2.2.1 Relevant Risks

BB has a process of identification of risks which are part of the risks inventory and for the definition of corporate set of relevant risks. That process is quite important for the risks and capital management, as well as for the business management.

BB's risks inventory and the corporate set of relevant risks are annually revised, considering the risks incurred by the several business segments explored by the Bank or by its subsidiaries, which can affect Banco do Brasil's Prudential Conglomerate Reference Equity (PR).

The classification of the relevant risks is based on quantitative and qualitative criteria.

The risks below are part of Banco do Brasil's Prudential Conglomerate Relevant Risks Corporate Range:



Chart 3 - Banco do Brasil's Prudential Conglomerate Relevant Risks Set Concept

Risk	Concepts
<b>Credit Risk</b>	possibility of losses associated with the non-fulfillment by a borrower or a counterparty of their corresponding financial obligations according to negotiated terms, the devaluation of a loan agreement due to a drop in the borrower's risk rating, a decline in gains or earnings, benefits granted in renegotiation, and recovery costs.
<b>Credit Concentration Risk</b>	defined as a possibility of credit losses arising from significant exposure to counterparty, a risk factor or groups of counterparties related by common characteristics.
<b>Counterparty Credit Risk</b>	defined as the possibility of a certain counterparty not fulfilling its obligations related to the settlement of transactions that involve trading financial assets, including those related to the settlement of financial derivatives.
<b>Market Risk</b>	possibility of financial or economic losses resulting from the fluctuation of market values of positions held by the financial institution.
<b>Banking Book Interest Rate Risk</b>	defined as the risk related to the fluctuations of the operations interest rates that are not classified in the trading portfolio (trading book).
<b>Liquidity Risk</b>	possibility of imbalances between tradable assets and liabilities - "mismatches" between payments and receipts - which can affect the institution's payment ability, taking into account the different currencies and settlement terms of its rights and obligations.
<b>Operational Risk</b>	possibility of losses due to failures, deficiencies, or improper internal processes, people and systems or external events. That includes the possibility of losses arising from legal risk.
<b>Legal Risk</b>	possibility of losses derived from the inadequacy of deficiency in contracts signed by the institution, as well as the penalties due to the infringement of legal mechanisms and the compensation for losses to third parties derived from the activities done by the institution.
<b>Environmental Risk</b>	possibility of losses arising from social and environmental impacts resulting from administrative and business practices of BB.
<b>Strategy Risk</b>	possibility of losses arising from adverse changes in the business environment, or use of inappropriate assumptions in decision making.
<b>Reputational Risk</b>	possibility losses associated with the negative perception about the Institution by its customers, counterparties, shareholders, investors, government agencies, community or supervisors, which can adversely affect the sustainability of the business.
<b>Complementary Pension Fund Entities and Private Health Insurance Plan Operators for Employees Risk</b>	possibility of negative impact derived from the mismatching between actuarial liabilities and assets in the entities sponsored by complementary pension fund and private health insurance plan operators for employees.
<b>Model Risk</b>	possibility of losses derived from the inadequate development or use of models, as a result of the inaccuracy or insufficiency of data or the incorrect formulation in its construction.
<b>Contagion Risk</b>	Possibility of negative impact on capital due to adverse events in related companies and/or relevant equities, other than the Prudential Conglomerate.
<b>Compliance Risk</b>	Possibility of financial or reputational losses resulting from failure to comply with laws, regulations, internal standards, codes of conduct and guidelines established for the business and activities of the organization.

## 2.2.2 Risk Appetite and Tolerance

Banco do Brasil's risk appetite and tolerance indicators and their corresponding limits consider, in their definition, the exposure to the risks, the business strategies and the projections of capital necessity that subsidize the Capital Plan.



The definition of the risk appetite considers the capability to take risks, the risks tolerance and the Institution's risk profile.

The Risk Appetite and Tolerance Statement covers the capital adequacy indicators: Core Capital Ratio (ICP), Tier I Capital Ratio (ICNI) and the Capital Adequacy Ratio (IB), among others, which can be accessed by all strategic units.

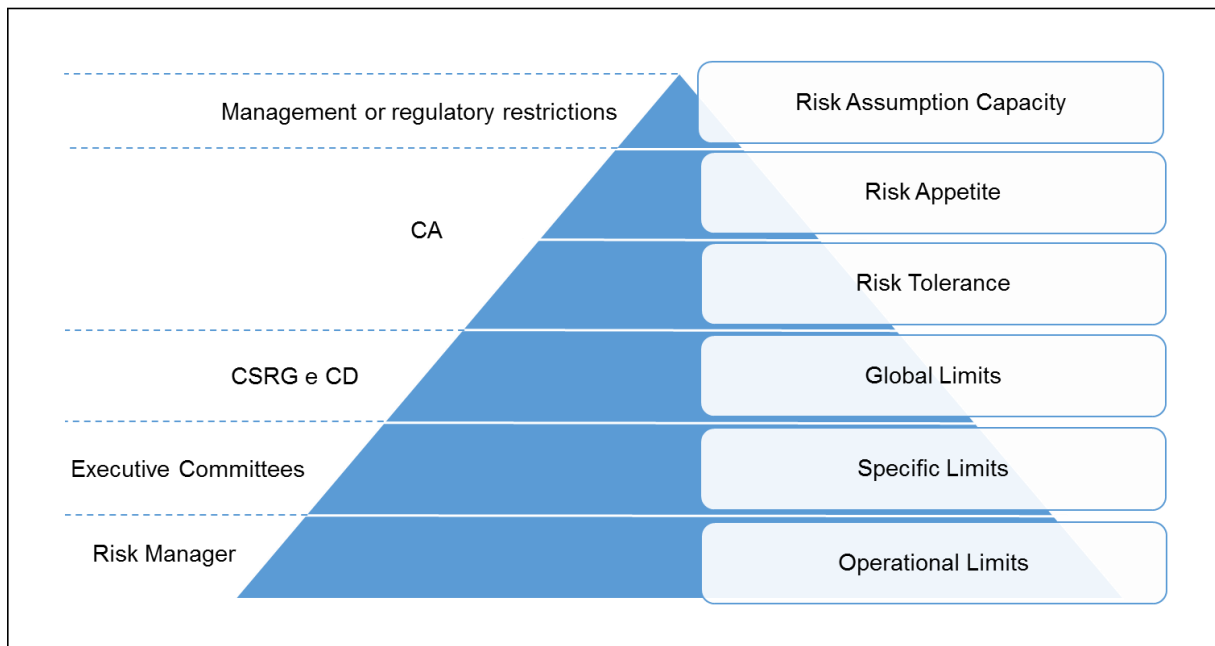


Figure 5 - Limits hierarchy and competences

### 2.2.3 Risk and Capital Management Policies

Policies are guidelines about behaviors the Company must adopt in certain situations previously defined, or rather, they depict a general behavioral standard. The General and Specific Policies are part of the documents that compose Banco do Brasil's Governance Architecture.

The policies that are specific for capital and risk management, approved by the Board of Directors, aim to lead the development of functions or behaviors, by means of strategic directives that guide the Risk and Capital Management actions.

Those specific policies are applied to all the businesses that involve risks and capital in the Bank, are available to be checked by all the Bank's employees and their contents are revised, at least, yearly.

The Capital Management Specific Policy guides Banco do Brasil's capital management, by means of a continuous process of planning, assessment, control and monitoring of the capital to cover all the relevant risks.

Banco do Brasil's Risk and Capital Management Specific Policies are quoted as follows:

- a) Capital Management Specific Policy;
- b) Credit Specific Policy;
- c) Market Risks Specific Policy;
- d) Liquidity Risk Specific Policy;



- e) Derivative Financial Instruments Usage Specific Policy;
- f) Banco do Brasil's Specific Policies associated to the Operational Risk Management:
  - i. Operational Risk Specific Policy;
  - ii. Anti Money-Laundering, Corruption and Terrorism Financing Specific Policy;
  - iii. Business Continuity Management Specific Policy;
  - iv. Relationship Between the Bank and Suppliers Specific Policy;
  - v. Information Security Specific Policy;
  - vi. Legal Risk Specific Policy;
- g) Socio-environmental Responsibility Specific Policy; and
- h) Risk and Capital Management Information Disclosure Specific Policy.

### 2.3 Reports

Risk and capital management reports support the risk and capital decision-making process and are presented to:

- a) Credit Risk Executive Committee (CERC);
- b) Market and Liquidity Risks Executive Committee (CERML);
- c) Internal Controls and Operational Risk Executive Committee (CERO);
- d) Capital Management Executive Committee (CEGC);
- e) Asset-Liabilities and Liquidity Management Executive Committee (CEGAP);
- f) Global Risk Superior Committee (CSRG);
- g) Asset-Liabilities and Liquidity Management Superior Committee (CSGAP);
- h) Board of Officers (CD);
- i) Board of Directors (CA).

The reports are periodically elaborated and have managerial qualitative and quantitative information, such as the monitoring of risk exposure, the consumption of global and specific limits, mitigating actions, projection of indicators and the necessity or not to recompose capital, whenever necessary. Among the internal reports, the following ones are quoted:

- a) Presentation of the Bank's credit portfolio X National Financial System;
- b) Comparative of BB's Credit Portfolio X Main Competitors;
- c) Risk Dashboard; and
- d) Capital Adequacy Managerial Report.

The information destined to the external public is available in a public access location and can easily be found on the Bank's website. Information about risks are published in the following documents:

- a) Management Discussion & Analysis;
- b) Risk Management Report - Pillar III;



- c) Reference Sheet;
- d) Explanatory Notes to Financial Statements; and
- e) Annual Report.

## 2.4 Risk Management Goals

The Institution's risk management aims to identify, assess, control, mitigate and monitor the risks and contribute with the maintenance of the Bank's solidity and solvency, ensure the meeting of shareholders' interests and the accomplishment of the corporate strategy.

The activities concerning the stages of management are summarized in the following figure:

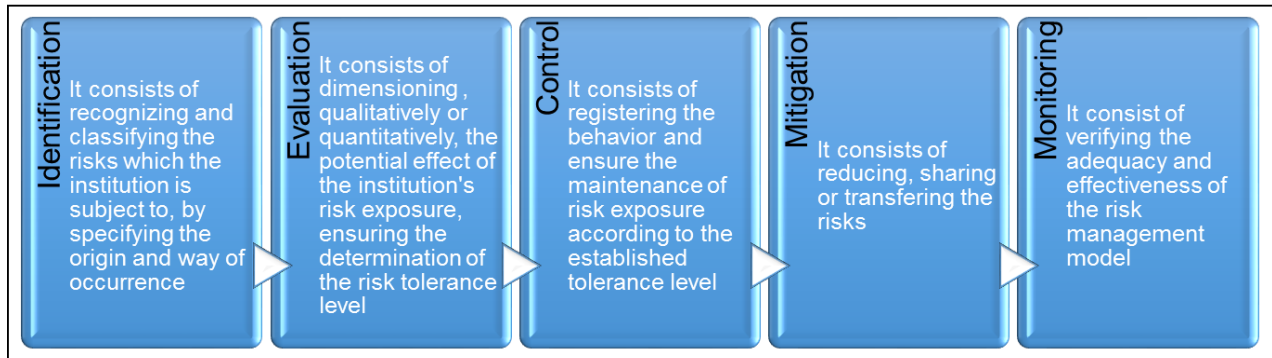


Figure 6 - Risk management process stages

## 2.5 Risk Management Processes

The risk management process involves a continuous information flow, by observing the following stages:

- a) Preparation: the stage of gathering and analysis of the data and the elaboration of proposals;
- b) Decision: the proposals are analysed and deliberated in a collegiate way, in competent levels and communicated to the intervening areas;
- c) Execution: the intervening areas implement the decisions that were made;
- d) Monitoring: checking the accomplishment of the deliberations and report to the Executive Committees (Credit Risk, Market and Liquidity Risks, Internal Controls and Operational Risk and Asset-Liabilities and Liquidity Management), the Global Risk Superior Committee (CSRG) and the Asset-Liabilities and Liquidity Management Superior Committee (CSGAP).

It is important to mention that BB has a corporate tool to control and assess the Risks of Products, Services and Self-Service Channels (Carps), which is managed by Strategy and Organization Directorship (Direo), of mandatory usage by strategic units and external network, except for the subsidiary companies when there is the creation or revitalization of:

- a) a product of service;
- b) a type of product or service; and
- c) self-service channels.

The usage of the tool aims to:



- a) provide decision makers with information, by aggregating products, services and self-service channels with safety when they are launched in the Market, through the participation of the intervening areas;
- b) identify and assess the several types of risks defined by the Bank for the creation and revitalization of a product/service/self-service channel;
- c) search for control and compliance solutions that minimize risks;
- d) promote synergy among managers and intervening parties of products/services/self-service channels, in a way it provides operational efficiency.

In the approval of new products, Carps corporate tool adopts the principle that a manager must assess risks and implement controls, with the assistance of areas that are involved in the process, seeking a higher profitability and the reduction of losses.

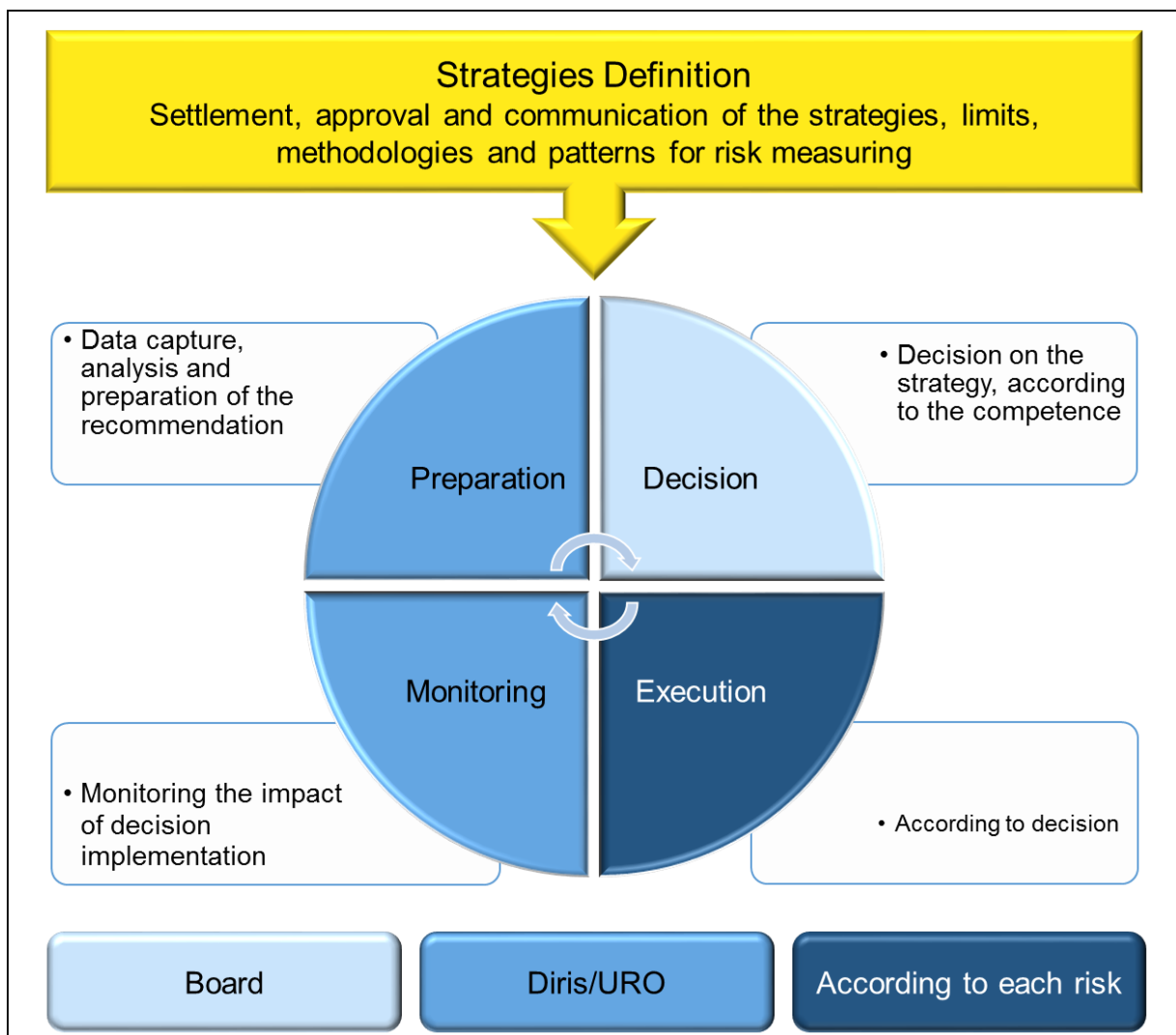


Figure 7 - Decision making and process





### 3 Prudential Conglomerate

The CMN Resolution nº 4,192, published on March 01, 2013, in its 3<sup>rd</sup> article, item II, establishes that, from January 01, 2015, the calculation of Reference Equity (RE) must be performed in consolidated bases for institutions that belong to the Prudential Conglomerate.

In addition, on March 31, 2013, the CMN Resolution nº 4,280 was published and it settled the preparation, disclosure and remittance of the Consolidated Financial Statements of the Prudential Conglomerate.

According to CMN Resolution nº 4,280, the financial institutions and other institutions authorized by Bacen must prepare the financial statements in a consolidated basis, including data relative to the following entities, either located in Brazil or abroad, over which the institution has direct or indirect control:

- a) financial institutions;
- b) other institutions authorized by Bacen;
- c) consortium administrators;
- d) payment institutions;
- e) companies that perform the acquisition of credit operations, including real estate, or credit rights, like factoring companies, securitization companies and exclusive purpose societies;
- f) other legal entities domiciled in Brazil that have, as an exclusive objective, an equity interest in the entities mentioned in items a through e.

The Resolution determines that the investment of funds in which the entities that compose the Prudential Conglomerate, under any form, take or retain substantial risks and benefits, and the equity interests of the institutions in which there is shared control must be consolidated proportionally to the interest held by the institution.





### 3.1 Balance Sheets

As follows, there is the composition of the Prudential Balance Sheet compared to the Balance Sheet of the disclosed Financial Statements, as well as the reference values in the "Attachment 1 - Composition of the Reference Equity".

**Table 1 - Prudential Balance Sheet x Disclosed Balance Sheet**

In thousands of Reais	Reference in RE	4Q16	
		Prudential Conglomerate	Disclosed Financial Statements
<b>ASSETS</b>			
<b>CURRENT ASSETS AND LONG-TERM-RECEIVABLES</b>		<b>1,374,850,931</b>	<b>1,368,249,231</b>
<b>Cash and Cash Equivalents</b>		<b>12,989,564</b>	<b>12,805,771</b>
<b>Short-term Interbank Investments</b>		<b>406,220,773</b>	<b>405,711,672</b>
Open market investments		372,205,969	371,682,685
Interbank deposits		34,014,804	34,028,987
<b>Securities and Derivative Financial Instruments</b>		<b>122,971,067</b>	<b>121,268,682</b>
Own portfolio		77,125,722	79,210,834
Funding instruments issued by institution authorized by Banco Central do Brasil	(r)	12,151	--
Other		77,113,571	--
Subject to repurchase agreements		41,078,273	37,290,776
Pledged in guarantee		3,154,509	3,154,509
Derivative financial instruments		1,612,563	1,612,563
<b>Interbank accounts</b>		<b>68,523,330</b>	<b>68,523,330</b>
Payments and receipts pending settlement		3,513	3,513
Restricted deposits		66,065,753	66,065,753
Deposits with Banco Central do Brasil		63,451,094	63,451,094
National Treasury - rural credits resources		56,868	56,868
National Housing Finance System		2,557,791	2,557,791
Interbank onlendings		495,306	495,306
Correspondent banks		1,958,758	1,958,758
<b>Interdepartmental Accounts</b>		<b>376,530</b>	<b>376,530</b>
Internal transfers of funds		376,530	376,530
<b>Loan Operations</b>		<b>565,126,365</b>	<b>564,923,340</b>
Public sector		48,993,691	74,051,485
Private sector		550,438,361	525,098,219
Loan operations linked to assignment		612,087	612,087
(Allowance for loan losses)		(34,917,774)	(34,838,451)
<b>Leasing Transactions</b>		<b>263,539</b>	<b>562,823</b>
Private sector		304,912	604,196
(Allowance for leasing transactions losses)		(41,373)	(41,373)
<b>Other Receivables</b>		<b>197,916,761</b>	<b>193,605,711</b>
Receivables from guarantees honored		494,543	494,543
Foreign exchange portfolio		17,471,545	17,471,545
Accrued Income		2,728,357	2,676,128
Securities trading		1,106,802	1,106,800
Specific credits		378,238	378,239
Sundry		178,476,950	174,225,237
Tax credits		45,399,638	--
Resulting from tax losses and negative basis of social contribution on net income	(g)	961,383	--
Resulting from temporary differences		44,438,255	--
Excess of 10% from Common Equity Tier 1 Capital	(j):	12,158,074	--
Excess of 15% from Common Equity Tier 1 Capital	(l)	3,095,541	--
Tax credits resulting from temporary differences not deducted from RE	(t)	4,749,897	--
Tax credits resulting from temporary differences for loan losses		24,434,743	--
Actuarial assets related to defined benefit pension funds	(h <sub>1</sub> )	151,828	--
Other		132,925,484	--
(Allowance for other losses)		(2,739,674)	(2,746,781)
<b>Other Assets</b>		<b>463,002</b>	<b>471,371</b>
Assets not for own use and materials in stock		310,609	339,302
(Allowance for losses)		(130,896)	(137,564)
Prepaid expenses		283,289	269,633



		4Q16	
In thousands of Reais	Reference in RE	Prudential Conglomerate	Disclosed Financial Statements
<b>PERMANENT ASSETS</b>		<b>28,824,636</b>	<b>33,127,744</b>
<b>Investments</b>		<b>11,668,886</b>	<b>16,855,006</b>
Investments in subsidiaries and associates		11,542,632	16,703,729
Domestic		11,375,821	16,631,072
Goodwill	(e <sub>1</sub> )	556,129	--
Investments		10,819,692	--
Investments in insurance companies		4,719,242	--
Excess of 15% from Common Equity Tier 1 Capital	(k <sub>1</sub> )	1,862,051	--
Investments not deducted from RE	(s)	2,857,191	--
Other Investments		6,100,450	--
Funding instruments issued by institution authorized for Banco Central do Brasil deducted from PR	(k <sub>2</sub> )	1,662,293	--
Other		4,438,157	--
Abroad		166,811	72,657
Goodwill	(e <sub>2</sub> )	25,033	--
Other		141,778	--
Other investments		170,452	170,398
(Accumulated impairment)		(44,198)	(19,121)
<b>Property and equipment</b>		<b>7,668,785</b>	<b>7,557,478</b>
Land and buildings		7,716,508	7,722,456
Other property and equipment		10,374,882	9,953,340
(Accumulated depreciation)		(10,422,605)	(10,118,318)
<b>Property and equipment by leases <sup>(1)</sup></b>		<b>584,915</b>	<b>--</b>
Leased assets		655,044	--
(Accumulated depreciation)		(70,129)	--
<b>Intangible</b>		<b>8,902,050</b>	<b>8,715,260</b>
Intangible assets		19,975,345	19,602,197
Goodwill	(e <sub>3</sub> )	4,962,875	--
Other Intangible assets		15,012,470	--
Constituted from October 1, 2013	(f <sub>1</sub> )	10,121,767	--
Constituted before October 1, 2013	(f <sub>2</sub> ) (m <sub>1</sub> )	4,890,703	--
(Accumulated amortization)		(11,073,295)	(10,886,937)
Goodwill Amortization	(e <sub>4</sub> )	(3,953,569)	--
Other Amortization		(7,119,726)	--
Intangible assets amortization constituted from October 1, 2013	(f <sub>3</sub> )	(3,024,500)	--
Intangible assets amortization constituted before October 1, 2013	(f <sub>4</sub> ) (m <sub>2</sub> )	(4,095,226)	--
<b>TOTAL ASSETS</b>		<b>1,403,675,567</b>	<b>1,401,376,974</b>

<sup>(1)</sup> Leasing transactions were considered based on the financial method, and the amounts were reclassified from the heading of leased assets to the heading of leasing transactions, after deduction of residual amounts received in advance.



In thousands of Reais	Reference in RE	4Q16	
		Prudential Conglomerate	Disclosed Financial Statements
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES AND LONG-TERM LIABILITIES</b>		<b>1,318,426,328</b>	<b>1,313,736,960</b>
<b>Deposits</b>		<b>446,120,514</b>	<b>445,980,688</b>
Demand deposits		69,355,365	69,349,186
Savings deposits		151,763,344	151,763,344
Interbank deposits		20,798,770	20,664,801
Time deposits		204,149,924	204,150,246
Other deposits		53,111	53,111
<b>Securities Sold Under Repurchase Agreements</b>		<b>378,578,940</b>	<b>374,634,032</b>
Own portfolio		63,152,758	59,207,850
Third-party portfolio		315,426,182	315,426,182
<b>Funds from Acceptance and Issuance of Securities</b>		<b>163,269,348</b>	<b>165,166,353</b>
Bonds backed by real estate, mortgage and other credits		144,670,781	144,670,781
Debentures		904,834	--
Foreign securities		17,591,421	20,393,260
Certificates of structured operations		102,312	102,312
<b>Interbank Accounts</b>		<b>1,075</b>	<b>1,075</b>
Receipts and payments pending settlement		1,075	1,075
<b>Interdepartmental Accounts</b>		<b>2,450,012</b>	<b>2,450,012</b>
Third-party funds in transit		2,446,807	2,446,807
Internal transfers of funds		3,205	3,205
<b>Borrowings</b>		<b>21,203,853</b>	<b>20,409,348</b>
Domestic loans - other institutions		75,120	--
Foreign borrowing		21,128,733	20,409,348
<b>Domestic Onlending - Official Institutions</b>		<b>83,082,693</b>	<b>83,082,693</b>
National Treasury		149,248	149,248
BNDES		32,086,856	32,086,856
Caixa Econômica Federal		23,758,043	23,758,043
Finame		24,765,860	24,765,860
Other institutions		2,322,686	2,322,686
<b>Foreign Onlending</b>		<b>477</b>	<b>477</b>
Foreign Onlending		477	477
<b>Derivative Financial Instruments</b>		<b>1,870,391</b>	<b>1,870,391</b>
Derivative Financial Instruments		1,870,391	1,870,391
<b>Other Liabilities</b>		<b>221,849,025</b>	<b>220,141,891</b>
Billing and collection of taxes and contributions		427,668	427,463
Foreign exchange portfolio		23,201,288	23,201,289
Shareholders and statutory distributions		624,601	1,126,234
Taxes and social security		25,675,065	25,488,824
Deferred tax liabilities associated to defined benefit pension funds assets	(h <sub>2</sub> )	42,146	--
Deferred tax liabilities deducted of the deferred tax assets value	(j <sub>2</sub> )	1,992,917	--
Other		23,640,002	--
Securities trading		1,171,621	404,595
Financial and development funds		14,790,525	14,790,525
Special operations		2,203	2,203
Subordinated debts		55,101,546	55,101,546
In accordance with regulations preceding the CMN Resolution No.4,192/2013 as Tier II (FCO)		25,237,153	--
In accordance with regulations preceding the CMN Resolution No.4,192/2013 as Tier II	(q) (v)	29,610,901	--
Other Subordinated debts		253,492	--
Equity and debt hybrid securities		5,525,339	5,525,339
In accordance with regulations preceding the CMN Resolution No.4,192/2013 as Additional Tier 1 Capital	(o) (u)	4,724,825	--
Other		800,514	--
Debt instruments eligible as capital		24,714,492	24,714,492
Instruments eligible as Additional Tier 1 Capital	(n)	17,840,287	--
Instruments eligible as Tier II		6,874,205	--
Instruments considered in RE after applying reducer	(p)	5,466,093	--
Value of RE disregarded due to application of the reducer		1,408,112	--
Other liabilities		70,614,677	69,359,381
<b>DEFERRED INCOME</b>		<b>446,262</b>	<b>446,262</b>
<b>Shareholder's Equity</b>		<b>84,802,977</b>	<b>87,193,752</b>
<b>Capital</b>		<b>67,000,000</b>	<b>67,000,000</b>
Local residents	(a <sub>1</sub> )	53,209,529	53,209,529
Domiciled abroad		13,790,471	13,790,471
<b>Instrument Qualifying as Common Equity Tier 1 Capital</b>		<b>8,100,000</b>	<b>8,100,000</b>
<b>Capital Reserves</b>		<b>15,509</b>	<b>15,509</b>
Revaluation Reserves	(c <sub>1</sub> )	15,509	15,509
Profit Reserves	(c <sub>2</sub> )	2,660	2,660
Profit Reserves	(b)	27,646,569	27,646,569
<b>Accumulated Other Comprehensive Income</b>		<b>(16,929,205)</b>	<b>(16,929,205)</b>
(Treasury Shares)	(c <sub>3</sub> )	(16,929,205)	(16,929,205)
(Treasury Shares)	(i)	(1,854,749)	(1,854,749)
<b>Noncontrolling Interests</b>		<b>822,193</b>	<b>3,212,968</b>
	(d)	822,193	3,212,968
<b>TOTAL LIABILITIES</b>		<b>1,403,675,567</b>	<b>1,401,376,974</b>



### 3.2 Composition of the Prudential Conglomerate

The institutions included in the prudential balance sheet consolidation scope are in the table as follows:

**Table 2 - Composition of the Prudential Conglomerate**

R\$ Thousand	Activity	4Q16		3Q16		2Q16		1Q16		4Q15		
		Total Assets	Equity	Total Assets	Equity	Total Assets	Equity	Total Assets	Equity	Total Assets	Equity	
<b>Financial Institutions</b>												
Banco do Brasil S.A. - Agências no País e no Exterior	(1)	Banking	1,572,896,574	83,042,501	1,589,247,806	80,463,010	1,598,323,272	78,053,200	1,561,642,765	79,013,285	1,562,878,366	77,558,546
Banco do Brasil - AG	(2)	Banking	66,222,784	748,647	68,699,963	801,258	67,210,451	778,217	75,989,603	974,822	83,380,566	1,099,669
BB Leasing Company Ltd.	(3)	Leasing	--	--	--	--	--	--	--	--	120	--
BB Leasing S.A. - Arrendamento Mercantil	(2)	Leasing	63,544,809	4,376,690	61,805,962	4,331,534	59,844,792	4,243,142	57,992,946	4,232,590	56,471,664	4,167,683
BB Securities Asia Pte. Ltd.	(2)	Broker	21,869	20,392	21,852	20,179	19,154	17,760	15,667	14,747	18,320	16,907
Banco do Brasil Securities LLC.	(2)	Broker	204,689	201,037	202,760	199,107	192,746	189,700	196,812	196,161	219,313	217,967
BB Securities Ltd.	(2)	Broker	390,715	176,786	396,197	176,816	506,525	166,707	518,446	169,867	585,836	178,480
BB USA Holding Company, Inc.	(2)	Holding	706	702	704	699	721	691	843	767	922	841
Braslian American Merchant Bank	(2)	Banking	3,323,932	1,510,626	3,336,040	1,512,860	7,424,813	1,482,713	8,537,875	1,604,500	8,994,247	1,717,478
Banco do Brasil Americas	(2)	Banking	1,655,312	148,073	1,507,522	147,087	1,350,002	147,475	1,373,601	160,046	1,429,879	177,866
Besc Distribuidora de Títulos e Valores Mobiliários S.A.	(2)	Asset Management	7,422	7,197	7,403	7,250	7,411	7,192	7,305	7,236	7,478	7,186
Banco Patagonia S.A.	(2)	Banking	15,157,939	2,003,966	14,307,800	1,888,279	13,504,174	2,076,184	15,254,056	2,147,003	19,043,396	2,452,367
Banco CBSS S.A.	(4)	Banking	882,109	299,702	598,581	99,534	594,570	116,687	568,842	131,240	--	--
BB Banco de Investimento S.A.	(2)	Investment Bank	7,379,400	3,018,815	7,206,342	3,243,938	7,042,031	2,951,414	6,869,101	3,209,330	6,575,763	2,884,548
BB Gestão de Recursos-Distribuidora de Títulos e Valores Mobiliários S.A.	(2)	Asset Management	1,262,881	131,629	1,039,191	340,820	1,056,895	131,625	835,697	315,825	1,263,763	131,629
<b>Consortium Manager</b>												
BB Administradora de Consórcios S.A.	(2)	Consortium	452,168	197,078	388,622	239,008	388,486	167,522	293,208	224,247	367,273	167,522
<b>Payment Institutions</b>												
BB Administradora de Cartões de Crédito S.A.	(2)	Service Rendering	119,778	18,977	113,076	36,158	104,294	30,796	122,108	25,566	132,820	18,973
Companhia Brasileira de Soluções e Serviços CBSS - Alelo	(4)	Service Rendering	5,256,154	1,514,529	4,715,807	1,548,141	4,480,579	1,465,841	4,258,729	1,368,925	4,795,040	1,399,204
Cielo S.A.	(4)	Service Rendering	24,039,387	9,078,094	22,498,741	8,584,625	21,512,340	7,702,178	22,457,500	7,254,954	24,278,650	6,385,958
Braspag Tecnologia em Pagamento Ltda.	(4)	Service Rendering	44,809	35,161	41,879	33,210	38,622	30,113	37,067	30,515	37,666	30,220
Paggo Soluções e Meios de Pagamentos S.A.	(4)	Service Rendering	411	71	424	85	438	99	452	113	466	127
Cateno Gestão de Contas de Pagamento S.A.	(4) (5)	Service Rendering	12,721,902	12,182,681	12,548,604	12,095,746	12,510,094	12,100,385	12,460,632	12,103,494	12,670,737	12,094,830
Aliança Pagamentos e Participações Ltda.	(4)	Service Rendering	3,807	461	3,677	3,216	7,350	(2,546)	9,812	23	25,845	25,845
Stelo S.A.	(4)	Service Rendering	91,909	30,593	76,615	31,060	81,358	48,837	77,296	58,125	63,604	38,030
Merchant E-Solutions, Inc.	(4)	Service Rendering	1,319,327	494,776	1,262,019	501,726	1,056,420	514,200	1,247,786	571,546	1,333,477	607,554
<b>Securitization Companies</b>												
Ativos S.A. Securitizadora de Créditos Financeiros	(2)	Credits Acquisition	1,292,242	988,653	1,278,805	1,164,160	1,231,415	1,135,358	1,244,771	1,090,614	1,206,341	1,056,467
BB Asset Management Ireland Limited	(2)	Credits Acquisition	2,597	1,714	2,506	1,906	2,344	1,867	2,677	2,280	2,918	2,468
<b>Other Institutions</b>												
Fundo Fenix	(6)	Investment Fund	1,295,489	1,295,212	1,309,735	1,300,253	1,297,949	1,290,057	1,308,501	1,348,990	1,286,448	1,286,195
Fundo Compesa	(6)	Investment Fund	129,500	129,398	133,464	132,893	136,376	136,314	139,857	151,498	143,351	143,268
Fundo BB FIA BDR Nível I	(6)	Investment Fund	--	--	--	--	--	--	--	--	10,154	10,141
BB Fund Class D	(6)	Investment Fund	92,906	89,859	94,348	93,612	97,625	97,001	--	--	--	--
BB Elo Cartões Participações S.A.	(2)	Holding	6,603,464	6,111,394	6,410,647	6,283,250	6,149,201	6,066,754	6,367,637	5,922,164	6,233,470	5,739,921
Elo Holding Financeira S.A.	(4)	Holding	163	162	172	168	167	165	167	162	239	174
Farly Participações Ltda.	(7)	Holding	--	--	512,576	470,567	538,539	497,955	552,411	512,497	383,473	350,123

(1) Leader Institution.

(2) Subsidiaries.

(3) The last General Assembly of the company was on January 28, 2016, when the balances of all balance sheet accounts were zero. The company was formally discontinued on April 29, 2016.

(4) Joint ventures, proportionately included in consolidation.

(5) Banco do Brasil has joint control of Cielo, which controls Cateno. The percentage of participation of the Bank in Cateno takes into account its direct participation in the BB Elo, as well as indirect interest in Cielo through BB Banco de Investimento.

(6) The investment funds in which the entities that compose a prudential conglomerate, under any form, take or retain substantial risks and benefits must be included in the financial statements of the Prudential Conglomerate.

(7) On November 30, 2016, the company was merged into Banco CBSS S.A.



### 3.3 Composition of the Disclosed Balance Sheet

As follows, the institutions included in the scope of consolidation of the disclosed balance sheet, segregated by business segments, are shown:

Table 3 - Composition of the Disclosed Balance Sheet

R\$ Thousand	Activity	4Q16		3Q16		2Q16		1Q16		4Q15		
		Total Assets	Equity	Total Assets	Equity	Total Assets	Equity	Total Assets	Equity	Total Assets	Equity	
<b>Banking Segment</b>												
Banco do Brasil S.A. - Agências no País e no Exterior	(1)	Banking	1,572,896,574	83,042,501	1,589,247,806	80,463,010	1,598,323,272	78,053,200	1,561,642,765	79,013,285	1,562,878,366	77,558,546
Banco do Brasil - AG	(2)	Banking	66,222,784	748,647	68,699,963	801,258	67,210,451	778,217	75,989,603	974,822	83,380,566	1,099,669
BB Leasing Company Ltd.	(3)	Leasing	--	--	--	--	--	--	--	--	120	--
BB Leasing S.A. - Arrendamento Mercantil	(2)	Leasing	63,544,809	4,376,690	61,805,962	4,331,534	59,844,792	4,243,142	57,992,946	4,232,590	56,471,664	4,167,683
BB Securities Asia Pte. Ltd.	(2)	Broker	21,869	20,392	21,852	20,179	19,154	17,760	15,667	14,747	18,320	16,907
Banco do Brasil Securities LLC.	(2)	Broker	204,689	201,037	202,760	199,107	192,746	189,700	196,812	196,161	219,313	217,967
BB Securities Ltd.	(2)	Broker	390,715	176,786	396,197	176,816	506,525	166,707	518,446	169,867	585,836	178,480
BB USA Holding Company, Inc.	(2)	Holding	706	702	704	699	721	691	843	767	922	841
Brasileira American Merchant Bank	(2)	Banking	3,323,932	1,510,626	3,336,040	1,512,860	7,424,813	1,482,713	8,537,875	1,604,500	8,994,247	1,717,478
Banco do Brasil Americas	(2)	Banking	1,655,312	148,073	1,507,522	147,087	1,350,002	147,475	1,373,601	160,046	1,429,879	177,866
Besc Distribuidora de Títulos e Valores Mobiliários S.A.	(2)	Asset Management	7,422	7,197	7,403	7,250	7,411	7,192	7,305	7,236	7,478	7,186
Banco Patagonia S.A.	(2)	Banking	15,157,939	2,003,966	14,307,800	1,888,279	13,504,174	2,076,184	15,254,056	2,147,003	19,043,396	2,452,367
<b>Investment Segment</b>												
BB Banco de Investimento S.A.	(2)	Investment Bank	7,379,400	3,018,815	7,206,342	3,243,938	7,042,031	2,951,414	6,869,101	3,209,330	6,575,763	2,884,548
<b>Fund Management Segment</b>												
BB Gestão de Recursos-Distribuidora de Títulos e Valores Mobiliários S.A.	(2)	Asset Management	1,262,881	131,629	1,039,191	340,820	1,056,895	131,625	835,697	315,825	1,263,763	131,629
<b>Insurance, Private Pension Fund and Capitalization Segment</b>												
BB Seguridade Participações S.A.	(2)	Holding	8,787,827	7,107,397	7,691,025	7,683,771	8,332,841	6,690,044	7,238,773	7,231,287	7,937,073	6,286,500
BB Cor Participações S.A.	(4)	Holding	--	--	445,921	445,670	853,413	61,741	432,300	432,270	827,288	61,749
BB Corretora de Seguros e Administradora de Bens S.A.	(2)	Broker	3,117,825	61,966	2,691,198	418,950	2,936,294	34,976	2,263,097	405,483	2,768,782	34,984
BB Seguros Participações S.A.	(2)	Holding	7,247,468	6,637,561	7,027,236	7,001,841	7,147,959	6,380,622	6,467,123	6,464,120	7,037,672	5,846,113
<b>Payment Methods Segment</b>												
BB Administradora de Cartões de Crédito S.A.	(2)	Service Rendering	119,778	18,977	113,076	36,158	104,294	30,796	122,108	25,566	132,820	18,973
BB Elo Cartões Participações S.A.	(2)	Holding	6,603,464	6,111,394	6,410,647	6,283,250	6,149,201	6,066,754	6,367,637	5,922,164	6,233,470	5,739,921
<b>Other Segments</b>												
Ativos S.A. Securitizadora de Créditos Financeiros	(2)	Credits Acquisition	1,292,242	988,653	1,278,805	1,164,160	1,231,415	1,135,358	1,244,771	1,090,614	1,206,341	1,056,467
Ativos S.A. Gestão de Cobrança e Recuperação de Crédito	(2)	Credits Acquisition	8,971	6	8,357	5,124	5,730	3,349	9,959	1,239	11,109	6
BB Administradora de Consórcios S.A.	(2)	Consortium	452,168	197,078	388,622	239,008	388,486	167,522	293,208	224,247	367,273	167,522
BB Tur Viagens e Turismo Ltda.	(2) (5)	Tourism	37,267	1,792	39,771	4,715	39,828	7,984	32,543	11,427	41,138	12,165
BB Asset Management Ireland Limited	(2)	Credits Acquisition	2,597	1,714	2,506	1,906	2,344	1,867	2,677	2,280	2,918	2,468
BB Tecnologia e Serviços	(2)	IT	481,131	243,607	486,036	231,711	498,197	223,829	451,132	220,226	454,209	221,253

(1) Leader Institution.

(2) Subsidiaries.

(3) The last General Assembly of the company was on January 28, 2016, when the balances of all balance sheet accounts were zero. The company was formally discontinued on April 29, 2016.

(4) On November 27, 2016, the company was merged into BB Corretora de Seguros e Administradora de Bens S.A.

(5) The Financial Statements refers to November, 2016.



The disclosed conglomerate also includes the operations of the special purpose entities (Dollar Diversified Payment Rights Finance Company and Loans Finance Company Limited) and of the investment financial funds (Fênix Fundo de Investimento em Direitos Creditórios do Varejo, Fundo de Investimento em Direitos Creditórios da Companhia Pernambucana de Saneamento – Compesa and BB Fund Class D) which the Bank controls directly or indirectly.

## 4 Capital

### 4.1 Referential Equity (RE) Details

#### Tier I

##### **Common Equity Tier I Capital**

The Common Equity Tier I Capital of Banco do Brasil is composed by Shareholders' Equity and income accounts and it is deducted from Regulatory Adjustments.

On August 28, 2014, the Hybrid Instrument in the amount of R\$ 8,100,000 thousand, was authorized by Bacen to compose the Common Equity Tier I Capital of the Bank.

##### **Regulatory Adjustments**

The Regulatory Adjustments are deductions from the Common Equity Tier I Capital of elements that can degrade its quality due to their low liquidity, difficulty to evaluate or reliance on future profits to be realized.

From January/16, the percentage of deduction of prudential adjustments listed below increased to 60%:

- a) goodwill;
- b) intangible assets constituted from October 1, 2013;
- c) actuarial assets related to defined benefit pension funds net of deferred tax liabilities;
- d) non-controlling interest;
- e) investments, directly or indirectly, greater than 10% of the capital of unconsolidated entities similar to financial institutions, and insurance companies, reinsurance companies, capitalization companies and open pension entities (superior investments);
- f) tax credits resulting from temporary differences that rely on the generation of future taxable profits or revenues for its realization;
- g) tax credits resulting from tax loss of excess depreciation;
- h) tax credits resulting from tax losses and negative basis of social contribution on net income.

According to CMN Resolution nº 4,192/13, these deductions will be gradually implemented, 20% per year, from 2014 to 2018, with the exception of deferred assets and funding instruments issued by institutions authorized to operate by Bacen which have already been fully deducted since October 2013.



## Additional Tier I Capital

Hybrid Capital and Debt Instruments that meet the CMN Resolution n° 4,192/13 requirements can make up Tier I, as long as they are authorized by Bacen.

**Table 4 - Hybrid Capital and Debt Instruments**

R\$ thousand	Issued Value <sup>(1)</sup>	Remuneration p.a.	Date of Funding	4Q16	3Q16	2Q16	1Q16	4Q15
				Book Value	Book Value	Book Value	Book Value	Book Value
<b>Perpetual Bonds</b>	USD 1,498,500	8.50%	10/2009	4,954,528	5,037,582	4,873,961	5,521,456	5,936,898
	USD 1,398,727	9.25%	01 and 03/2012	4,731,512	4,817,081	4,660,619	6,031,876	6,632,211
	USD 1,988,000	6.25%	01/2013	6,538,397	6,612,282	6,436,374	7,243,602	7,876,005
	USD 2,169,700	9.00%	06/2014	7,065,637	7,192,040	6,950,581	7,889,312	8,541,012
<b>Total</b>				<b>23,290,074</b>	<b>23,658,985</b>	<b>22,921,535</b>	<b>26,686,246</b>	<b>28,986,126</b>

<sup>(1)</sup> It refers, in funding in US dollars, the outstanding value, as occurred partial repurchases of these instruments.

**Table 5 - Hybrid Capital and Debt Instruments authorized to compose RE**

R\$ Thousand	Issued Value <sup>(1)</sup>	Value authorized to compose RE	Remuneration p.a.	Issue Date	4Q16	3Q16	2Q16	1Q16	4Q15
					Value considered in RE	Value considered in RE	Value considered in RE	Value considered in RE	Value considered in RE
<b>Perpetual Bonds</b>	USD 1,498,500	1,450,000	8.50%	10/2009	4,724,825	4,706,120	4,653,340	5,159,535	5,661,090
	USD 1,398,727	1,375,000	9.25%	01 and 03/2012	4,480,437	4,462,700	4,412,650	4,892,662	5,368,275
	USD 1,988,000	1,950,000	6.25%	01/2013	6,354,075	6,328,920	6,257,940	6,938,685	7,613,190
	USD 2,169,700	2,150,000	9.00%	06/2014	7,005,775	6,978,040	6,899,780	7,650,345	8,394,030
<b>Total</b>					<b>22,565,112</b>	<b>22,475,780</b>	<b>22,223,710</b>	<b>24,641,227</b>	<b>27,036,585</b>

<sup>(1)</sup> It refers, in funding in US dollars, the outstanding value, as occurred partial repurchases of these instruments.

The amount of R\$ 23,290,074 thousand of Perpetual Bonds, R\$ 22,565,112 thousand makes up the RE on December 31, 2016, being the amount of R\$ 17,840,287 thousand in accordance with CMN Resolution No, 4,192/13.

The amount of R\$ 4,724,825 thousand, which makes up the RE on December 31, 2016, does not meet the requirements of CMN Resolution No, 4,192/13, so that it should meet the requirements specified in the article 28 of this Resolution.

To learn more about the composition of Additional Tier I Capital consult the "Attachment 2 – Referential Equity's Participant Instruments".

## Tier II

Subordinated Debt Instruments that meet the CMN Resolution n° 4,192/13 requirements can make up Tier II, as long as they are authorized by Bacen.





Table 6 - Total Subordinated Debts

4Q16

3Q16

2Q16

1Q16

4Q15

R\$ Thousand	Issued Value	Date of Funding	Maturity	Subordinated Debts on 12.31.2012	Subordinated Debts on 12.31.2012 with the limit of 60% <sup>(1)</sup>	Book Value	Current value and with the decay factor	Book Value	Current value and with the decay factor	Book Value	Current value and with the decay factor	Book Value	Current value and with the decay factor	Book Value	Current value and with the decay factor
<b>Subordinated Debts issued before Resolution 4,192/2013</b>															
<b>FCO – Fundo Constitucional do Centro-Oeste</b>						25,237,153	25,237,153	24,331,884	24,331,884	23,841,572	23,841,572	23,239,453	23,239,453	22,994,912	22,994,912
<b>Subordinated CDs issued in the Country</b>				1,615,432	969,259	--	--	--	--	--	--	--	--	--	--
R\$	900,000	2009	2014	268,989	161,393	--	--	--	--	--	--	--	--	--	--
R\$	1,335,000	2009	2015	800,309	480,185	--	--	--	--	--	--	--	--	--	--
R\$	1,000,000	2009	2015	546,134	327,681	--	--	--	--	--	--	--	--	--	--
<b>Subordinated Financial Bills</b>				8,181,144	4,908,685	20,226,421	4,950,872	19,588,302	5,038,614	18,913,853	5,159,636	18,266,131	5,876,891	19,470,135	7,830,189
R\$	1,000,000	2010	2016	798,803	479,281	--	--	--	--	--	--	--	--	1,852,172	--
R\$	2,055,100	2011	2017	1,933,246	1,159,947	3,918,702	--	3,781,633	246,751	3,641,211	237,588	3,510,088	350,234	3,387,610	677,522
R\$	4,844,900	2012	2018	5,065,127	3,039,076	8,120,026	1,624,005	7,904,695	1,580,939	7,663,825	1,830,172	7,421,184	2,433,688	7,152,153	2,860,861
R\$	215,000	2012	2019	225,565	135,339	367,374	146,949	354,410	141,764	341,133	136,453	328,740	197,244	317,168	190,301
R\$	150,500	2012	2020	158,403	95,042	258,947	155,369	250,674	150,404	241,746	145,048	233,192	186,554	224,433	179,546
R\$	4,680,900	2013	2019	--	--	7,561,372	3,024,549	7,296,890	2,918,756	7,025,938	2,810,375	6,772,927	2,709,171	6,536,599	3,921,959
<b>Subordinated Debt Abroad</b>				6,001,027	3,600,618	9,637,972	8,960,875	9,473,147	9,329,474	9,509,392	9,242,496	10,397,085	10,247,904	11,552,711	11,244,096
USD	300,000	2004	2014	117,476	70,486	--	--	--	--	--	--	--	--	--	--
USD	660,000	2010	2021	1,327,885	796,731	2,195,675	1,694,420	2,153,897	2,104,262	2,163,114	2,085,980	2,366,409	2,312,895	2,630,575	2,537,730
USD	1,500,000	2011	2022	3,043,921	1,826,353	4,966,571	4,855,165	4,873,740	4,825,065	4,891,866	4,781,708	5,349,147	5,301,867	5,937,676	5,817,258
USD	750,000	2012	2023	1,511,745	907,048	2,475,726	2,411,290	2,445,510	2,400,147	2,454,412	2,374,808	2,681,529	2,633,142	2,984,460	2,889,108
<b>Subordinated Debts issued in accordance to Resolution 4,192/2013</b>															
<b>Subordinated Financial Bills</b>				--	--	6,874,205	5,466,093	6,633,217	5,285,933	6,382,870	5,584,450	6,146,084	5,748,299	5,917,807	5,786,606
R\$	163,523	2014	2020	--	--	234,894	140,936	226,533	135,920	217,972	130,783	209,984	167,988	202,528	162,022
R\$	377,100	2014	2020	--	--	526,593	315,956	507,698	304,619	488,362	390,688	470,321	376,257	453,485	362,790
R\$	2,273,806	2014	2021	--	--	3,309,117	2,647,294	3,189,845	2,551,876	3,067,795	2,454,236	2,953,956	2,692,231	2,847,744	2,847,744
R\$	1,594,580	2014	2021	--	--	2,208,470	1,766,776	2,128,526	1,712,903	2,046,731	2,046,733	1,970,458	1,970,458	1,899,302	1,899,302
R\$	400,000	2014	2022	--	--	595,131	595,131	580,615	580,615	562,010	562,010	541,365	541,365	514,748	514,748
<b>Total Subordinated Debts</b>				15,797,603	9,478,562	61,975,751	44,614,993	60,026,550	43,985,905	58,647,687	43,828,154	58,048,753	45,112,547	59,935,565	47,855,803
Subordinated Debts issued before December 31, 2012, applying on it the decay factor due to maturity date (current value)							13,911,747		14,368,088		14,402,132		16,124,795		19,074,285
Subordinated Debts issued after December 31, 2012, applying on it the decay factor due to maturity date (Basel III)							5,466,093		5,285,933		5,584,450		5,748,299		5,786,606

<sup>(1)</sup> Subordinated debts issued before Resolution 4,192/2013 wich compose the Tier II of the Referencial Equity





On December 31, 2016, Subordinated Debt totaled R\$ 61,975,751 thousand, Of this amount, R\$ 40,181,808 thousand makes up the Reference Equity, of which:

1 - R\$ 25,237,153 thousand are related to the resources of the Fundo Constitucional do Centro Oeste – FCO, and integrally compose the RE.

2 - R\$ 5,466,093 thousand are related to the Subordinated Debt authorized in accordance with CMN Resolution nº 4,192/13 - Financial Bills, and integrally compose the RE.

3 – According to article 29 of the Resolution nº 4,192/13, for the subordinated debt instruments, authorized according to the rules previously to the CMN Resolution nº 4,192/2013, the lowest value between what is described as follows will be considered:

- a) the value of the subordinated debts with the reducers, totalizing R\$ 13,911,747 thousand, on December 31, 2016;
- b) the value that composed the RE on December 31, 2012 (R\$ 15,797,603 thousand) by applying the limiting factor from the article 28, which means 10% a year, from 2013 through 2022, resulting in R\$ 9,478,562 thousand (value used in the RE), on December 31, 2016.

To learn more about the composition of Tier II (Subordinated Debt Instruments), check the "Attachment 2 – Referential Equity Participant Instruments".

**Table 7 - Reference Equity (RE) Details**

In thousands of Reais	4Q16	3Q16	2Q16	1Q16	4Q15
<b>RE - Referential Equity</b>	<b>130,453,208</b>	<b>127,060,689</b>	<b>125,073,657</b>	<b>128,443,802</b>	<b>135,551,196</b>
<b>Tier I</b>	<b>90,283,551</b>	<b>87,975,915</b>	<b>86,188,277</b>	<b>89,977,516</b>	<b>95,713,963</b>
<b>Common Equity Tier 1 Capital</b>	<b>67,718,439</b>	<b>65,500,135</b>	<b>63,964,567</b>	<b>65,336,289</b>	<b>68,677,378</b>
Shareholders' Equity	76,702,977	75,039,488	73,098,924	73,623,327	71,314,421
Instrument Qualifying as Common Equity Tier 1 Capital	8,100,000	8,100,000	8,100,000	8,100,000	8,100,000
Regulatory adjustments	(17,084,538)	(17,639,353)	(17,234,357)	(16,387,038)	(10,737,043)
<b>Additional Tier 1 Capital</b>	<b>22,565,112</b>	<b>22,475,780</b>	<b>22,223,710</b>	<b>24,641,227</b>	<b>27,036,585</b>
Hybrid instruments authorized in accordance with CMN Resolution No. 4,192/2013	17,840,287	17,769,660	17,570,370	19,481,692	21,375,495
Hybrid instruments authorized in accordance with regulations preceding the CMN Resolution No. 4,192/2013 <sup>(1)</sup>	4,724,825	4,706,120	4,653,340	5,159,535	5,661,090
<b>Tier II</b>	<b>40,169,657</b>	<b>39,084,774</b>	<b>38,885,380</b>	<b>38,466,286</b>	<b>39,837,233</b>
<b>Subordinated Debt Qualifying as Capital</b>	<b>40,181,808</b>	<b>39,096,379</b>	<b>38,904,584</b>	<b>38,466,314</b>	<b>39,839,840</b>
Subordinated Debt authorized in accordance with CMN Resolution No. 4,192/2013 - Financial Bills	5,466,093	5,285,933	5,584,450	5,748,299	5,786,606
Subordinated Debt authorized in accordance with regulations preceding the CMN Resolution No. 4,192/2013	34,715,715	33,810,446	33,320,134	32,718,015	34,053,234
Funds obtained from the FCO <sup>(2)</sup>	25,237,153	24,331,884	23,841,572	23,239,453	22,994,912
Funds raised in Financial Bills and CD <sup>(3)</sup>	9,478,562	9,478,562	9,478,562	9,478,562	11,058,322
Deduction from Tier II	(12,151)	(11,605)	(19,204)	(28)	(2,607)
Funding instruments issued by financial institution	(12,151)	(11,605)	(19,204)	(28)	(2,607)

(1) On Dec. 31, 2016, based on the orientation of Bacen, it was considered the balance of the hybrid capital and debt instrument authorized by Bacen to compose the Tier 1 Capital of the Referential Equity according CMN Resolution 3,444/2007 and do not meet the relevant entry criteria, also related with the orientation established on article 28, sections I to X of CMN Resolution 4,192/2013.

(2) According to CMN Resolution No. 4,192/2013, balances of the FCO are eligible to compose the RE.

(3) It was considered the balance of subordinated debt instruments that composed the RE in December 31, 2012, applying on it the limit of 60%, as determined by CMN Resolution No. 4,192/2013.



Table 8 - Regulatory Adjustments

In thousands of Reais	4Q16	3Q16	2Q16	1Q16	4Q15
Tax credits resulting from temporary differences that rely on the generation of future taxable profits or revenues for its realization (amount above 10% threshold) <sup>(1)</sup>	(6,099,094)	(6,877,262)	(6,886,540)	(5,537,669)	(3,425,235)
Significant investments and tax credits resulting from temporary differences that rely on the generation of future taxable profits or revenues for their realization (amount exceeding the 15% threshold) <sup>(1)(2)</sup>	(4,636,849)	(5,049,484)	(4,588,770)	(4,598,474)	(2,846,808)
Intangible assets constituted after October 2013 <sup>(1)</sup>	(4,258,360)	(3,514,052)	(3,245,920)	(3,382,398)	(2,346,233)
Goodwill <sup>(1)(3)</sup>	(954,281)	(1,232,724)	(1,393,609)	(1,563,486)	(1,075,845)
Tax credits resulting from tax losses and negative base for social contribution on net income <sup>(1)</sup>	(500,439)	(336,467)	(440,004)	(606,484)	(561,777)
Non-controlling interests <sup>(1)</sup>	(493,315)	(464,838)	(511,093)	(528,618)	(402,531)
Tax credits resulting from tax loss of excess depreciation <sup>(1)</sup>	(76,391)	(76,522)	(81,375)	(87,205)	(62,040)
Actuarial assets related to defined benefit pension funds net of deferred tax liabilities <sup>(1)</sup>	(65,809)	(76,988)	(74,342)	(68,020)	--
Deferred assets <sup>(4)</sup>	--	(11,016)	(12,704)	(14,684)	(16,574)
<b>Total</b>	<b>(17,084,538)</b>	<b>(17,639,353)</b>	<b>(17,234,357)</b>	<b>(16,387,038)</b>	<b>(10,737,043)</b>

(1) Regulatory Adjustments subject to phase-in, according to the CMN Resolution No. 4,192/13.

(2) On December 31, 2016, related to the investment in Banco Votorantim, R\$ 1,662,293 thousand were integrally deducted from the Referential Equity and R\$ 2,550,676 thousand were risk-weighted at 250%.

(3) The base value for calculating the goodwill is composed of: R\$ 581,162 thousand in the investment line and R\$ 1,009,306 thousand in the intangible assets line. The value in Intangible assets refers to the goodwill paid for the acquisition of Banco Nossa Caixa, merged in November/09.

(4) Regulatory Adjustments that are being fully computed since October, 2013, in accordance with CMN Resolution No. 4,192/13.

For further information on the composition of the Reference Equity (PR), see the "Attachment 1 – Composition of the Reference Equity".

## 4.2 Minimum Required Reference Equity (MRRE)

The Minimum Required Reference Equity (MRRE) is the equity required (capital volume required) of institutions, conglomerates, and other institutions authorized to operate by Bacen, to face the risks to which they are exposed due to the activities they are involved in, and it is defined by CMN Resolution nº 4,193/13.

The MRRE, corresponds to the application of the factor "F" to the amount of RWA, with:

- 11% of RWA, from 10.01.2013 to 12.31.2015;
- 9.875% from RWA 01.01.2016 to 12.31.2016,
- 9.25% of RWA from 01.01.2017 to 31.12.2017;
- 8.625% of RWA from 01.01.2018 to 31.12.2018; and
- 8% of the RWA from 01.01.2019.

In determining the amount of risk-weighted assets (RWA), we consider the sum of the following portions:

- RWA<sub>CPAD</sub> concerning credit risk exposures subject to the calculation of capital requirements under the standardized approach;
- RWA<sub>MPAD</sub> concerning market risk exposures subject to the calculation of capital requirements under the standardized approach, and,
- RWA<sub>OPAD</sub> on the calculation of the capital requirement for operational risk under the standardized approach.

The scope of consolidation used as a basis for the verification of operational limits considers the Financial Conglomerate, from 10.01.2013 thru 12.31.2014, and the



Prudential Conglomerate, defined by the CMN Resolution nº 4,280/13, as of 01.01.2015.

PR, Core Capital and Tier I Capital minimum limits, in line with the timetable to implant the new capital requirements, are the following:

**Table 9 - Capital Minimum Requirements in relation to RWA**

Indicator	out/13	jan/14	jan/15	jan/16	jan/17	jan/18	jan/19
a) Common Equity Capital	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
<b>b) Additional Common Equity Capital (b.1 + b.2 + b.3)</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0.625%</b>	<b>2.75%</b>	<b>4.25%</b>	<b>6%</b>
b.1) Conservation - Capital Buffer	0%	0%	0%	0.625%	1.25%	1.875%	2.5%
b.2) Countercyclical - Capital Buffer (upper limit) <sup>1</sup>	0%	0%	0%	0%	1.25%	1.875%	2.5%
b.3) Domestic Systemically Important Banks - Capital Buffer (upper limit) <sup>2</sup>	0%	0%	0%	0%	0.25%	0.5%	1%
<b>c) Requirements A + B</b>	<b>4.5%</b>	<b>4.5%</b>	<b>4.5%</b>	<b>5.125%</b>	<b>7.25%</b>	<b>8.75%</b>	<b>10.5%</b>
d) Minimum Tier I Capital	5.5%	5.5%	6%	6%	6%	6%	6%
<b>e) Requirements D + B</b>	<b>5.5%</b>	<b>5.5%</b>	<b>6%</b>	<b>6.625%</b>	<b>8.75%</b>	<b>10.25%</b>	<b>12%</b>
f) Minimum Total Capital	11%	11%	11%	9.875%	9.25%	8.625%	8%
<b>g) Requirements F + B</b>	<b>11%</b>	<b>11%</b>	<b>11%</b>	<b>10.5%</b>	<b>12%</b>	<b>12.875%</b>	<b>14%</b>

(1) Countercyclical - Capital Buffer 0% in 2016 as Circular Bacen 3,769.

(2) Limit applicable to the intermediate category, given the relationship Exhibition / GDP of Brazilian banks, according to BACEN Circular No. 3,768 / 15.



Table 10 - Required Minimum Reference Equity

R\$ thousand		4Q16	3Q16	2Q16	1Q16	4Q15
Credit Risk	<b>RWA<sub>CPAD</sub></b>	<b>643,214,021</b>	<b>668,871,950</b>	<b>702,885,694</b>	<b>731,373,597</b>	<b>785,773,084</b>
	2%	22,037	30,649	23,591	31,634	3,853
	20%	3,134,839	3,476,453	3,060,988	3,506,253	3,502,759
	35%	12,796,987	12,457,028	11,864,032	11,565,791	11,020,454
	50%	18,970,003	18,462,330	20,163,417	16,293,600	15,795,998
	75%	193,643,390	198,863,590	203,911,493	203,873,179	206,872,125
	85%	143,678,685	149,909,403	157,335,614	167,374,895	177,490,641
	100%	239,377,401	255,521,661	275,630,529	292,467,801	335,359,047
	250%	25,394,409	24,562,547	23,986,713	24,501,108	25,754,017
	300%	1,153,659	825,978	1,042,759	1,387,379	2,807,179
	1.250%	4,447,039	3,690,953	4,493,790	8,578,961	4,783,923
Credit Value Adjustment (CVA)	,595,572	1,071,359	1,372,766	1,792,996	2,383,088	
Operational Risk	<b>RWA<sub>OPAD</sub></b>	<b>43,792,910</b>	<b>37,151,992</b>	<b>31,708,475</b>	<b>31,708,475</b>	<b>36,389,090</b>
	Asset Management	1,540,543	1,540,447	1,499,084	1,499,084	1,334,949
	Commercial	25,012,598	25,012,098	24,867,395	24,867,395	21,336,753
	Retail Brokerage	50,503	50,803	51,146	51,146	47,824
	Corporate Finance	,927,730	(6,184,095)	(16,953,984)	(16,953,984)	(11,846,917)
	Trading and Sales	(2,085,967)	(2,758,803)	1,980,243	1,980,243	6,319,595
	Payments and Settlements	2,927,139	4,065,768	4,942,006	4,942,006	5,037,811
	Financial Agent Services	1,650,783	1,655,794	1,678,995	1,678,995	1,526,400
	Retail	13,769,579	13,769,979	13,643,589	13,643,589	12,632,675
Market Risk	<b>RWA<sub>MPAD</sub></b>	<b>18,844,349</b>	<b>16,417,959</b>	<b>25,507,869</b>	<b>27,619,507</b>	<b>18,346,766</b>
	Prefixed interest rate, in reais - RWA <sub>JUR</sub> [1]	450,012	410,752	194,040	149,493	122,140
	Foreign currency coupons - RWA <sub>JUR</sub> [2]	1,624,172	7,127,309	1,663,563	2,374,338	2,262,166
	Price index coupons - RWA <sub>JUR</sub> [3]	350,814	11,149	33,115	117,158	34,649
	Interest rate coupons - RWA <sub>JUR</sub> [4]	-	-	-	-	-
	Share price fluctuations - RWA <sub>ACS</sub>	-	-	-	-	-
	Commodity price fluctuations - RWA <sub>COM</sub>	2,927	1,923	1,549	7,172	4,649
	Exchange rate fluctuations - RWA <sub>CAM</sub>	16,416,423	8,866,827	23,615,602	24,971,345	15,923,161
<b>Risk Weighted Assets (RWA)<sup>(1)</sup></b>	<b>705,851,279</b>	<b>722,441,901</b>	<b>760,102,037</b>	<b>790,701,579</b>	<b>840,508,940</b>	
<b>Minimum Referential Equity Requirement (MRER)<sup>(2)</sup></b>	<b>69,702,814</b>	<b>71,341,138</b>	<b>75,060,076</b>	<b>78,081,781</b>	<b>92,455,983</b>	

(1) According to CMN Resolution 4,193/2013, since 01.01.2015 the calculation of RWA applies to institutions of the prudential conglomerate.

(2) According to CMN Resolution 4,193/2013, corresponds to the application of the factor "F" to the amount of RWA, with "F" equals to 11% of RWA, from 10.01.2013 to 12.31.2015; 9.875% from RWA 01.01.2016 to 12.31.2016, 9.25% of RWA from 01.01.2017 to 31.12.2017; 8.625% of RWA from 01.01.2018 to 31.12.2018, and 8% of the RWA from 01.01.2019.

### 4.3 Capital Adequacy Ratio

In compliance with the recommendations of the Basel Committee on Banking Supervision, Bacen established operational limits to be observed by financial institutions, among which the Total Capital Ratio (IB), the Core Capital Ratio (ICP) and the Tier I Capital Ratio stand (ICNI) out.

The Capital Adequacy Ratio was determined according to the criteria established by CMN Resolutions n° 4,192/13 and n° 4,193/13, which refer to the calculation of the Referential Equity (RE) and Minimum Reference Equity Required (MRER) in relation to Risk Weighted Assets (RWA), respectively.

The CMN Resolution n° 4,193/13 established the Core Capital Minimum Requirements (4,5% of RWA) and Tier I (5,5% of RWA until 12.31.2014 and 6%, as of 01.01.2015). In the first quarter of 2016, the Core Capital Additional was brought to pass, according to the CMN Resolution n° 4,193/13 requirements and Bacen Circular Letters n° 3,768/15 and 3,769/15.



Bacen has determined that financial institutions must permanently maintain a Referential Equity (PR) value higher than the MRER value.

The following table shows the evolution of the ratio (IB), Core Capital Ratio (ICP), Tier 1 Capital Ratio (ICN1), the RBAN portion and the margin of compatibility of RE and the Core Capital Additional:

**Table 11 - Basel Ratio (Total Capital Ratio) and PR margin**

	4Q16	3Q16	2Q16	1Q16	4Q15
<b>Referential Equity (RE) (R\$ thousand)<sup>(1)</sup></b>	<b>130,453,208</b>	<b>127,060,689</b>	<b>125,073,657</b>	<b>128,443,802</b>	<b>135,551,196</b>
Tier I (R\$ thousand)	90,283,551	87,975,915	86,188,277	89,977,517	95,713,963
Core Capital (R\$ thousand)	67,718,439	65,500,135	63,964,567	65,336,289	68,677,378
<b>Risk Weighted Assets (RWA) (R\$ thousand)<sup>(3)</sup></b>	<b>705,851,279</b>	<b>722,441,901</b>	<b>760,102,037</b>	<b>790,701,579</b>	<b>840,508,940</b>
<b>Additional Common Equity Capital (R\$ thousand)<sup>(4)</sup></b>	<b>4,411,570</b>	<b>4,515,262</b>	<b>4,750,638</b>	<b>4,941,885</b>	<b>-</b>
Conservation - Capital Buffer	4,411,570	4,515,262	4,750,638	4,941,885	-
Countercyclical - Capital Buffer	-	0	0	0	-
Domestic Systemically Important Banks - Capital Buffer	-	0	0	0	-
<b>Capital Adequacy Ratio</b>	<b>18.48%</b>	<b>17.59%</b>	<b>16.45%</b>	<b>16.24%</b>	<b>16.13%</b>
Tier I Ratio	12.79%	12.18%	11.34%	11.38%	11.39%
Core Capital Ratio	9.59%	9.07%	8.42%	8.26%	8.17%
<b>Minimum Referential Equity Requirements (MRER) (R\$ thousand)<sup>(2)</sup></b>	<b>69,702,814</b>	<b>71,341,138</b>	<b>75,060,076</b>	<b>78,081,781</b>	<b>92,455,983</b>
<b>Interest rate risk of operations not classified under negotiable portfolio (R<sub>BAN</sub>) (R\$ thousand)</b>	<b>4,947,302</b>	<b>4,693,193</b>	<b>3,638,105</b>	<b>3,871,901</b>	<b>3,793,146</b>
<b>Compatibility Margin of RE (RE - MRER - R<sub>BAN</sub>) (R\$ thousand)<sup>(5)</sup></b>	<b>55,803,092</b>	<b>51,026,358</b>	<b>46,375,475</b>	<b>46,490,120</b>	<b>39,302,066</b>

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

(2) According to CMN Resolution 4,193/13, corresponds to the application of the factor "F" to the amount of RWA, with "F" equal to 11% of RWA, from 10.01.2013 to 12.31.2015; 9.875% from RWA 01.01.2016 to 12.31.2016, 9.25% of RWA from 01.01.2017 to 31.12.2017; 8.625% of RWA from 01.01.2018 to 31.12.2018, and 8% of the RWA from 01.01.2019.

(3) According to CMN Resolution 4,193/13, since 01.01.2015 the calculation of RWA applies to institutions of the prudential conglomerate.

(4) According CMN Resolution 4,193/13, in 03.31.2016 became effective the Additional Common Equity Capital.

(5) According Filling Instructions of Operacional Threshold Statement (DLO) - Account 953 - Source: www.bcb.gov.br.

#### 4.4 Assessment of Sufficiency and Adequacy of Reference Equity (PR)

Banco do Brasil annually prepares and reviews its capital planning considering a minimum time horizon of 36 months and linking the matter to the business and economic guidelines from its Corporate Strategy, aiming to ensure that its capital is sufficient to support, beyond relevant risks, the business growth, so it guarantees the Institution solvency ratios, by also considering the stress scenarios, without compromising its result, being approved by the Board of Officers (CD) and the Board of Directors (CA) of BB.

The Capital Plan covers all entities, located in Brazil and abroad, which integrate Banco do Brasil's Prudential Conglomerate, taking into account what is read in the CMN Resolution nº 4,280/13.

In order to subsidize the elaboration of the Capital Plan, the RE and RWA projections are referenced in regulatory aspects, strategic documents, business dynamics and technical information that were discussed at the Capital Forum.

Besides that, capital simulations, integrating risk and business stress testing results, based on one stress macroeconomic scenario, which is severe and based on plausible assumptions, in order to subsidize the elaboration of the Capital Contingency Plan (PCC).

The Capital Contingency Plan aims to ensure the alignment of the Bank to regulatory and prudential capital levels if the sources of capital defined in the Capital Plan are insufficient or not viable or even in the occurrence of unanticipated events.

The monitoring of the Capital Plan operation is made by the Capital Forum monthly and reported to the Senior Management. In that monitoring, the projections and the



necessities of strategy realignment are assessed, considering the values that are realized, stress tests, eventual regulatory changes and the businesses expectancies.

In that context, the Bank assesses the projections based on the limits of each indicator and the deadline for any breach, as follows:

**Chart 4** - Criteria and parameters for classification of the capital condition

Capital Index	Period of noncompliance (months)					
	From 31st month	25 to 30	19 to 24	13 to 18	7 to 12	0 to 6
Common Equity Tier I Index	SURVAILLANCE	ALERT		CRITICAL		
Tier I Index	SURVAILLANCE		ALERT		CRITICAL	
Basel Prudential Index	SURVAILLANCE			ALERT		CRITICAL

According to the chart above, the projections indicate that when extrapolating the Core Capital Ratio (ICP) or another indicator of capital, the Company will have enough time to promote strategic changes to avoid their extrapolation, according to the deadlines established for each indicator.

The capital status is monitored and reported at the Capital Forum monthly and when the Capital Critical Status happens, it must be reported to the strategic risk committees that are linked to the capital management structure (CEGC and CSRG), which contains, whenever necessary, suggestions on capital contingency measures to be adopted.

Finally, for the capital management process, the Bank uses an indicator named Risk Adjusted Return (RAR), which aims to ensure the sustainability of BB's growth in the long run, as well as to improve the Bank's capital allocation, prioritizing the growth of businesses that generate profit in a way that is consistent to the capital consumption.

#### 4.5 Leverage Ratio

In October 2015, Bacen Circular No. 3.748 came into effect and established the leverage ratio calculation methodology (RA), defined as the rate between Tier I capital and the total exposure of the institution. The RA aims to prevent excessive leverage of financial institutions and the consequent increase in systemic risk, with undesirable impacts on the economy. As provided in that Circular, the Common Model of disclosing the information about the Leverage Ratio and the Comparative Summary of the published Financial Statements and the Leverage Ratio.





Table 12 - Common model of information disclosure on Leverage Ratio

R\$ thousand	4Q16
<b>Items accounted in the Balance Sheet</b>	
Equity items other than derivative financial instruments, securities received on loan and resale to settle in repos	1,042,750,242
Adjustments related to equity items deducted from Tier 1 Capital	(18,584,140)
<b>Total exposures accounted in the Balance Sheet</b>	<b>1,024,166,103</b>
<b>Transactions with derivative financial instruments</b>	
Gross positive value with derivative financial instruments	1,612,563
Potential future gains from transactions	983,272
Adjustment related to given guarantees on derivative financial instruments	--
Adjustment related to the provided daily collateral margin	--
Derivatives on behalf of clients where there is no contractual obligation to refund in case of bankruptcy or default of the entities responsible for the settlement system	--
Adjusted notional value in credit derivatives	--
Adjustment under the adjusted notional value in credit derivatives	--
<b>Total exposures related to derivative financial instruments</b>	<b>2,595,835</b>
<b>Repurchase Agreements and Lending of Securities</b>	
Transactions with repurchase agreements and securities lending	58,804,788
Adjustment related to repurchases agreements and creditors for securities lending	--
Value related to the counterparty credit risk	1,728,722
Value related to the counterparty credit risk in intermediation transactions	60,131,642
<b>Total exposures related to repurchase agreements and securities lending (sum of lines 12 to 15)</b>	<b>120,665,152</b>
<b>Items not accounted in the Balance Sheet</b>	
Reference value of transactions not accounted in the Balance Sheet	128,755,723
Adjustment related to the application of specific CCF to transactions no accounted in the Balance Sheet	(93,270,521)
<b>Total Exposures not accounted in the Balance Sheet</b>	<b>35,485,203</b>
<b>Capital and Total Exposure</b>	
Tier 1	<b>90,283,551</b>
Total Exposure	<b>1,182,912,293</b>
<b>Leverage Ratio</b>	
Basel III Leverage Ratio	<b>7.6323115437103%</b>

Table 13 - Comparative summary between Disclosed Financial Statements and Leverage Ratio

R\$ thousand	4Q16
<b>Total Assets according to Disclosed Financial Statements</b>	<b>1,403,675,005</b>
Adjustment resulting from accounting consolidation differences	--
Adjustment related to accounted assets that were donated, or transferred, with substantial transfer of risks and benefits	(8,897)
Adjustment related to adjusted notional value and potential future gains on derivatives financial instruments	983,272
Adjustment related to repurchase agreements and securities lending	(251,540,817)
Adjustment related to transactions not accounted in the total assets of the prudential conglomerate	35,485,203
Other Adjustments	(5,681,473)
<b>Total Exposure</b>	<b>1,182,912,293</b>



## 5 Shareholdings

Banco do Brasil S.A, has a wide diversity of businesses, products, services and clients, Because of the organizational nature, strategic option or legal and regulatory requirements, the operationalization of its businesses and processes is distributed between the Multiple Bank and its Related Entities (ELBB), located in Brazil and abroad, under several organizational and judicial forms.

Below is the equity holdings not classified in the trading portfolio, segregated by business segments:

**Table 14 - Shareholdings - Banking Book**

R\$ Thousand	4Q16			3Q16			2Q16			1Q16			4Q15			
	% of Total Shares	Book Value of Equity Interests	Value of Capital Requirement <sup>(1)</sup>	% of Total Shares	Book Value of Equity Interests	Value of Capital Requirement <sup>(1)</sup>	% of Total Shares	Book Value of Equity Interests	Value of Capital Requirement <sup>(1)</sup>	% of Total Shares	Book Value of Equity Interests	Value of Capital Requirement <sup>(1)</sup>	% of Total Shares	Book Value of Equity Interests	Value of Capital Requirement <sup>(1)</sup>	
<b>Banking Segment</b>																
Banco Votorantim S.A.	(2 (3	50.00%	4,212,969	629,698	50.00%	4,207,493	598,492	50.00%	4,139,311	608,043	50.00%	4,035,394	595,936	50.00%	3,828,153	699,934
<b>Investment Segment</b>																
Kepler Weber S.A.	(3	17.45%	82,725	7,899	17.45%	83,747	8,000	17.46%	83,302	7,956	17.46%	84,815	8,106	17.46%	87,391	9,313
Neoenergia S.A.	(3	11.99%	1,154,899	114,046	11.99%	1,172,593	115,794	11.99%	1,175,389	116,070	11.99%	1,187,926	117,308	11.99%	1,168,345	128,518
<b>Insurance, Private Pension Fund and Capitalization</b>																
BB Seguridade Participações S.A.	(4	66.36%	4,716,654	778,493	66.36%	5,099,283	810,711	66.25%	4,439,687	723,188	66.25%	4,798,640	784,813	66.25%	4,168,774	854,421
Seguradora Brasileira de Crédito à Exportação -	(5	12.09%	2,589	427	12.09%	2,547	405	12.09%	2,082	339	12.09%	2,306	377	12.09%	2,351	482
<b>Payment Methods Segment</b>																
Cielo USA Inc.	(3 (6	28.70%	173,489	17,132	28.70%	122,188	12,066	28.73%	129,350	12,773	28.73%	136,623	13,492	28.72%	144,807	15,929
Tecnologia Bancária S.A. - Tecban	(5 (6	12.52%	50,603	4,997	12.52%	49,238	4,862	12.52%	49,668	4,905	12.52%	49,414	4,880	12.52%	49,206	5,413
<b>Other Segments</b>																
Ativos S.A. Gestão de Cobrança e Recuperação de	(4	100.00%	6	1	100.00%	5,124	506	100.00%	3,349	331	100.00%	1,239	122	100.00%	6	1
BB Tur Viagens e Turismo Ltda.	(4	100.00%	1,792	177	100.00%	4,715	466	100.00%	7,984	788	100.00%	11,427	1,128	100.00%	12,165	1,338
BB Tecnologia e Serviços	(4	99.97%	243,583	24,054	99.97%	231,688	22,879	99.97%	223,762	22,096	99.97%	220,160	21,741	99.98%	221,209	24,333
Cadam S.A.	(5	21.64%	15,663	1,148	21.64%	15,261	1,108	21.64%	16,370	1,218	21.64%	14,703	1,053	21.64%	17,724	1,505
Cia Hidromineral Piratuba	(5	14.13%	2,717	268	14.13%	2,611	258	14.26%	2,640	261	14.26%	2,613	258	14.26%	2,847	313
Estruturadora Brasileira de Projetos - EBP	(5	11.11%	5,533	546	11.11%	6,243	616	11.11%	6,216	614	11.11%	6,120	604	11.11%	6,345	698
Provision for investments	(7		(6,770)			(6,770)			(6,770)			(6,770)			(6,770)	

(1) Value for the minimum capital requirement for equity interests registered in the fixed assets and included in the calculation of risk-weighted assets regarding exposure to credit risk ( $RWA_{CPAD}$ ) under Central Bank Circular No. 3.644/2013.

(2) On Dec. 31, 2016, R\$ 1,662,293 thousand were integrally deducted from the Referential Equity and R\$ 2,550,676 thousand were risk-weighted at 250%.

(3) Joint venture, evaluated by the equity method.

(4) Subsidiaries, evaluated by the equity method.

(5) Associated companies, evaluated by the equity method.

(6) Companies which are not classified as "Payment Institutions".

(7) Unrealized, but acknowledged losses, referring to companies Cadam S.A. and Kepler Weber S.A., whose value is computed in the calculation of Common Equity.





## 5.1 Entities Linked to Banco do Brasil (ELBB) Assessment

The current regulation imposes that the operational, market, credit and liquidity risks management framework must identify, evaluate, control, mitigate and monitor the risks associated to each institution individually and the prudential conglomerate, as well as to identify and monitor the risks associated to other companies controlled by members of the prudential conglomerate.

In line with the current regulation, the Bank evaluates the ELBB risk management practices and issues guidelines, a process that considers other relevant risks, depending on the businesses of the companies or their segments, to those companies on the adequacy of risk management and its alignment with the practices adopted by the Institution.

The assessments are carried out through yearly cycles by means of the information provided by the companies (questionnaires and documentary evidences), videoconferencing and technical visits. Qualitative aspects (structure, policies, instruments and the risk management process) and quantitative aspects (operational losses, provisions for contingent claims, judicial deposits and exposure to credit, market, liquidity risk and other pieces of information that are considered relevant) are analyzed.

At the end of the assessments, reports are prepared, which are sent to BB governance areas, for submission to the companies or their directors appointed by the Bank to consider the issued guidelines and take the necessary actions.

Additionally, the assessments results are reported to the executive committees on risk and governance, to the CSRG, CD, Coaud and CA.

## 6 Risk Management

### 6.1 Credit Risk

#### 6.1.1 Specific Credit Policy

Banco do Brasil's specific credit policy contains strategic guidelines to direct credit-risk management actions in the prudential conglomerate. It is approved by the Board of Directors and reviewed every year. It applies to all businesses that involve credit risk and is available to all employees. It is expected that the Subsidiaries, Affiliates and Investment companies define their paths from these guidelines, taking into account the specific needs and legal and regulatory issues to which they are subject.

The specific credit policy is divided into four blocks: General Aspects, Credit Risk Taking, Credit Collections and Recovery, and Credit Risk Management. Each block contains a comprehensive set of statements which encompasses all stages of credit-risk management at Banco do Brasil. Important topics addressed in Banco do Brasil's specific credit policy are listed below:

- a) concept of credit risk;
- b) separation of duties;
- c) guidelines for credit collections and recovery;
- d) joint decisions;
- e) risk appetite;



- f) conditions for risk taking;
- g) capital planning;
- h) allowance and capital levels;
- i) stress tests.

### 6.1.2 Mitigation Policy

Banco do Brasil is conservative towards credit risk. In conducting any business subject to credit risk, the bank's general rule is to tie it to a mechanism that provides partial or complete hedging of risk incurred. In managing credit risk on the aggregate level, to keep exposure within the risk levels established by the Senior Management, the Bank has the prerogative to transfer or to share credit risk.

The use of credit risk mitigating instruments is stated in the Specific Credit Policy, present in strategic decisions, and formalized in credit rules, reaching all levels of the organization and covering all stages of credit risk management.

Credit rules provide clear, comprehensive guidelines for the operational units. Among other aspects, the rules address ratings, requirements, choices, assessments, formalization, control, and reinforcement of guarantees, ensuring the adequacy and sufficiency of the mitigator throughout the transaction cycle.

### 6.1.3 Management Strategies and Credit Risk Management Framework

Aligned with the objectives of credit risk management, the Board of Directors (CA) establishes the Specific Credit Policy and the Risk Appetite and Tolerance of Banco do Brasil, which covers guidelines for credit risk.

As of the guidelines approved by the CA, the credit-risk management strategies, described below are defined and aim to guide the actions in the operational level:

- a) approving credit risk management models;
- b) setting goals for timely payment, recovery, maximum loss, and quality of the loan portfolio;
- c) setting risk and concentration limits; and
- d) keeping appropriate levels of allowances and capital.

According to Banco do Brasil's credit risk management structure, the Credit (Dicre), Operational Asset Restructuring (Dirao) and Risk Management (Diris) Directorships are responsible for implementing strategic decisions approved by the CA, CSRG and CERC, keeping exposure in the risk levels set by the Executive Management.

The main attributions of the areas that are part of the credit risk management structure are shown in the figure as follows:



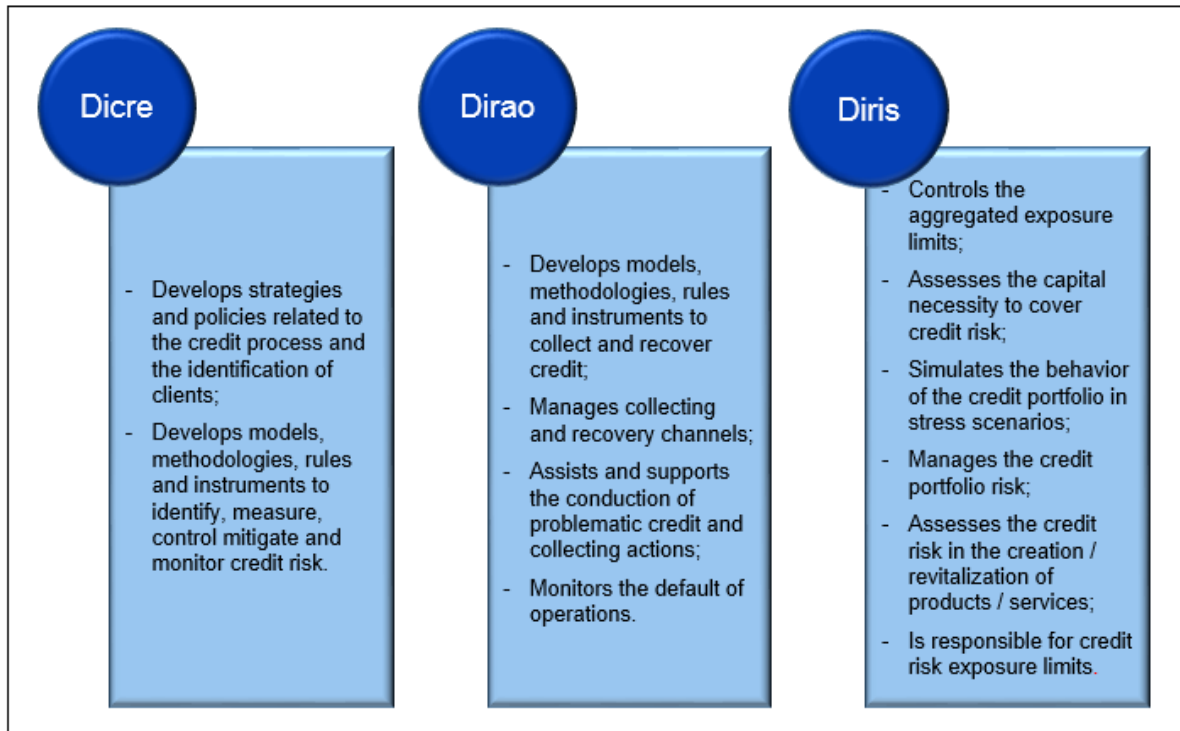


Figure 8 - Credit risk management structure

#### 6.1.4 Measurement Systems

The credit risk measurement is made by means of several indicators: default, delays, portfolio quality, allowance for loans and lease losses, concentration, capital requirement, among others, which reflect the Bank's risk mitigation policy.

The quantity and nature of the operations, the diversity and complexity of our products and services, and the volume exposed to credit risk require systematic measurement of credit risk at Banco do Brasil. The Bank has enough databases and corporate system infrastructure to ensure comprehensive measurement of credit risk.

##### 6.1.4.1 Regulatory Capital Requirement

The Bank measures the regulatory capital requirement for credit risk coverage through Regulatory Simplified Standardized Approach, whose procedures for calculating the portion of risk-weighted assets (RWA) regarding exposure to credit risk ( $RWA_{CPAD}$ ) were released by the Bacen through Circular nº 3,644/13.

Those procedures were implemented in a proprietary system that determines the capital requirements quickly and securely, allowing timely evaluation of the bank's solvency under the regulator's rules. The Bank uses Regulatory Capital information to assess the efficiency of capital allocation and planning.

##### 6.1.4.2 Concentration

The Bank has the credit portfolio concentration risk measurement process and monitoring. Besides the monitoring of the portfolio different segments concentration level indicators, ascertained according to the *Herfindahl-Hirshman* Ratio, the impact of concentration in the capital allocation for credit risk in an individual view (considering the portfolio as a whole) and in a sectorial one (considering groups segmented by product and size).



## 6.1.5 Mitigating instruments

When accepting guarantees in loans, preference is given to guarantees which help the operation self-liquidate.

In order to accept a guaranty, the maximum value considered is reached by applying a certain percentage on the value of the goods or right. Below, the percentages used are shown:

**Table 15** - Collateral coverage

Asset	Coverage (%)
<b>Credit rights</b>	
- Receipt for bank deposit	100%
- Certificate of bank deposit <sup>(1)</sup>	100%
- Saving deposits	100%
- Fixed income investment funds	100%
<b>Pledge Agreement – cash collateral<sup>(2)</sup></b>	100%
- Standby letter of credit	100%
- Others	80%
<b>Guarantee Funds</b>	
- Guarantee Fund for Generation of Employment and Income (Funproger)	100%
- Guarantee Fund for Micro and Small Business (Fampe)	100%
- Guarantee Fund for Operations (FGO)	100%
- Guarantee Fund for Investments (FGI)	100%
- Others	100%
Guarantee <sup>(3)</sup>	100%
Credit insurance	100%
<b>Pledge Agreement – securities<sup>(4)</sup></b>	77%
<b>Offshore Funds - BB Fund<sup>(5)</sup></b>	77%
Livestock <sup>(6)</sup>	70%
Others <sup>(7)</sup>	50%

(1) Except the ones possessing swap agreement

(2) In the same currency of the operation.

(3) Provided by a banking institution that has a credit limit at the bank, with sufficient margin to support the co-obligation.

(4) Contract of deposit / Transfer of Customer funds

(5) Exclusive or retail.

(6) Except in Rural Product Notes Transactions (CPR).

(7) According to certain characteristics, real state, vehicle, machinery and equipment can be received with highest percentage of guarantee.

The credit rights guarantees represented by financial investments must be internalized at the Bank and are blocked by the institution. This blockage must remain until the operation is concluded.

Besides credit assignment or credit rights assignment clauses, the credit instrument, for linked mitigators, the credit instrument has a guarantee reinforcement clause to ensure, for the duration of the operation, the coverage percentage agreed on when it was contracted.

The Operations Guarantee Fund (FGO) is used as collaterals by Banco do Brasil, mitigating the risks of operations. Overall, the fund guarantees have the following characteristics:

- a) maximum coverage percentage limits when using the fund to back operations, according to the type of operation: Investment or Working Capital;
- b) target market, according to the billing or the client's risk;



- c) whether or not a counter guarantee was given;
- d) maximum limits on the amount of resources that constitute the Fund's Net Worth (Leverage Ratio); and
- e) limits for accrued losses, or, the Stop Loss Limits.

Guarantee fund managers keep up with whether an operation falls under the funds' rules before granting them in guarantees, as well as manage guarantee operations and fund assets, freezing the use of these funds in guarantee operations, if necessary, before the amount of linked resources surpasses the leverage established for each fund.

Considering the credit risk mitigating instruments defined in articles 36 to 39 of Bacen Circular nº 3,644/13, the following table shows the total mitigated value in terms of exposure, weighted by risk factor, and segmented by type and FPR mitigator.

**Table 16** - Mitigated value of exposure, weighted by the respective risk factor

R\$ thousand		4Q16	3Q16	2Q16	1Q16	4Q15
<b>Total<sup>(1)</sup></b>	<b>Mitigator</b>	<b>44,857,862</b>	<b>46,039,077</b>	<b>46,457,291</b>	<b>48,943,536</b>	<b>50,048,816</b>
Guarantee given by the National Treasury or the Banco Central do Brasil	0%	35,776,926	36,084,769	35,715,486	38,175,952	39,383,471
Guarantee given by Guarantee Funds	0%	-	13	-	-	-
Guarantee given by Guarantee Funds	50%	2,085,050	2,639,342	3,231,005	3,533,710	3,670,804
Deposits held by the institution itself	0%	,952,890	1,171,160	1,336,630	1,122,612	1,088,224
Guarantee from financial institutions	50%	278,970	366,251	405,068	427,559	263,229
Payroll Discount Transfers <sup>(2)</sup>	50%	5,764,026	5,777,542	5,769,102	5,683,703	5,643,087

(1) Total value mitigated by the instruments defined in articles 36 and 39 of BACEN Circular 3.644/2013 for exposures in loans, leasing, commitments after applying the conversion factor, credits to release and guarantees rendered.

(2) Credit risk mitigation instrument represented by payroll discount transfers was established by BACEN Circular 3,714, which became effective on Aug /14.

### 6.1.5.1 Processes for Monitoring the Effectiveness of Mitigators

Monitoring the effectiveness of mitigators is part of the Bank's credit risk management processes. We quote, as an example, monitoring exposures subject to credit risk, the risk ratings of loans, and credit collection and recovery.

The processes of monitoring credit risk exposure and rating loans risks produce important information for verifying the effectiveness of mitigating instruments. The low default ratio in certain segments of the credit portfolio and the lowest level of allowances in certain transactions may mean that the existence of guarantees tied to exposure reducing credit risk and capital requirements for its coverage.

### 6.1.6 Exposure to Credit Risk

The table below shows the concentration levels of the ten largest customers in relation to total transactions with credit granting feature.

**Table 17** - Concentration of the ten and of the hundred largest customers in relation to the total of transactions with credit granting feature

	1st to 10th	1st ao 100th
<b>4Q16</b>	12.58%	26.09%
<b>3Q16</b>	13.58%	28.93%
<b>2Q16</b>	12.29%	26.58%
<b>1Q16</b>	12.67%	27.16%
<b>4Q15</b>	12.56%	26.84%

The following table shows credit risk average exposure of individual portfolios (PF) and businesses (PJ).



It is important to mention that, in Banco do Brasil, the concepts that were used for the Credit Releasing and Loan Portfolio - Broad Concept are:

- BB's Loan Portfolio – Broad Concept:** BB's Classified Portfolio (BB's Internal Portfolio + BB's External Portfolio), BB's Collaterals and BB's Bonds and Securities; and
- Releasing Credits:** They stand for portions of credit limits that can not be cancelled unilaterally by BB, such as the limits of special checks and credit cards (balance of credit to be released in limits that can not be cancelled) and the portions on the timetable of releasing that can not be cancelled unilaterally by BB, such as: Finame, BNDES with the timetable of releasing resources (balance of credits to be released in timetable operations).

Table 18 - Credit risk average exposure

R\$ million Exposure	4Q16		3Q16		2Q16		1Q16		4Q15	
	Balance *	Average Balance	Balance *	Average Balance	Balance *	Average Balance	Balance *	Average Balance	Balance *	Average Balance
<b>Individuals</b>										
Agrobusiness	132,698	44,233	130,309	43,436	132,959	44,320	127,071	42,357	124,385	41,462
Mortgage	42,178	14,059	41,292	13,764	39,820	13,273	38,533	12,844	37,252	12,417
Payroll Loan	62,596	20,865	62,838	20,946	62,959	20,986	62,589	20,863	62,502	20,834
Auto Loans	6,233	2,078	6,804	2,268	7,339	2,446	7,852	2,617	8,407	2,802
Credit Cards	58,198	19,399	64,693	21,564	68,741	22,914	68,746	22,915	68,418	22,806
Others	59,787	19,929	57,366	19,122	57,541	19,180	56,288	18,763	53,559	17,853
<b>Total Individuals</b>	<b>361,690</b>	<b>120,563</b>	<b>363,301</b>	<b>121,100</b>	<b>369,360</b>	<b>123,120</b>	<b>361,080</b>	<b>120,360</b>	<b>354,523</b>	<b>118,174</b>
<b>Companies</b>										
Agrobusiness	49,179	16,393	51,308	17,103	54,206	18,069	54,545	18,182	52,754	17,585
Investments	78,183	26,061	78,400	26,133	84,051	28,017	86,656	28,885	90,001	30,000
Import/Export.	14,487	4,829	16,938	5,646	19,088	6,363	19,751	6,584	19,582	6,527
Working Capital	176,283	58,761	186,704	62,235	199,790	66,597	212,970	70,990	225,492	75,164
Others	136,622	45,541	153,255	51,085	155,169	51,723	173,846	57,949	185,957	61,986
<b>Total Companies</b>	<b>454,754</b>	<b>151,585</b>	<b>486,605</b>	<b>162,202</b>	<b>512,304</b>	<b>170,768</b>	<b>547,768</b>	<b>182,589</b>	<b>573,787</b>	<b>191,262</b>
<b>Total</b>	<b>816,444</b>	<b>272,148</b>	<b>849,907</b>	<b>283,302</b>	<b>881,664</b>	<b>293,888</b>	<b>908,848</b>	<b>302,949</b>	<b>928,310</b>	<b>309,437</b>

\* Includes BB internal portfolio and loans to concede

The next table presents the credit risk exposure of the businesses portfolio (PJ), segregated by geographic regions in Brazil:



Table 19 - PJ credit risk exposure by geographic regions

R\$ million		4Q16				
Region	Agribusiness	Investments	Import/Export.	Working Capital	Others	
Midwest	1,222	23,169	311	12,656	6,438	
Northeast	425	3,931	226	11,990	8,525	
North	93	3,131	52	4,083	3,593	
Southeast	39,387	36,092	10,791	121,132	79,702	
South	8,052	9,586	3,098	17,979	13,044	
Foreign	-	2,275	8	8,444	25,320	
<b>Total</b>	<b>49,179</b>	<b>78,184</b>	<b>14,486</b>	<b>176,284</b>	<b>136,622</b>	

R\$ million		3Q16				
Region	Agribusiness	Investments	Import/Export.	Working Capital	Others	
Midwest	1,207	21,238	418	12,660	6,370	
Northeast	380	4,080	269	12,801	8,987	
North	113	3,281	47	4,305	3,591	
Southeast	41,365	36,833	13,030	128,614	89,270	
South	8,242	10,138	3,164	19,434	14,025	
Foreign	-	2,832	10	8,890	31,013	
<b>Total</b>	<b>51,308</b>	<b>78,400</b>	<b>16,938</b>	<b>186,704</b>	<b>153,255</b>	

R\$ million		2Q16				
Region	Agribusiness	Investments	Import/Export.	Working Capital	Others	
Midwest	1,318	23,509	,539	14,122	6,610	
Northeast	408	4,227	238	14,815	9,424	
North	119	3,422	47	4,881	3,721	
Southeast	43,069	38,313	14,587	134,930	90,529	
South	9,292	10,786	3,677	21,817	14,680	
Foreign	-	3,794	0	9,225	30,205	
<b>Total</b>	<b>54,206</b>	<b>84,051</b>	<b>19,088</b>	<b>199,790</b>	<b>155,169</b>	

R\$ million		1Q16				
Region	Agribusiness	Investments	Import/Export.	Working Capital	Others	
Midwest	1,229	23,971	,352	15,486	7,070	
Northeast	235	4,309	315	15,729	9,976	
North	102	3,547	80	5,226	3,762	
Southeast	44,503	38,833	15,801	141,926	99,067	
South	8,476	11,351	3,202	23,588	15,386	
Foreign	-	4,645	3	11,015	38,585	
<b>Total</b>	<b>54,545</b>	<b>86,656</b>	<b>19,751</b>	<b>212,970</b>	<b>173,846</b>	

R\$ million		4Q15				
Region	Agribusiness	Investments	Import/Export.	Working Capital	Others	
Midwest	1,343	23,475	461	16,791	7,325	
Northeast	266	4,460	280	16,615	10,235	
North	115	3,631	90	5,482	3,839	
Southeast	42,741	40,767	15,718	148,460	102,949	
South	8,289	11,906	3,020	25,051	16,295	
Foreign	-	5,762	13	13,094	45,314	
<b>Total</b>	<b>52,754</b>	<b>90,001</b>	<b>19,582</b>	<b>225,492</b>	<b>185,957</b>	

The table below presents the credit risk exposure of the individuals portfolio (PF), segregated by geographic regions in Brazil:





Table 20 - PF credit risk exposure by geographic regions

R\$ million		4Q16					
Region	Agribusiness	Mortgage	Payroll Loans	Auto Loans	Credit Cards	Others	
Midwest	33,034	7,083	6,589	958	8,757	7,970	
Northeast	9,554	8,759	15,624	1,500	10,508	11,264	
North	7,833	1,517	4,771	576	3,182	3,527	
Southeast	39,576	18,002	29,686	2,046	25,146	26,302	
South	42,701	6,816	5,926	1,153	10,605	9,602	
Foreign	--	--	--	--	--	1,121	
<b>Total</b>	<b>132,698</b>	<b>42,177</b>	<b>62,596</b>	<b>6,233</b>	<b>58,198</b>	<b>59,786</b>	

R\$ million		3Q16					
Region	Agribusiness	Mortgage	Payroll Loans	Auto Loans	Credit Cards	Others	
Midwest	31,842	6,983	6,533	1,038	9,698	7,550	
Northeast	9,286	8,370	15,640	1,632	11,610	10,850	
North	7,549	1,476	4,768	625	3,497	3,500	
Southeast	39,755	17,734	29,997	2,248	28,085	25,304	
South	41,877	6,729	5,900	1,260	11,802	8,966	
Foreign	--	--	--	--	--	1,196	
<b>Total</b>	<b>130,309</b>	<b>41,292</b>	<b>62,838</b>	<b>6,804</b>	<b>64,693</b>	<b>57,366</b>	

R\$ million		2Q16					
Region	Agribusiness	Mortgage	Payroll Loans	Auto Loans	Credit Cards	Others	
Midwest	32,875	6,768	6,576	1,121	10,211	7,494	
Northeast	9,279	7,834	15,643	1,757	12,241	10,895	
North	7,473	1,425	4,776	,672	3,680	3,574	
Southeast	39,947	17,225	30,108	2,421	30,104	25,598	
South	43,385	6,569	5,856	1,369	12,505	9,017	
Foreign	--	--	--	--	--	964	
<b>Total</b>	<b>132,959</b>	<b>39,820</b>	<b>62,959</b>	<b>7,339</b>	<b>68,741</b>	<b>57,541</b>	

R\$ million		1Q16					
Region	Agribusiness	Mortgage	Payroll Loans	Auto Loans	Credit Cards	Others	
Midwest	31,500	6,581	6,548	1,201	10,200	6,938	
Northeast	8,640	7,364	15,510	1,878	12,247	10,496	
North	7,112	1,371	4,775	,718	3,696	3,407	
Southeast	38,489	16,796	30,021	2,568	30,166	25,232	
South	41,330	6,422	5,736	1,486	12,437	9,062	
Foreign	--	--	--	--	--	1,155	
<b>Total</b>	<b>127,071</b>	<b>38,533</b>	<b>62,589</b>	<b>7,852</b>	<b>68,746</b>	<b>56,288</b>	

R\$ million		4Q15					
Region	Agribusiness	Mortgage	Payroll Loans	Auto Loans	Credit Cards	Others	
Midwest	30,057	6,397	6,554	1,279	10,129	6,360	
Northeast	8,444	6,864	15,470	2,000	12,160	9,852	
North	6,743	1,321	4,812	,761	3,659	3,205	
Southeast	38,295	16,379	30,006	2,759	30,087	24,241	
South	40,845	6,291	5,659	1,609	12,383	8,749	
Foreign	--	--	--	--	--	1,150	
<b>Total</b>	<b>124,385</b>	<b>37,252</b>	<b>62,502</b>	<b>8,407</b>	<b>68,418</b>	<b>53,559</b>	

The next tables show the behavior of the total credit risk exposure, segregated by economic sector:





**Table 21** - Credit risk exposure of the prudential conglomerate, by economic sector

R\$ million	4Q16	3Q16	2Q16	1Q16	4Q15
Government	40,835	40,742	40,624	43,487	46,665
Agribusiness - Animal Origin	17,354	17,486	18,099	18,822	16,904
Agribusiness -Vegetable Origin	33,330	34,924	37,801	37,571	41,222
Construction Specific Activities	14,623	15,566	16,609	17,688	18,782
Automotive	24,081	27,355	30,852	35,230	37,277
Beverages	2,046	2,169	2,397	2,648	2,757
Wholesale Trade and Industries	7,206	8,055	9,157	9,342	9,069
Retail Trade	18,113	20,465	22,266	23,507	24,731
Heavy Construction	7,635	8,042	7,982	8,806	9,281
Leather and Shoes	3,331	3,459	3,685	3,905	4,191
Other Activities	47	20	49	73	159
Electrical and Electronic Goods	10,847	9,975	10,748	11,747	12,584
Electricity	36,286	39,071	40,193	41,598	42,528
Housing	24,134	25,543	27,214	29,171	30,650
Banks and Financial Services	28,296	32,228	34,921	35,720	35,650
Agricultural Consumables	10,614	11,375	13,017	13,556	14,372
Timber and Furniture	7,077	7,787	8,105	7,816	8,298
Metalworking and Steel	38,619	41,669	43,019	47,048	48,762
Pulp and Paper	8,434	9,668	10,129	11,045	11,989
Oil and Gas	41,243	46,833	45,889	49,135	51,120
Chemicals	9,070	9,730	11,068	11,949	14,011
Services	25,265	26,239	28,873	30,564	32,651
Telecommunication	6,444	6,380	6,369	7,964	8,262
Textile and Garments	10,455	11,659	12,950	14,145	14,894
Transport	29,371	30,163	30,289	35,233	36,979
Individuals	361,690	363,301	369,360	361,080	354,523
<b>Total<sup>(1)</sup></b>	<b>816,444</b>	<b>849,907</b>	<b>881,664</b>	<b>908,848</b>	<b>928,311</b>

(1)\* Includes BB internal portfolio and loans to concede

The table below shows the behavior of the total credit risk exposure of the agribusiness portfolio, segregated by economic sector and businesses portfolio (PJ):



**Table 22** - Credit risk exposure of the agribusiness portfolio, segregated by economic sector and businesses portfolio (PJ) - 4Q16

4Q16					
R\$ million	Agribusiness	Investments	Import/Export	Working Capital	Others
Government	.	8.250	0	28.451	4.133
Agribusiness - Animal Origin	7.719,71	956,05	2.815,23	3.392,77	2.470,33
Agribusiness -Vegetable Origin	11,759	5.690,46	3.980,92	6.784,47	5.114,98
Construction Specific Activities	127,81	2.678,35	384,41	4.431,79	7.000,20
Automotive	123,95	4.224,74	1.562,67	10.626,92	7.542,83
Beverages	225,82	299,18	268,41	904,42	348,43
Wholesale Trade and Industries	1.205,88	728,44	172,06	3.488,28	1.611,33
Retail Trade	1.128,43	1.645,31	20,86	8.995,94	6.322,68
Heavy Construction	.	707,64	456,62	1.564,94	4.905,58
Leather and Shoes	.	230,16	473,37	1.502,15	1.124,83
Other Activities	.	4,07	4,86	16,71	21,77
Electrical and Electronic Goods	.	647,91	324,61	3.958,25	5.916,08
Electricity	1.946,82	7.257,65	24,79	16.037,66	11.019,01
Housing	24,67	925,91	0,03	4.386,12	18.796,88
Banks and Financial Services	482,53	14.278,46	8,15	4.244,88	9.281,88
Agricultural Consumables	2.874,88	1.138,17	632,18	2.846,71	3.121,88
Timber and Furniture	428,84	1.798,14	374,96	2.837,35	1.638,14
Metalworking and Steel	1.632,63	2.038,17	1.905,00	23.609,75	9.433,11
Pulp and Paper	799,17	809,16	134,37	3.615,80	3.075,21
Oil and Gas	17.342,10	2.852,41	137,96	14.471,18	6.438,85
Chemicals	71,04	1.161,38	225,39	4.460,00	3.151,77
Services	119,80	4.908,09	97,34	11.958,38	8.181,46
Telecommunication	.	95,90	1,36	3.642,29	2.704,15
Textile and Garments	596,09	846,33	445,35	5.188,35	3.378,54
Transport	569,84	14.011,09	35,41	4.866,50	9.888,49
<b>Total<sup>(1)</sup></b>	<b>49.179,22</b>	<b>78.183,19</b>	<b>14.486,53</b>	<b>176.282,82</b>	<b>136.621,83</b>

(1)\* Includes BB internal portfolio and loans to concede

**Table 23** - Credit risk exposure of the agribusiness portfolio, segregated by economic sector and businesses portfolio (PJ) - 3Q16

3Q16					
R\$ million	Agribusiness	Investments	Import/Export	Working Capital	Others
Government	-	8.413	0	28.395	3.934
Agribusiness - Animal Origin	7.209,60	1.001,93	2.872,25	3.886,57	2.516,10
Agribusiness -Vegetable Origin	11,944	5.939,87	4.222,00	7.452,11	5.366,09
Construction Specific Activities	133,15	2.866,27	385,92	4.862,84	7.318,00
Automotive	129,12	4.484,15	2.219,55	12.875,65	7.646,39
Beverages	218,48	317,14	294,16	944,89	394,66
Wholesale Trade and Industries	1.661,11	744,65	153,38	3.735,79	1.760,02
Retail Trade	912,47	1.718,50	32,06	9.573,85	8.228,46
Heavy Construction	-	761,86	451,67	2.441,42	4.386,94
Leather and Shoes	-	246,49	431,49	1.610,66	1.170,56
Other Activities	-	3,26	-	5,55	11,21
Electrical and Electronic Goods	-	743,21	298,38	4.259,72	4.673,87
Electricity	2.703,55	7.335,36	26,37	16.933,95	12.072,10
Housing	24,61	960,99	-	4.700,48	19.857,18
Banks and Financial Services	602,42	12.219,57	10,48	4.355,43	15.039,76
Agricultural Consumables	2.935,34	1.359,80	730,23	3.131,83	3.217,34
Timber and Furniture	380,83	1.862,29	693,65	3.053,70	1.796,68
Metalworking and Steel	2.133,40	2.204,75	3.028,93	24.013,80	10.288,42
Pulp and Paper	1.432,38	880,34	157,66	3.961,18	3.236,52
Oil and Gas	17.509,09	2.991,88	183,41	15.401,10	10.747,77
Chemicals	84,89	1.212,18	212,26	4.609,51	3.611,02
Services	121,79	5.152,32	98,11	11.880,22	8.986,43
Telecommunication	-	104,55	1,43	3.557,84	2.716,59
Textile and Garments	575,40	917,68	397,03	6.153,68	3.614,75
Transport	595,78	13.956,20	37,02	4.756,95	10.816,91
<b>Total<sup>(1)</sup></b>	<b>51.307,79</b>	<b>78.398,07</b>	<b>16.937,67</b>	<b>186.554,20</b>	<b>153.407,61</b>

(1)\* Includes BB internal portfolio and loans to concede



**Table 24 - Credit risk exposure of the agribusiness portfolio, segregated by economic sector and businesses portfolio (PJ) - 2Q16**

R\$ million	2Q16				
	Agribusiness	Investments	Import/Export	Working Capital	Others
Government	-	8,641	0	28,160	3,823
Agribusiness - Animal Origin	7,507	1,076	2,857	4,135	2,524
Agribusiness -Vegetable Origin	12,768	6,478	4,744	8,515	5,296
Construction Specific Activities	134	3,039	421	5,678	7,336
Automotive	137	5,006	2,614	14,713	8,381
Beverages	243	331	317	1,002	503
Wholesale Trade and Industries	2,044	803	221	4,186	1,902
Retail Trade	894	1,789	26	11,129	8,427
Heavy Construction	-	817	453	2,788	3,924
Leather and Shoes	-	262	466	1,710	1,248
Other Activities	0	3	-	7	39
Electrical and Electronic Goods	-	809	322	4,714	4,903
Electricity	2,723	7,461	32	17,332	12,646
Housing	24	997,03	-	5,183	21,009
Banks and Financial Services	693	14,246	0	4,593	15,388
Agricultural Consumables	3,221	1,470	936	3,453	3,936
Timber and Furniture	396	1,922	390	3,441	1,957
Metalworking and Steel	3,293	2,366	3,903	23,449	10,008
Pulp and Paper	1,469	927	152	4,291	3,291
Oil and Gas	17,262	3,122	406	15,872	9,227
Chemicals	80	1,342	278	5,541	3,828
Services	123,09	5,517	110	13,591	9,532
Telecommunication	-	113	1	3,582	2,673
Textile and Garments	622,34	1,010	388	7,034	3,895
Transport	571	14,479	53	5,520	9,665
<b>Total<sup>(1)</sup></b>	<b>54,206</b>	<b>84,027</b>	<b>19,088</b>	<b>199,620</b>	<b>155,363</b>

(1)\* Includes BB internal portfolio and loans to concede



The next tables present the credit risk exposure of individuals (PF) and businesses (PJ) portfolios, segregated by maturity of the transactions:

**Table 25** - Credit risk exposure of PF and PJ portfolios by maturity of the transactions - 4Q16

R\$ million Exposure	4Q16			
	up to 6 months	6 months to 1 year	1 to 5 years	Above 5 years
Agribusiness	16,148	28,888	34,118	53,544
Mortgage	11,541	510	425	45,723
Payroll Loan	666	1,327	25,718	34,885
Auto Loans	43	6	294	41,835
Credit Cards	205	538	5,359	131
Others	13,600	13,134	21,645	11,407
<b>Total Individuals</b>	<b>42,203</b>	<b>44,403</b>	<b>87,559</b>	<b>187,525</b>
Agribusiness	6,731	6,598	23,498	12,352
Investments	50,318	8,302	72,076	45,587
Import/Export.	10,417	3,884	186	-
Working Capital	2,288	1,032	26,402	48,461
Others	28,102	11,287	66,842	30,391
<b>Total Companies</b>	<b>97,856</b>	<b>31,103</b>	<b>189,004</b>	<b>136,791</b>
<b>Total</b>	<b>140,059</b>	<b>75,506</b>	<b>276,563</b>	<b>324,316</b>

**Table 26** - Credit risk exposure of PF and PJ portfolios by maturity of the transactions - 3Q16

R\$ million Exposure	3Q16			
	up to 6 months	6 months to 1 year	1 to 5 years	Above 5 years
Agribusiness	21,128	16,119	39,851	53,212
Mortgage	14,287	605	437	49,365
Payroll Loan	619	1,360	26,083	34,776
Auto Loans	28	18	286	40,960
Credit Cards	189	559	5,905	150
Others	14,046	11,444	20,363	11,513
<b>Total Individuals</b>	<b>50,296</b>	<b>30,104</b>	<b>92,925</b>	<b>189,975</b>
Agribusiness	9,400	4,318	23,863	13,727
Investments	55,256	9,845	77,082	44,521
Import/Export.	10,838	5,821	271	8
Working Capital	3,177	,994	24,961	49,268
Others	34,319	14,382	75,755	28,798
<b>Total Companies</b>	<b>112,990</b>	<b>35,361</b>	<b>201,932</b>	<b>136,323</b>
<b>Total</b>	<b>163,286</b>	<b>65,465</b>	<b>294,857</b>	<b>326,298</b>

**Table 27** - Credit risk exposure of PF and PJ portfolios by maturity of the transactions - 2Q16

R\$ million Exposure	2Q16			
	up to 6 months	6 months to 1 year	1 to 5 years	Above 5 years
Agribusiness	25,378	15,199	38,843	53,540
Mortgage	16,288	831	639	50,982
Payroll Loan	541	1,446	26,491	34,481
Auto Loans	19	16	280	39,505
Credit Cards	208	561	6,387	184
Others	10,634	15,188	20,321	11,399
<b>Total Individuals</b>	<b>53,068</b>	<b>33,241</b>	<b>92,961</b>	<b>190,090</b>
Agribusiness	10,075	6,098	22,631	15,401
Investments	52,794	14,390	90,705	41,900
Import/Export.	11,868	6,395	826	-
Working Capital	4,985	1,511	27,420	50,135
Others	35,856	13,547	77,251	28,515
<b>Total Companies</b>	<b>115,578</b>	<b>41,942</b>	<b>218,833</b>	<b>135,951</b>
<b>Total</b>	<b>168,646</b>	<b>75,183</b>	<b>311,793</b>	<b>326,042</b>

The table below shows the amount of overdue transactions, gross of allowances and excluded the write-offs, segregated by geographical regions in Brazil:



Table 28 - Amount of overdue transactions by geographical regions

R\$ million						4Q16
Region	15 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Above 360 days	
Midwest	1.530,56	461,67	1.344,13	1.577,36	536,55	
Northeast	1.554,20	581,86	1.599,44	2.050,35	648,24	
North	545,29	206,79	613,22	722,89	181,09	
Southeast	7.306,50	1.693,82	4.677,43	5.845,31	1.591,02	
South	1.497,87	622,43	1.568,70	2.021,76	551,17	
Foreign	86,11	441,97	0,61	121,20	39,53	
<b>TOTAL</b>	<b>12.520,53</b>	<b>4.008,54</b>	<b>9.803,53</b>	<b>12.338,87</b>	<b>3.547,60</b>	

R\$ million						3Q16
Region	15 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Above 360 days	
Midwest	1.892,22	551,21	1.302,83	1.313,87	189,64	
Northeast	2.082,97	739,33	1.197,37	1.645,31	241,26	
North	709,48	238,99	459,19	580,93	85,17	
Southeast	5.518,29	1.997,62	3.639,70	5.768,17	741,92	
South	1.825,98	914,94	1.391,97	1.776,51	247,79	
Foreign	0,60	0,16	70,76	144,57	2.917,08	
<b>TOTAL</b>	<b>12.029,53</b>	<b>4.442,25</b>	<b>8.061,81</b>	<b>11.229,37</b>	<b>4.422,86</b>	

R\$ million						2Q16
Region	15 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Above 360 days	
Midwest	1,355	412,72	1,083	1,307	107	
Northeast	1,281	488	1,278	1,672	206	
North	413	188	437	544,96	75	
Southeast	4,091	1,696	4,558	5,068	506,30	
South	1,214	521,67	1,443	2,126	156	
Foreign	5	5	120	28	2,911	
<b>TOTAL</b>	<b>8,358</b>	<b>3,312</b>	<b>8,918</b>	<b>10,746</b>	<b>3,960</b>	

R\$ million						1Q16
Region	15 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Above 360 days	
Midwest	1,736	509	1,154	1,359	97	
Northeast	1,971	643	1,232	1,583	155	
North	625	215	438	474	47	
Southeast	5,648	2,327	4,098	4,330	475	
South	1,859	744	1,520	2,067	130	
Foreign	90	2	35	66	55	
<b>TOTAL</b>	<b>11,929</b>	<b>4,440</b>	<b>8,477</b>	<b>9,878</b>	<b>958,42</b>	

R\$ million						4Q15
Region	15 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Above 360 days	
Midwest	1,361	445	994	1,200	101	
Northeast	1,449	483	1,189	1,308	125	
North	471	160	378	398	44	
Southeast	4,522	1,550	3,633	3,781	393	
South	1,504	654	1,615	1,465	115	
Foreign	55	0	74	33	57	
<b>TOTAL</b>	<b>9,361</b>	<b>3,292</b>	<b>7,883</b>	<b>8,185</b>	<b>835</b>	

Below, the amount of overdue transactions, gross of allowances and excluded the write-offs of the Prudential Conglomerate, segregated by economic sector are presented:



**Table 29** - Amount of overdue transactions, segregated by economic sector - 4Q16

R\$ million					
4Q16					
Macro-sector	15 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Above 360 days
Government	0.95	0.00	0.00	0.00	138.64
Agribusiness - Animal Origin	104.43	87.87	79.54	164.98	89.82
Agribusiness -Vegetable Origin	221.23	99.17	636.57	417.94	76.87
Construction Specific Activities	271.08	117.26	397.23	620.85	136.22
Automotive	326.35	127.54	361.95	625.51	151.50
Beverages	4.06	5.14	6.39	12.16	4.74
Wholesale Trade and Industries	97.09	71.08	196.24	312.23	88.68
Retail Trade	331.37	185.28	606.11	911.23	169.72
Heavy Construction	286.96	175.65	145.81	219.67	31.37
Leather and Shoes	30.12	28.64	62.26	116.09	21.07
Other Activities	0.56	0.17	1.59	1.07	0.07
Electrical and Electronic Goods	127.75	77.18	231.35	457.56	84.09
Electricity	9.19	3.32	5.97	8.26	5.64
Housing	293.56	396.55	467.61	458.56	109.55
Banks and Financial Services	3.18	27.85	2.91	6.51	19.48
Agricultural Consumables	71.71	56.89	94.45	157.07	41.20
Timber and Furniture	124.27	79.68	239.41	413.19	101.42
Metalworking and Steel	366.27	100.80	371.63	667.55	174.60
Pulp and Paper	64.06	20.24	123.44	140.09	45.20
Oil and Gas	236.28	319.39	389.38	319.64	76.96
Chemicals	100.26	61.45	194.49	287.29	56.83
Services	457.78	245.30	705.63	1.123.54	228.69
Telecommunication	2.614.77	13.58	25.36	61.94	12.18
Textile and Garments	209.40	96.94	359.96	591.74	149.12
Transport	900.66	110.40	348.40	433.31	106.37
<b>Total</b>	<b>7.253.34</b>	<b>2.507.35</b>	<b>6.053.65</b>	<b>8.527.97</b>	<b>2.120.03</b>

**Table 30** - Amount of overdue transactions, segregated by economic sector - 3Q16

R\$ million					
3Q16					
Macro-sector	15 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Above 360 days
Government	874.16	0.38	0.00	0.04	0.00
Agribusiness - Animal Origin	52.62	35.82	64.06	211.51	40.33
Agribusiness -Vegetable Origin	476.76	133.57	509.56	382.62	47.52
Construction Specific Activities	408.23	167.37	369.64	563.29	59.81
Automotive	308.40	166.47	360.45	657.32	85.17
Beverages	6.80	3.22	4.14	16.39	0.58
Wholesale Trade and Industries	126.15	67.08	145.90	293.55	41.52
Retail Trade	448.50	243.85	485.59	754.79	74.22
Heavy Construction	170.54	46.71	113.39	200.98	21.30
Leather and Shoes	47.36	17.45	62.50	101.93	9.56
Other Activities	0.37	0.84	2.60	0.83	0.00
Electrical and Electronic Goods	152.79	98.63	218.72	427.66	39.54
Electricity	4.70	2.34	3.18	352.70	3.05
Housing	512.32	228.21	366.00	374.98	50.52
Banks and Financial Services	2.49	0.51	2.04	19.33	0.08
Agricultural Consumables	68.40	57.67	98.75	129.11	22.18
Timber and Furniture	179.09	99.73	212.07	359.55	43.28
Metalworking and Steel	250.65	188.72	397.07	658.01	71.89
Pulp and Paper	120.91	39.86	86.24	145.03	11.65
Oil and Gas	235.77	265.31	195.75	286.61	2.930.80
Chemicals	134.69	72.56	142.46	271.83	23.68
Services	620.49	276.92	609.75	961.09	98.20
Telecommunication	19.86	9.07	36.52	49.62	5.71
Textile and Garments	345.16	148.01	336.86	534.98	83.10
Transport	362.92	184.22	293.85	392.65	47.08
<b>Total</b>	<b>5.930.14</b>	<b>2.554.52</b>	<b>5.117.06</b>	<b>8.146.35</b>	<b>3.810.77</b>



**Table 31** - Amount of overdue transactions, segregated by economic sector - 2Q16

R\$ million	2Q16				
	15 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Above 360 days
Government	884.37	0.00	0.06	0.00	0.00
Agribusiness - Animal Origin	81.67	23.48	131.47	173.66	7.47
Agribusiness -Vegetable Origin	342.69	173.63	348.26	277.62	63.55
Construction Specific Activities	282.49	124.07	389.53	523.69	32.36
Automotive	208.98	195.91	421.34	734.98	34.19
Beverages	2.36	1.88	12.17	14.51	0.37
Wholesale Trade and Industries	84.42	70.24	232.97	222.34	15.30
Retail Trade	310.98	189.26	514.87	634.89	50.72
Heavy Construction	115.62	106.18	247.90	197.02	31.00
Leather and Shoes	42.42	20.87	68.70	99.48	4.39
Other Activities	0.60	0.07	1.21	0.59	0.00
Electrical and Electronic Goods	139.00	74.18	315.39	349.91	22.84
Electricity	3.44	1.52	311.32	48.03	6.66
Housing	251.04	157.07	239.33	424.92	30.96
Banks and Financial Services	1.01	1.23	4.28	15.89	0.15
Agricultural Consumables	62.12	28.75	94.25	133.33	5.56
Timber and Furniture	122.44	77.21	241.59	318.07	18.55
Metalworking and Steel	204.45	130.30	437.05	570.20	44.65
Pulp and Paper	50.77	35.93	86.81	135.55	5.58
Oil and Gas	103.26	70.49	204.01	247.44	2,863.31
Chemicals	90.31	57.99	187.01	205.65	24.68
Services	391.72	234.17	619.84	801.75	66.13
Telecommunication	20.11	11.45	29.93	52.98	4.40
Textile and Garments	233.54	102.70	451.92	561.59	34.56
Transport	252.27	131.18	297.84	392.34	29.23
<b>Total</b>	<b>4,282.09</b>	<b>2,019.76</b>	<b>5,889.04</b>	<b>7,136.42</b>	<b>3,396.59</b>

The following table shows the flow of write-off transactions, segmented by economic sector:

**Table 32** - Write-off transactions by economic sector

R\$ millions	4Q16	3Q16	2Q16	1Q16	4Q15
<b>Economic Sector (Write-off)</b>					
Government	0.04	0.00	0.27	0.00	0.00
Agribusiness - Animal Origin	61.59	82.54	157.37	42.91	61.75
Agribusiness -Vegetable Origin	300.69	233.02	228.55	474.66	398.47
Construction Specific Activities	266.75	269.79	234.64	255.04	148.32
Automotive	376.76	432.36	277.44	209.39	165.70
Beverages	4.85	12.34	9.17	9.71	1.29
Wholesale Trade and Industries	108.53	128.81	137.76	122.87	141.58
Retail Trade	346.42	328.28	309.32	275.97	306.33
Other Activities	9.70	9.00	8.03	8.24	67.04
Heavy Constructions	71.31	226.11	41.74	136.69	114.06
Leather and Shoes	48.08	60.44	40.12	45.50	67.37
Electrical and Electronic Goods	175.04	204.71	126.54	149.12	127.79
Electricity	295.11	9.43	6.10	51.65	4.24
Housing	188.48	223.21	176.23	120.71	123.74
Agricultural Consumables	52.25	75.56	83.13	104.48	71.56
Timber and Furniture	142.29	159.16	126.03	134.82	93.74
Metalworking and Steel	274.92	302.58	240.83	150.87	212.27
Pulp and Paper	71.08	65.34	54.17	44.00	57.79
Oil and Gas	115.13	136.53	121.70	131.66	83.45
Chemicals	119.02	119.17	94.71	129.94	89.88
Services	408.21	397.23	342.41	405.16	351.95
Telecommunication	27.82	30.43	31.65	18.66	15.44
Textile and Garments	247.38	343.64	234.77	225.09	222.76
Transport	190.11	234.52	248.73	239.86	166.96
<b>Total</b>	<b>3,901.56</b>	<b>4,084.19</b>	<b>3,331.42</b>	<b>3,487.00</b>	<b>3,093.48</b>
<b>Others</b>					
Individuals	2,037.13	1,989.21	2,007.08	1,663.76	1,618.23
<b>Total</b>	<b>5,938.69</b>	<b>6,073.40</b>	<b>5,338.50</b>	<b>5,150.76</b>	<b>4,711.70</b>





The table below shows the amount of allowances for loan and lease losses, segmented by economic sector and its quarterly variations:

**Table 33** - Total allowances for loan and lease losses in the quarter and variations

R\$ million						
Macro-sector	over 3Q16	4Q16	3Q16	2Q16	1Q16	4Q15
Government	27.92	5.73	4.48	3.47	3.15	2.44
Agribusiness - Animal Origin	8.99	524.56	481.27	457.09	559.15	516.74
Agribusiness -Vegetable Origin	4.88	1,849.60	1,763.59	1,847.53	1,683.03	1,686.66
Construction Specific Activities	6.30	1,250.45	1,176.39	1,103.26	1,045.51	991.25
Automotive	3.01	1,306.73	1,268.52	1,340.76	1,257.16	1,084.46
Beverages	10.07	33.14	30.11	37.83	36.69	38.83
Wholesale Trade and Industries	8.51	676.06	623.02	605.20	568.52	548.31
Retail Trade	8.38	1,629.23	1,503.20	1,364.00	1,259.65	1,153.29
Heavy Construction	0.92	922.78	914.33	971.79	807.30	739.02
Leather and Shoes	8.25	199.46	184.27	192.25	180.90	162.33
Other Activities	35.64	7.00	5.16	1.66	1.58	0.88
Electrical and Electronic Goods	0.46	768.81	765.32	769.47	685.49	632.50
Electricity	-51.08	229.63	469.38	440.65	291.01	245.53
Housing	29.44	1,713.32	1,323.63	1,234.53	1,166.82	1,054.38
Banks and Financial Services	-9.66	111.08	122.96	123.16	111.66	244.94
Agricultural Consumables	20.62	412.82	342.25	318.11	350.19	366.78
Timber and Furniture	9.34	733.25	670.63	634.44	584.18	531.53
Metalworking and Steel	3.03	1,826.36	1,772.58	1,596.86	1,425.50	1,211.61
Pulp and Paper	5.03	317.84	302.62	307.06	264.91	218.35
Oil and Gas	-64.28	1,560.68	4,368.80	4,074.85	3,530.25	1,665.51
Chemicals	10.85	580.61	523.78	475.99	444.08	442.72
Services	14.86	2,305.82	2,007.55	1,862.40	1,728.74	1,615.58
Telecommunication	5.75	962.94	910.62	891.65	182.41	171.60
Textile and Garments	6.32	1,207.51	1,135.74	1,121.23	1,055.22	963.98
Transport	13.57	1,584.97	1,395.53	1,294.32	1,249.80	1,146.62
<b>TOTAL</b>	<b>-5.59</b>	<b>22,720.38</b>	<b>24,065.72</b>	<b>23,069.56</b>	<b>20,472.93</b>	<b>17,435.86</b>

The behavior of credit risk exposure is presented below, considering settings of Bacen Circular n° 3,644/13, segmented by Risk-Weighting Factor (FPR), along with the average exposure of the quarters.

**Table 34** - Credit risk exposure by FPR

R\$ thousand					
Exposure by Risk Factor	4Q16	3Q16	2Q16	1Q16	4Q15 <sup>(2)</sup>
0%	146,293	143,688	141,579	136,394	248,185
20%	660,278	728,419	552,958	372,132	876,308
35%	36,562,820	35,591,508	33,897,234	33,045,118	31,487,012
50%	11,467,343	11,517,007	12,832,391	13,003,725	12,763,883
75%	245,702,481	255,067,941	262,424,117	262,627,348	265,417,200
85%	172,525,796	179,843,691	185,347,390	195,815,976	207,042,329
100%	129,394,718	135,049,302	142,496,894	147,673,350	158,309,255
<b>Total<sup>(1)</sup></b>	<b>596,459,728</b>	<b>617,941,556</b>	<b>637,692,563</b>	<b>652,674,043</b>	<b>676,144,173</b>
<b>Average Exposure in the Quarter<sup>(1)</sup></b>	<b>603,937,597</b>	<b>623,836,562</b>	<b>643,600,396</b>	<b>663,666,576</b>	<b>677,783,063</b>

(1) Includes loans, leasing, commitments after applying the conversion factor, credits to release and guarantees rendered.

(2) According to CMN Resolution 4,193/2013, since 01.01.2015 the calculation of RWA applies to institutions of the prudential conglomerate.

### 6.1.7 Exposure to counterparty credit risks

Banco do Brasil admits assuming counterparty credit risks with clients who have been previously analyzed by the risk calculation methodology, with a credit limit applicable to their profile established, subject to the existence of a sufficient operational margin to cover such operations.

In this way, the counterparty credit risk exposures fall in line with other exposures in the customer's loans on the credit limit assigned to it.





These types of operations affect the client's credit risk according to the estimated value of the counterparty credit risk exposure in the event of a default, applicable credit risk mitigators being taken into consideration, such as the adjacent asset issuer risk, the volatility of the asset, deposited collaterals, the percentage subtracted from the assets used as collateral (haircut), and the rules for additional collateral margin calls, according to the characteristics of the operation performed.

In operations conducted via Clearing Houses (Clearings), there is a risk transfer, where the value of the operations is reflected in the credit limit of the Clearing House.

For operations that are subject to the counterparty credit risk, Banco do Brasil follows what is quoted by Bacen Circular n° 3,068/01, considering the risk as a parameter for the calculation of the market value adjustment of such exposures, affecting the result of the period or in an account apart from the Net Equity, according to the classification of the exposure.

Below is the notional value of contracts subject to counterparty credit risk to be liquidated in clearing house liquidation systems, in which clearing houses acts as central counterparty.

**Table 35** - Notional value of contracts to be liquidated in clearing houses, in which the clearing house acts as central counterparty

R\$ thousand						
Stock Market Negotiation	Counterparty	4Q16*	3Q16*	2Q16*	1Q16*	4Q15
<b>Futures Contracts</b>		<b>12,675,732</b>	<b>11,966,935</b>	<b>10,448,543</b>	<b>8,714,900</b>	<b>17,268,653</b>
Purchase commitments	B	12,675,732	11,966,935	10,448,543	8,714,900	17,268,653
<b>Options Market</b>		<b>194,283</b>	<b>292,020</b>	<b>336,711</b>	<b>3,210</b>	<b>10,481,653</b>
Short Position	B	194,283	292,020	336,711	3,210	10,481,653

Note: Counterparty (B) = Stock Market

\*From 1Q16 Banco Votorantim is consolidated by the asset equivalence method

In the next table, the notional value of the contracts subject to the counterparty credit risk, in which there's no work of the clearing houses as central counterparty is shown, segmented in uncollateralized agreements and collateralized agreements.

**Table 36** - Notional value of contracts subject to counterparty credit risk in which clearing houses do not act as central counterparty

	4Q16	3Q16	2Q16	1Q16	4Q15
<b>Without guarantees</b>					
Derivatives Operations	9,336,844	11,975,527	12,369,071	12,482,184	19,798,457
Currency Operations	395,360	243,014	371,476	202,971	236,783
<b>With guarantees</b>					
Derivatives Operations	6,916,975	9,385,163	10,122,097	6,290,816	11,297,695
Currency Operations	1,637,802	--	2,166,171	2,069	6,921
Repos	616,926,346	774,599,492	765,710,004	655,756,882	615,182,891

The following table shows the positive gross value of contracts subject to counterparty credit risk, including derivatives, outstanding operations, asset loans and repo transactions, disregarding the positive values from compensation agreements, as set forth in CMN Resolution n° 3,263/05.

**Table 37** - Positive gross value of contracts subject to counterparty credit risk

R\$ thousand					
	4Q16	3Q16	2Q16	1Q16	4Q15
<b>Total Gross Positive Value</b>	<b>1,631,532</b>	<b>2,574,719</b>	<b>3,315,969</b>	<b>3,687,653</b>	<b>3,364,605</b>
Derivative Financial Instruments	1,612,563	2,532,084	3,256,272	3,599,503	3,362,032
Currency Operations	1,074	549	23,027	42,946	489
Repos	17,895	42,086	36,670	45,204	2,084



Next, the positive gross collateral received in operations subject to credit risk that cumulatively attends the following requirements, as art.9, section VII, of the Central Bank Circular nº 3,678/13:

- a) be kept or held in custody by the institution itself;
- b) whose exclusive purpose is to guarantee operations to which they are linked;
- c) are subject to movement, exclusively, by order from the depositary institution; and
- d) are immediately available to the depositary institution in the event default by the debtor or need for its realization.

**Table 38** - The value of collaterals that cumulatively meet the requirements of paragraph VII, Art.9, of Bacen Circular nº 3,678/13

R\$ thousand	4Q16	3Q16	2Q16	1Q16	4Q15
Internalized Resources	374,756,453	408,380,147	410,524,870	352,496,567	331,121,387
Brazilian Government Securities	312,647,135	322,138,886	308,289,111	270,073,318	240,566,321
<b>Total</b>	<b>687,403,588</b>	<b>730,519,032</b>	<b>718,813,981</b>	<b>622,569,885</b>	<b>571,687,708</b>

According to the classification of types of collaterals accepted by Bacen, we have identified those that cumulatively meet the conditions established in Bacen Circular nº 3,678/13, considering the value committed as collateral to the linked operation for the purpose of collaterals calculation.

As follows, the global exposure to the counterparty credit risk is shown, net of compensation agreements effects and the collaterals received.

**Table 39** - The value of collaterals that cumulatively meet the requirements of paragraph VII, Art.9, of Bacen Circular nº 3,678/13

R\$ thousand	4Q16	3Q16	2Q16	1Q16	4Q15 <sup>(2)</sup>
<b>Counterparty Credit Risk</b>					
Guarantees Rendered Value	687,403,588	730,519,032	718,813,981	622,569,885	571,687,708
Global Exposure <sup>(1)</sup>	97,945,031	112,028,260	112,068,024	100,097,479	119,058,500

(1) Net of the effects from the guarantees value.

(2) According to CMN Resolution 4,193/2013, since 01.01.2015 the calculation of RWA applies to institutions of the prudential conglomerate.

## 6.1.8 Acquisition, Sale or Transfer of Financial Assets

It is BB's policy to assign credits from non-performing loans, recorded in losses and for which the bank has full risk, after all collection procedures defined in the collections and credit-recovery process have been exhausted, and the selected transactions have reached the savings point, that is, the cost-benefit ratio, does not justify keeping the transactions under collections at the commercial bank.

Credit assignment is also used punctually to dispose of specific credits, when such an operation is considered a viable alternative for its recovery, even if partial.

Below, we show the flow of operations assigned with substantial transfer of risks and benefits.

**Table 40** - Loss operations assigned, with substantial transfer of risks and benefits

R\$ thousands	4Q16	3Q16	2Q16	1Q16	4Q15
Operation Quantity (in thousands)	38	384	490	649	768
Value	1,240,133	785,203	1,564,356	2,029,427	2,284,388

Observation: The data refers to credit assignments ceded to Ativos S.A. Write-off Portfolio Values



BB has no exposure in the following categories:

- a) exposures assigned with no substantial transfer or retention of risks and benefits;
- b) exposures assigned with substantial retention of risks and benefits; and
- c) exposures assigned in the last 12 months with substantial retention of risks and benefits, which were written off as losses.

Below, the value of the portfolio granted with a co-obligation, recorded in the off balance sheet, not in the Assets:

**Table 41** - Value of the portfolio granted with co-obligation, recorded in the off balance sheet

R\$ thousands	4Q16	3Q16	2Q16	1Q16	4Q15
Risk Retention in Loan operations - Operations written off	4,764	5,145	5,182	5,300	5,454

The procedures to acquire financial assets are similar to the standard adopted by the market, which covers the assessment of assigning institution credit risk, the acquired operations and the corresponding debtors. The financial assets acquisitions aim to increase the Bank's credit portfolio diversification.

In compliance with the CMN Resolution nº 3,533 and the related norms, as of January 2012, the accounting registrations started being made by considering the substantial transfer or retention of the acquired financial assets risks and benefits.

**Table 42** - Balance of exposures acquired WITH retention of risks and benefits by the transferor

R\$ million	4Q16	3Q16	2Q16	1Q16	4Q15
<b>a) By type of exposure</b>	<b>15,089</b>	<b>13,111</b>	<b>15,399</b>	<b>16,258</b>	<b>15,691</b>
Physical Person - Payroll Loan	906	1,050	1,277	1,540	1,830
Physical Person - Vehicles	14,183	12,061	14,122	14,718	13,861
<b>b) By type of transferor</b>	<b>15,089</b>	<b>13,111</b>	<b>15,399</b>	<b>16,258</b>	<b>15,691</b>
Financial Institutions	15,089	13,111	15,399	16,258	15,691

**Table 43** - Balance of exposures acquired WITHOUT retention of risks and benefits by the transferor

R\$ million	4Q16	3Q16	2Q16	1Q16	4Q15
<b>a) By type of exposure</b>	<b>1,6</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>9</b>
Physical Person - Payroll Loan	0,6	1	1	1	1
Physical Person - Vehicles	1	2	4	6	8
<b>b) By type of transferor</b>	<b>1,6</b>	<b>3</b>	<b>5</b>	<b>7</b>	<b>9</b>
Financial Institutions	1,6	3	5	7	9

### 6.1.9 Securities (TVM) operations derived from securitization processes

The securities acquired by BB are classified in the following categories:

- a) category I - securities for trading - securities acquired with the intent of actively and frequently trading must be registered here;
- b) category II - securities available for sale - securities that do not fall under categories I or III must be registered here; and
- c) category III - securities held to maturity – securities, except non-redeemable shares, which the institution has the intent and financial capacity to keep in its portfolio until maturity must be registered here.

As follows, the exposures due to TVM operations derived from securitization processes are shown:



## a) types of securities:

- i) Receivables Investment Funds (FIDC): resource pool that allots most of its net assets to be applied in receivables. These are the rights and securities representing rights arising from operations carried out in the financial, commercial, industrial and real-estate, mortgage, financial leasing, and service-provision sectors, as well as other financial assets and investment modes admitted under the terms of CVM Instructions nºs 356/01 and 444/06; and
- ii) Real Estate Receivables Certificates (CRI): these are fixed-income securities backed by real estate credits - counter installments flows of payments to purchase real estate properties or rent - issued by securitization companies.

## b) type of credit backing the issue:

- i) FIDC: vehicles financing, company cash flow receivables, debentures, promissory notes, bank credit certificates, bank credit bill certificates, real estate credit certificates, real estate letters of credit, export and other credit rights credit bills; and
- ii) CRI: real estate loans.

## c) type of security:

- i) FIDC and CRI = senior quota.

**Table 44** - Value of the exposures derived from acquiring FIDC and CRI

R\$ thousand	4Q16		3Q16		2Q16		1Q16		4Q15	
	Qtd e	Valor	Qtd e	Valor	Qtd e	Valor	Qtd e	Valor	Qtd e	Valor
<b>FIDC</b>	6	1503,077,438	6	1,514,806	6	1,503,880	7	1,581,786	7	1,684,101
<b>CRI - category II</b>	9	345056,678	9	342,676	10	400,284	10	489,637	10	468,782
<b>CRI - category III</b>	4	147533,374	4	138,640	4	96,620	3	398,100	3	111,854
<b>TOTAL</b>	<b>19</b>	<b>1995,667,490</b>	<b>19</b>	<b>1,996,121</b>	<b>20</b>	<b>2,000,784</b>	<b>20</b>	<b>2,469,523</b>	<b>20</b>	<b>2,264,738</b>

Note: Information includes BB branches in Brazil and abroad (BB-Multiple Bank).

## 6.2 Market Risk

### 6.2.1 Market Risk Policy

The Bank establishes policies and strategies for managing market and liquidity risks, and to manage derivative financial instruments. These policies and strategies determine the Company's operating guidelines in these risks management process.

The market and liquidity risks management process uses mechanisms set forth in regulatory systems which detail the operational procedures that are necessary to implement the organizational decisions concerning the Company's business and activities and to meet legal, as well as regulatory and oversight bodies' requirements.

### 6.2.2 Management Strategies and Market Risk Framework

It is relevant to mention that, for the market risk management, systems are used to guarantee that positions registered in negotiable and non-negotiable portfolios are measured, monitored, and controlled, as are operations aimed at meeting the hedge objectives established.

Banco do Brasil uses statistical and simulation methods to analyze the market risk of its exposures. Among the metrics used in the application of those methods, we highlight the following:



- a) Sensitivities;
- b) Value at Risk (VaR); and,
- c) Stress.

Sensitivity metrics simulate the effects in the value of exposures resulting from variations in the level of market risk factors.

VaR and Stress are metrics used to estimate the potential loss under routine or extreme market conditions, respectively, dimensioned in monetary values, under a confidence interval and time frame.

The risk factors used in VaR metrics to measure the market risk of exposures are classified into the following categories:

- a) interest rates;
- b) exchange rates;
- c) share prices; and,
- d) commodity prices.

The VaR metrics performance is monthly evaluated by a backtesting process.

### **6.2.3 Hedge Policies**

With respect to hedging policies adopted for market and liquidity risks management, the objectives to be achieved with hedging operations on a consolidated basis are defined, assuring the individual effectiveness of each transaction, subject to the regulations of each jurisdiction.

### **6.2.4 Derivative Financial Instruments**

At the Bank, the derivative financial instruments are used for hedging own positions, meeting the clients` needs and for intentional positions making, considering limits, competence and procedures that were previously established.

The tables below represent the total exposure to derivative financial instruments by category of market risk factor, segmented into positions bought and sold in the following way:

- a) Derivative financial instrument transactions carried out with a central counterpart, subdivided into those in Brazil and those abroad; and
- b) Derivative financial instrument transactions carried out without a central counterpart, subdivided into those in Brazil and those abroad.



**Table 45** - Derivative financial instruments in the country and abroad, by market risk factor, with and without a central counterpart - 4Q16

R\$ thousand		4Q16								
Risk Factor	Negotiation location	Brazil			Abroad			Consolidated-BB		
		Reference value	Cost value	Market value	Reference value	Cost value	Market value	Reference value	Cost value	Market value
<b>Long position</b>		<b>22,670,960</b>	<b>1,665,017</b>	<b>1,534,760</b>	<b>5,187,996</b>	<b>60,624</b>	<b>61,545</b>	<b>27,858,955</b>	<b>1,725,641</b>	<b>1,596,305</b>
<b>Interest rates</b>	Stock market	3,767,529	--	--	--	--	--	3,767,529	--	--
	Counter	4,590,057	821,079	845,682	--	--	4,590,057	821,079	845,682	--
<b>Exchange rates</b>	Stock market	8,900,072	25	67	--	--	8,900,072	25	67	--
	Counter	5,175,187	555,835	484,751	5,187,996	60,624	61,545	10,363,183	616,459	546,296
<b>Share price</b>	Stock market	193,333	285,437	193,333	--	--	193,333	285,437	193,333	--
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	9,082	(25)	14	--	--	9,082	(25)	14	--
	Counter	35,699	2,666	10,912	--	--	35,699	2,666	10,912	--
<b>Short position</b>		<b>14,708,298</b>	<b>(1,187,147)</b>	<b>(,842,915)</b>	<b>11,040,426</b>	<b>(933,610)</b>	<b>(1,027,476)</b>	<b>25,748,725</b>	<b>(2,120,757)</b>	<b>(1,870,390)</b>
<b>Interest rates</b>	Stock market	1,264,307	(17,244)	(30,354)	--	--	1,264,307	(17,244)	(30,354)	--
	Counter	2,767,938	(133,610)	(164,126)	111,061	--	2,878,999	(133,610)	(164,126)	--
<b>Exchange rates</b>	Stock market	,947,282	(2,679)	(,176)	--	--	947,282	(2,679)	(,176)	--
	Counter	9,690,833	(1,032,700)	(,647,865)	10,929,365	(933,610)	(1,027,476)	20,620,198	(1,966,310)	(1,675,341)
<b>Share price</b>	Stock market	--	--	--	--	--	--	--	--	--
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	32,233	--	(125)	--	--	32,233	--	(125)	--
	Counter	5,706	(1,014)	(,268)	--	--	5,706	(1,014)	(,268)	--
<b>Net position</b>		<b>7,962,661</b>	<b>2,852,164</b>	<b>2,377,674</b>	<b>(5852,431)</b>	<b>994,234</b>	<b>1089,021</b>	<b>2,110,231</b>	<b>3,846,397</b>	<b>3,466,696</b>

**Table 46** - Derivative financial instruments in the country and abroad, by market risk factor, with and without a central counterpart - 3Q16

R\$ Thousand		3Q16								
Risk Factor	Negotiation location	Brazil			Abroad			Consolidated-BB		
		Reference value	Cost value	Market value	Reference value	Cost value	Market value	Reference value	Cost value	Market value
<b>Long position</b>		<b>28,989,839</b>	<b>3,112,153</b>	<b>2,941,208</b>	<b>4,629,806</b>	<b>33,115</b>	<b>44,062</b>	<b>33,619,645</b>	<b>3,145,268</b>	<b>2,985,270</b>
<b>Interest rates</b>	Stock market	3,749,672	--	--	--	--	--	3,749,672	--	--
	Counter	6,312,632	1,517,073	1,460,013	--	--	6,312,632	1,517,073	1,460,013	--
<b>Exchange rates</b>	Stock market	8,205,251	13	86	--	--	8,205,251	13	86	--
	Counter	10,389,557	1,229,933	1,180,466	4,629,806	33,115	44,062	15,019,363	1,263,048	1,224,528
<b>Share price</b>	Stock market	289,615	362,753	289,186	--	--	289,615	362,753	289,186	--
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	14,417	43	20	--	--	14,417	43	20	--
	Counter	28,695	2,338	11,437	--	--	28,695	2,338	11,437	--
<b>Short position</b>		<b>15,306,263</b>	<b>(2,047,785)</b>	<b>(1,623,281)</b>	<b>10,009,456</b>	<b>(697,724)</b>	<b>(676,714)</b>	<b>25,315,719</b>	<b>(2,745,509)</b>	<b>(2,299,995)</b>
<b>Interest rates</b>	Stock market	1,761,452	(16,827)	(31,965)	--	--	1,761,452	(16,827)	(31,965)	--
	Counter	3,839,542	(695,271)	(670,206)	165,922	--	4,005,464	(695,271)	(670,206)	--
<b>Exchange rates</b>	Stock market	1,111,431	(4,119)	(,691)	--	--	1,111,431	(4,119)	(,691)	--
	Counter	8,535,978	(1,329,816)	(,915,594)	9,843,534	(697,724)	(676,714)	18,379,512	(2,027,540)	(1,592,308)
<b>Share price</b>	Stock market	11,580	(453)	(247)	--	--	11,580	(453)	(247)	--
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	34,590	(,237)	(174)	--	--	34,590	(,237)	(174)	--
	Counter	11,690	(1,062)	(4,404)	--	--	11,690	(1,062)	(4,404)	--
<b>Net position</b>		<b>13,683,576</b>	<b>5,159,938</b>	<b>4,564,489</b>	<b>(5379,650)</b>	<b>730,839</b>	<b>720,776</b>	<b>8,303,926</b>	<b>5,890,777</b>	<b>5,285,265</b>



**Table 47** - Derivative financial instruments in the country and abroad, by market risk factor, with and without a central counterpart - 2Q16

R\$ thousand		2Q16								
Risk Factor	Negotiation location	Brazil			Abroad			Consolidated-BB		
		Reference value	Cost value	Market value	Reference value	Cost value	Market value	Reference value	Cost value	Market value
<b>Long position</b>		25,331,679	3,296,081	3,161,287	8,239,012	181,219	94,991	33,570,691	3,477,300	3,256,278
<b>Interest rates</b>	Stock market	5,004,419	--	--	--	--	--	5,004,419	--	--
	Counter	7,979,219	1,365,713	1,425,996	294,269	--	--	8,273,488	1,365,713	1,425,996
<b>Exchange rates</b>	Stock market	5,410,786	62	173	--	--	--	5,410,786	62	173
	Counter	6,532,004	1,527,547	1,391,074	7,944,743	181,219	94,991	14,476,747	1,708,766	1,486,065
<b>Share price</b>	Stock market	334,610	401,255	334,610	--	--	--	334,610	401,255	334,610
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	35,439	3	--	--	--	--	35,439	3	--
	Counter	35,202	1,501	9,434	--	--	--	35,202	1,501	9,434
<b>Short position</b>		<b>19,185,690</b>	<b>(2,791,566)</b>	<b>(2,288,687)</b>	<b>8,290,665</b>	<b>(756,014)</b>	<b>(730,213)</b>	<b>27,476,355</b>	<b>(3,547,580)</b>	<b>(3,018,900)</b>
<b>Interest rates</b>	Stock market	1,204,704	(7,032)	(13,770)	--	--	--	1,204,704	(7,032)	(13,770)
	Counter	2,896,110	(607,438)	(618,082)	--	--	--	2,896,110	(607,438)	(618,082)
<b>Exchange rates</b>	Stock market	1,866,022	(8,627)	(1,025)	--	--	--	1,866,022	(8,627)	(1,025)
	Counter	13,110,835	(2,162,805)	(1,646,441)	8,290,665	(756,014)	(730,213)	21,401,500	(2,918,819)	(2,376,654)
<b>Share price</b>	Stock market	1,084	(79)	(111)	--	--	--	1,084	(79)	(111)
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	84,461	(1,536)	(549)	--	--	--	84,461	(1,536)	(549)
	Counter	22,474	(4,049)	(8,709)	--	--	--	22,474	(4,049)	(8,709)
<b>Net position</b>		<b>6,145,989</b>	<b>6,087,647</b>	<b>5,449,974</b>	<b>(51,653)</b>	<b>937,233</b>	<b>825,204</b>	<b>6,094,336</b>	<b>7,024,880</b>	<b>6,275,178</b>

**Table 48** - Derivative financial instruments in the country and abroad, by market risk factor, with and without a central counterpart - 1Q16

R\$ thousand		1Q16								
Risk Factor	Negotiation location	Brazil			Abroad			Consolidated-BB		
		Reference value	Cost value	Market value	Reference value	Cost value	Market value	Reference value	Cost value	Market value
<b>Long position</b>		23,695,630	3,368,545	3,524,544	3,515,169	24,110	43,166	27,210,799	3,392,655	3,567,710
<b>Interest rates</b>	Stock market	4,806,749	--	--	--	--	--	4,806,749	--	--
	Counter	6,976,749	1,685,375	1,690,371	--	--	--	6,976,749	1,685,375	1,690,371
<b>Exchange rates</b>	Stock market	3,889,284	--	--	--	--	--	3,889,284	--	--
	Counter	7,981,345	1,682,048	1,830,376	3,515,169	24,110	43,166	11,496,514	1,706,158	1,873,542
<b>Share price</b>	Stock market	3,210	57	47	--	--	--	3,210	57	47
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	18,867	--	--	--	--	--	18,867	--	--
	Counter	19,426	1,065	3,750	--	--	--	19,426	1,065	3,750
<b>Short position</b>		<b>19,998,554</b>	<b>(3,045,439)</b>	<b>(2,648,896)</b>	<b>15,177,114</b>	<b>(867,206)</b>	<b>(986,747)</b>	<b>35,175,668</b>	<b>(3,912,645)</b>	<b>(3,635,643)</b>
<b>Interest rates</b>	Stock market	936,130	(33,611)	(47,374)	--	--	--	936,130	(33,611)	(47,374)
	Counter	4,493,134	(1,422,031)	(1,408,108)	--	--	--	4,493,134	(1,422,031)	(1,408,108)
<b>Exchange rates</b>	Stock market	2,559,896	(9,109)	(3,925)	--	--	--	2,559,896	(9,109)	(3,925)
	Counter	11,842,206	(1,574,000)	(1,180,932)	15,177,114	(867,206)	(986,747)	27,019,320	(2,441,206)	(2,167,679)
<b>Share price</b>	Stock market	3,552	(165)	(279)	--	--	--	3,552	(165)	(279)
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	128,914	(1,622)	(293)	--	--	--	128,914	(1,622)	(293)
	Counter	34,722	(4,901)	(7,985)	--	--	--	34,722	(4,901)	(7,985)
<b>Net position</b>		<b>3,697,076</b>	<b>6,413,984</b>	<b>6,173,440</b>	<b>(11,661,945)</b>	<b>891,316</b>	<b>1,029,914</b>	<b>(7,964,869)</b>	<b>7,305,300</b>	<b>7,203,353</b>





**Table 49** - Derivative financial instruments in the country and abroad, by market risk factor, with and without a central counterpart - 4Q15

R\$ thousand		4Q15								
Risk Factor	Negotiation location	Brazil			Abroad			Consolidated-BB		
		Reference value	Cost value	Market value	Reference value	Cost value	Market value	Reference value	Cost value	Market value
<b>Long position</b>		<b>17,662,585</b>	<b>2,721,902</b>	<b>3,277,079</b>	<b>4,236,087</b>	<b>32,343</b>	<b>84,953</b>	<b>21,898,672</b>	<b>2,754,245</b>	<b>3,362,032</b>
<b>Interest rates</b>	Stock market	1,042,332	--	--	--	--	--	1,042,332	--	--
	Counter	1,415,196	35,985	15,600	--	--	--	1,415,196	35,985	15,600
<b>Exchange rates</b>	Stock market	13,022,811	1,358,628	1,744,654	--	--	--	13,022,811	1,358,628	1,744,654
	Counter	2,121,268	1,325,940	1,511,528	4,236,087	32,343	84,953	6,357,355	1,358,283	1,596,481
<b>Share price</b>	Stock market	--	--	--	--	--	--	--	--	--
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	27,160	--	--	--	--	--	27,160	--	--
	Counter	33,818	1,349	5,297	--	--	--	33,818	1,349	5,297
<b>Short position</b>		<b>21,371,217</b>	<b>(1,677,384)</b>	<b>(1,723,806)</b>	<b>18,491,193</b>	<b>(1,312,127)</b>	<b>(1,565,366)</b>	<b>39,862,410</b>	<b>(2,989,510)</b>	<b>(3,289,172)</b>
<b>Interest rates</b>	Stock market	6,933,110	(251,801)	(284,900)	--	--	--	6,933,110	(251,801)	(284,900)
	Counter	427,827	(8,669)	(6,864)	--	--	--	427,827	(8,669)	(6,864)
<b>Exchange rates</b>	Stock market	7,370,908	(507,647)	(305,300)	1,163,896	--	--	8,534,804	(507,647)	(305,300)
	Counter	6,530,654	(902,850)	(1,118,949)	17,327,297	(1,312,127)	(1,565,366)	23,857,951	(2,214,976)	(2,684,315)
<b>Share price</b>	Stock market	--	--	--	--	--	--	--	--	--
	Counter	--	--	--	--	--	--	--	--	--
<b>Commodities price</b>	Stock market	83,979	(1,126)	(137)	--	--	--	83,979	(1,126)	(137)
	Counter	24,739	(5,291)	(7,656)	--	--	--	24,739	(5,291)	(7,656)
<b>Net position</b>		<b>(3,708,631)</b>	<b>4,399,286</b>	<b>5,000,884</b>	<b>(14,255,106)</b>	<b>1,344,470</b>	<b>1,650,319</b>	<b>(17,963,738)</b>	<b>5,743,755</b>	<b>6,651,204</b>

## 6.2.5 Negotiable Portfolios

The Negotiable Portfolio is divided into groups and books, always observing the internal rules, approved by the Market and Liquidity Risk Executive Committee (CERML) and by the Global Risk Superior Committee (CSRG), which establish the objectives, the composition, the financial limits and market risk limits for each group or book.

The main types of limits used for the market risk management are: Value at Risk (VaR) and stress tests.

In the case of the Negotiable Book VaR limits, aiming to evidence the level of the market risk that is generated by the exposures and the corresponding impact on the capital requirement for its coverage, the VaR and Stressed VaR metrics are considered.

For measuring the VaR of the Negotiable Portfolio, Banco do Brasil adopts the Historical Simulation technique, and the following parameters:

- a) Total VaR:  $(\text{VaR} + \text{Stressed VaR}) \times \text{Multiplier}$ , where:
  - i) VaR: the potential expected loss considering a series of 252 daily shocks (business days), a confidence level of 99% and a holding period of 10 business days (Central Bank of Brazil, Circular 3,568/11);
  - ii) Stressed VaR: the potential expected loss considering series of daily shocks under stress scenarios within 12 month periods starting at January 2nd, 2004, a confidence level of 99% and a holding period of 10 business days (Central Bank of Brazil, Circular 3,568/11); and





iii) Multiplier: M, as defined by Central Bank of Brazil, Circular 3,568/11.

The following table shows the total value of the Negotiable Portfolio by relevant market risk factor, divided into positions purchased and positions sold:

**Table 50** - Negotiable Portfolio by relevant market risk factor, divided into positions purchased and positions sold.

R\$ thousand					
Risk Factor	4Q16	3Q16	2Q16	1Q16	4Q15
<b>Prefixed</b>					
purchased	1,410,347	1,830,961	1,332,425	938,342	687,132
sold	1,388,106	1,762,596	1,297,998	943,197	662,630
<b>CDI/TMS/FACP</b>					
purchased	328,093	318,873	345,427	76,919	68,588
sold	171,170	448,115	-	515,967	-
<b>Price index</b>					
purchased	112,746	36,083	33,584	319,071	31,244
sold	-	-	-	-	-
<b>Foreign currency /gold</b>					
purchased	667,729	11,532,131	2,402,645	4,363,481	3,597,205
sold	77,152	515,384	279,843	575,131	308,972
<b>Shares</b>					
purchased	-	-	-	-	-
sold	-	-	-	-	-

Note: Patagonia Bank included.

## 6.2.6 Non-negotiable Portfolios

The Financial Conglomerate own position operations not classified under the Negotiable Portfolio are considered components of the Non-negotiable Portfolio. It's noticeable that the own positions held by the companies that are not a part of the Financial Conglomerate cannot be classified under the Negotiable Portfolio.

In accordance with best market practices and the requirements of regulators, the Bank sets policies for managing market risk, including interest rate risk transactions classified in the non-negotiable portfolio. These policies are in accordance with the strategic guidelines of the institution and the general objectives of the management process and predict:

- control of exposures by setting limits;
- portfolio management considering the best risk-return relationship and the internal and external scenarios;
- performing operations to reduce the risks arising from changes in market value or cashflows of the assets and liabilities;
- management of foreign exchange exposure to minimize the effects on the outcome of the institution;
- assessment of impacts on exposures during the creation or modification of products and services; and
- performing monthly stress testing of interest rate exposures.

The Non Negotiable Portfolio (Banking Book) is divided into groups and book, observing the internal rules approved by the Market and Liquidity Risk Executive Committee (CERML) and by the Global Risk Superior Committee (CSRG), which establish the objectives, the composition, the financial limits and the market risk limits for each group or book.

Banco do Brasil uses the Economic Value of Equity (EVE) metric, in order to calculate banking book interest rate risk.



EVE consists in estimating the variation of the economic value of assets, liabilities and derivative instruments of the Institution, comparing the value that was obtained through the use of domestic interest rate shock scenario with the value that was calculated in the current rates scenario.

Among other aspects, it is relevant to highlight that the EVE calculating metric:

- a) includes all the operations that are sensitive to the variation of interest rates and uses risk measuring techniques and financial concepts that are widely accepted;
- b) considers data relevant to rates, deadlines, prices, optionalities and other information that was adequately specified;
- c) requires the definition of adequate premises to turn positions into cash flows;
- d) measures the sensitivity to changes in the temporal structure of interest rates, between different rate structures and premises;
- e) is integrated in the daily practices of risk management;
- f) allows the simulation of market extreme conditions (stress tests);
- g) make it possible to estimate the need of capital for risk coverage.

In order to deal with the products that do not have a defined maturity, Banco do Brasil adopts statistical and econometric methods, from the literature to analyze temporal series, more specifically the methods called ARIMA (Autoregressive, Integrated and Moving Averages).

Such methods assume the hypothesis that a retrospective behavior of the variations that are observed in the balances are important information for the prediction of the future behavior of the cash flow bailouts (random variable of interest) of the balances of funding products that are under a reference. So, those methods assume as feasible the possibility of future occurrence of fluctuations of balances (financial amount of partial bailouts) with a range that is similar to the ones that are observed in the historical series.

The table below shows the impact on the result or on the value assessment of the institution due to shocks in interest rates segmented by risk factors:

**Table 51** - Impact on the result or on the assessment of the institution value due to the shocks in interest rates, segmented by risk factor - Economic Value of Equity methodology

R\$ thousand	Hypothetical Results (EVE)
Risk Factor-Interest Rate	4Q16
Prefixed	(10,237,181)
US Dollar	(296,061)
Euro	(1,240)
TR	6,365,541
TJLP	(100,785)
TBF	2,823
INPC	(393,440)
Other	(286,959)



## 6.2.7 Risk measuring systems and communication and information processes

The market risk measuring process uses corporate systems and the application “Riskwatch”, which primarily aim to:

- a) consolidate managerial information for market risk management;
- b) simulate market scenarios; and
- c) calculate market risk measures.

Riskwatch functions that deserve special emphasis are:

- a) the calculation of market risk indicators, such as Value-at-Risk (parametric and nonparametric), duration, yield;
- b) the elaboration of cash flow reports, either consolidated or by product, marked to market or nominal;
- c) the determination of the portfolio sensitivity to the fluctuations in national and international interest rates;
- d) the calculation of the theoretical result of portfolios after the application of historical and stress scenarios; and
- e) the elaboration of the reports on the mismatching of maturities, rates, indexes and currencies.

At the Bank, the own positions are segregated in Trading Portfolio and Non-Trading Portfolio. The criterion to classify the operations in the Trading Portfolio is defined by CSRG, which also sets, in the sphere of the Prudential Conglomerate, the policy for the classification of operations in the Trading Portfolio.

The own positions held by companies that are not part of the Prudential Conglomerate are not subject to the classification in the Trading Portfolio.

For the market risk management process, the Bank makes use of a structure of management groups and books, both for the domestic area and for the international area, with specific objectives and limits of exposure to risks.

Regarding the limits of exposure to market risks, the CSRG establishes the following classification criteria:

Global limits: applied to the Trading and Banking Book Portfolios, to the set of transactions subject to capital requirements and to the interest rate risk in the Banking Book Portfolio (RTJBB) and approved by CSRG, The main metrics used for management are Value-at-Risk (VaR), stress and financial volume, both for trading and for banking book, and EVE, for banking book.

Specific limits: applied to the management groups and books of the Trading and Banking Book Portfolios or to both Portfolios, to the market risk factors of transactions subject to capital requirements and to the market risk factors sensitive to the interest rate risk in the Banking Book Portfolio (risk factors of RTJBB) and approved by the CERML, The main metrics used for management are Value-at-Risk and stress, both for trading and for banking book, and EVE, for banking book.

Operational limits: applied to transactions that make up the management groups and books, enabling the disclosure of the effective risk level of assumed exposures and aiming to ensure compliance with the strategies and the global and specific limits



established, They are defined and approved by Diris presenting as main metrics the Value-at-Risk and operating bands of exposure to market risks.

Diris reports the consumption of the specific and operational limits to the managers of the groups and books of the Trading and Banking Book Portfolios daily. It reports the consumption of overall limits to the strategic committees monthly, through the Market and Liquidity Risk Management Report and Risks Dashboard.

In case limits are exceeded, Diris, responsible for controlling and monitoring the portfolio, issues a document called "Limit Exceeding Form". The managers of groups and books should submit their reasons for exceeding limits and specify the deadline for regularization. In turn, the hierarchical level with the authority to manage the case should issue an opinion on the manager's pronouncement. The team responsible for monitoring the limit is responsible for keeping track of the categorization actions.

## **6.3 Liquidity Risk**

### **6.3.1 Liquidity Risk Policy**

Banco do Brasil has a liquidity risk policy which comprises the guidelines of the Company in its liquidity risk management process, approved by the CA and revised annually.

The liquidity risk policy presents the liquidity risk of operations recorded on assets, liabilities and offset accounts that are carried out in the financial and capital market, as well as possible contingent or unexpected exposures, taking into account different time horizons and estimating losses associated with different scenarios, internal and external, including stress scenarios. It also considers funding strategies that provide adequate diversification of funding sources, maturity and currency terms and liquidity contingency plan.

### **6.3.2 Liquidity Risk Processes and Strategies**

BB maintains appropriate levels of liquidity for its commitments in Brazil and abroad, resulting from its broad and diversified depositor base and the quality of its assets, a well-diversified branches network and its ability to access the international capital market. Strict control over liquidity risk is in accordance with the Liquidity Risk Policy established by the Board of Directors, complying with the requirements of Brazilian banking supervision and that of the other countries where BB operates.

The liquidity risk management process involves continuous flow of information, according to the phases presented in the risk management process chapter.

BB's liquidity risk management segregates liquidity in Reais from liquidity in foreign currencies. The instruments used in the management are:

- a) Liquidity Projections;
- b) Stress Tests;
- c) Liquidity Risk Limits;
- d) Liquidity Contingency Plan;

The liquidity risk management instruments are monitored periodically and reported in BB's strategic committees.



The Liquidity Projections ensure a forward-looking assessment of the effect of mismatching between funding and investments, in order to identify situations that could compromise the liquidity of the Institution, taking into account both budgetary planning and market conditions.

Liquidity Projections are assessed periodically under alternative and stress scenarios. If the result of any of these liquidity projection scenarios remains below the adopted liquidity level limit, then the previously established Contingency Measures Potential are put into effect, in order to recover the Institutions' liquidity.

Furthermore, Banco do Brasil uses the following metrics for Liquidity Risk limits:

- a) Liquidity Reserve (RL);
- b) Liquidity Cushion; and
- c) Availability of Free Resources Indicator (DRL); e
- d) Liquidity Coverage Ratio (LCR).

Liquidity Reserve is the metric used in short-term liquidity risk management. It is the minimum level of high liquidity assets the Bank must maintain, compatible with the risk exposure arising from the nature of its operations and market conditions. The Liquidity Reserve methodology is used as a parameter to identify a liquidity contingency and to activate the Liquidity Contingency Plan, being monitored daily.

The following figure shows BB's monthly monitoring of the Liquidity Reserve in local currency.

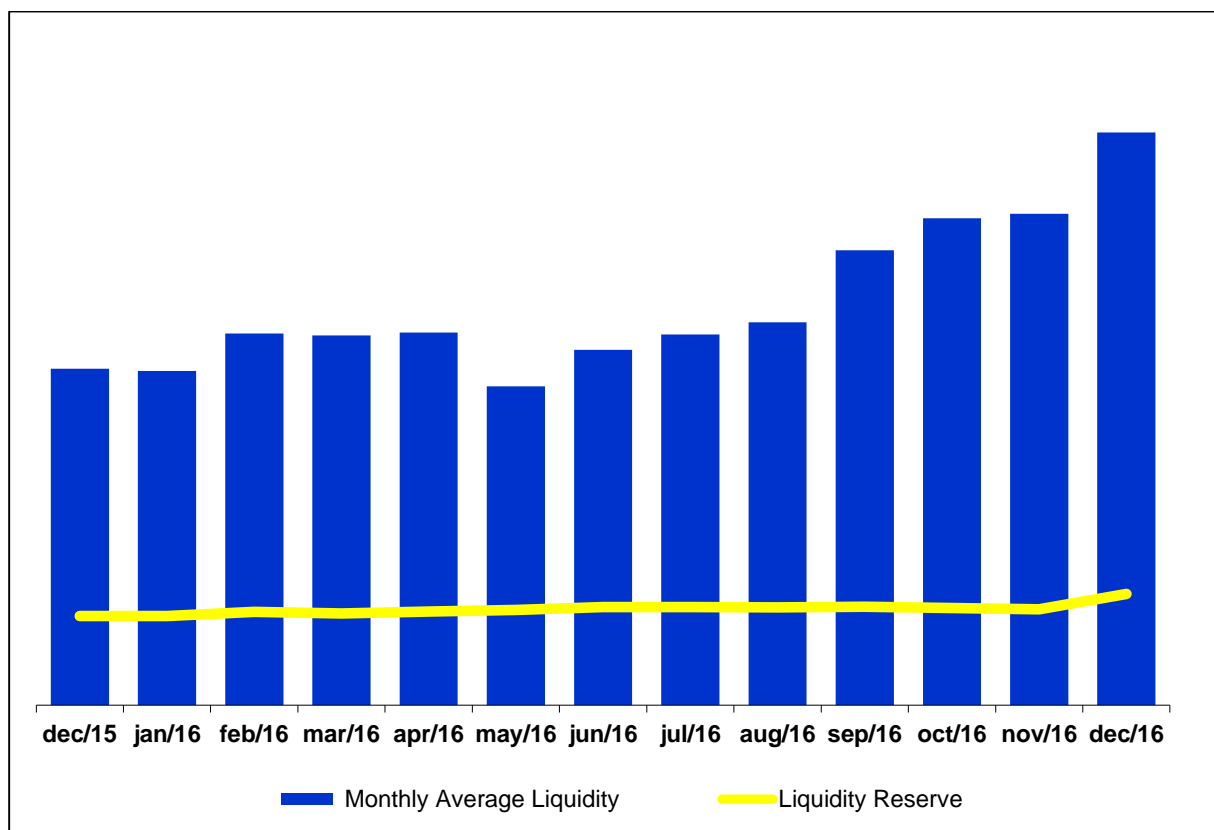


Figure 9 - Liquidity in Local Currency

The following figure shows BB's monthly monitoring of the Liquidity Reserve in foreign currency:



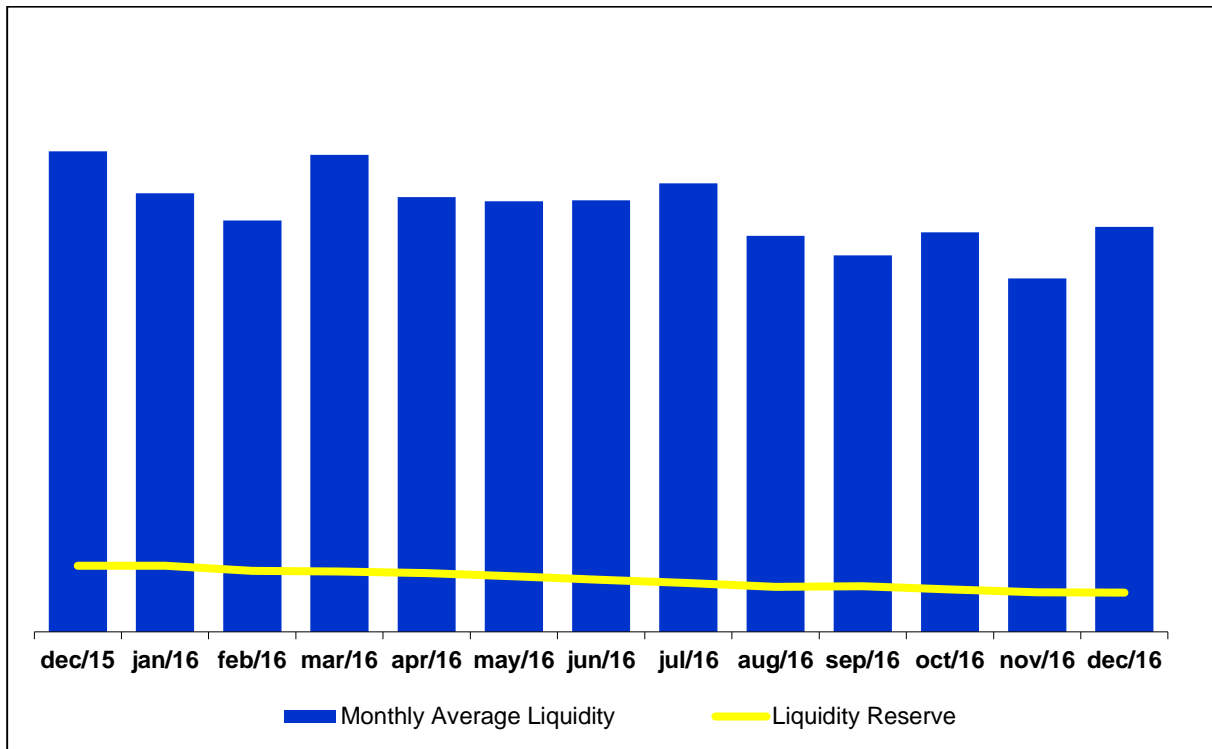


Figure 10 - Liquidity in Foreign Currency

The Liquidity Cushion limit aims to monitor the daily observed liquidity in addition to the daily monitoring of liquidity projections in various scenarios: base and stress, using the Liquidity Reserve limit.

The Availability of Free Resources indicator (DRL), used in planning and in the execution of its annual budget, is intended to ensure a balance between funding and the investment of resources in the commercial portfolio and ensure liquidity financing with stable resources, and is defined annually by the Global Risk Superior Committee (CSRG), and its monitoring occurs on a monthly basis.



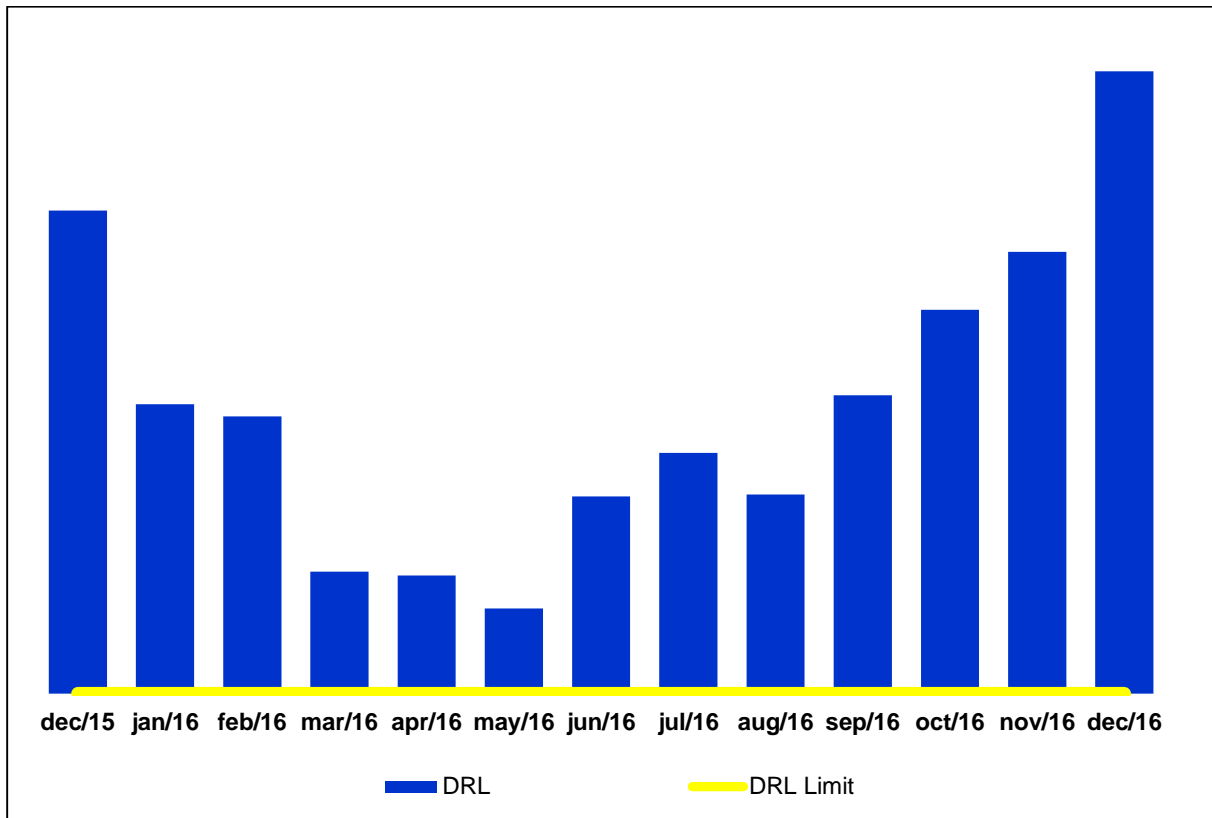


Figure 11 - DRL Indicator

The Liquidity Contingency Plan, on its turn, establishes procedures and responsibilities to be adopted in liquidity stress situations. In that case, one or more contingency measures may be adopted so that the institution can assure its payment capacity. The potential of liquidity contingency measures is verified monthly.

### 6.3.3 Liquidity Risk measuring systems

Liquidity risk measuring process makes use of corporate systems and the Riskwatch application. The main objectives of the Riskwatch application are:

- consolidate management information of the Bank, ascertaining and providing information for liquidity risk management and for assets and liabilities management;
- provide liquidity risk measurements (products/cash flows by currency and index), as well as assets and liabilities management.

The main functions of the RiskWatch application are the same mentioned for market risk.

The measurements and report terms of management tools adopted in the liquidity risk management process, presented in the previous chapter, are performed in accordance with the models and methodologies approved by the strategic risk committees.

Diris assess the consumption of limits for local and foreign currency liquidity daily. In the event of extrapolations, they are treated according to established governance, including both the Liquidity Forum and strategic risk committees.

The communication of the Bank liquidity risk management to Senior Management occurs in the ordinary meetings of the strategic risk committees, as it happens to the “Risk Dashboard” and “Market and Liquidity Risk Management Report”.





### 6.3.4 Liquidity Coverage Ratio (LCR) Calculation

The Liquidity Coverage Ratio (LCR) is a requirement for banks with more than R\$ 100 billion total assets, in accordance with CMN Resolution nº 4.401/15.

The LCR calculation follows the standardized stress scenario model established by the Central Bank of Brazil (Bacen) through Circular nº 3.749/15. This model complies with international guidelines and aims to guarantee the existence of sufficient high quality liquid assets to support a financial stress scenario with a 30 - day term.

The standardized stress scenario used to calculate the LCR considers idiosyncratic and market shocks that results in:

- a) partial funding loss from:
  - i. retail operations;
  - ii. wholesale operations without collaterals ;
- b) partial loss in the institution`s ability to raise short - term funds;
- c) additional outflow of funds under agreement due to three levels credit risk downgrade, including additional collateral requirement;
- d) increase in the volatility of prices, rates or indexes that impact the quality of a collateral or the potential future exposure of derivative positions, resulting in the application of greater discounts to a collateral or additional collateral call, or other demands for liquidity;
- e) withdrawals higher than expected in lines of credit and liquidity granted; and
- f) the potential need to repurchase bonds issued or honor non-contractual obligations aiming to mitigate reputational risk.

The LCR is the ratio between high quality liquid assets (HQLA) and the expected total net cash outflow for 30 days, as the following formula shows:

$$LCR = \frac{\text{High Quality Liquid Assets (HQLA)}}{\text{Net Cash Outflows}}$$

Where: Net Cash Outflows = Cash Outflows (-) Cash Inflows  
Cash Inflows is limited to 75% of cash outflows

According to regulation, the HQLA are assets that remain liquid in markets during periods of stress, which are easily and immediately converted into cash with low or without losses, it has no impediments, with a low risk and whose pricing is easy and right.

Net cash outflows are the cash outflows minus the cash inflows. Cash outflows are calculated by multiplying the balances of the various categories of obligations and commitments, recorded to liabilities or off balance sheet, by weighting factors.

Cash inflows are calculated as of the multiplication by weighting factors, the balances of the various categories of receivables without default, for which there is no expectation of counterparty failure in the next 30 days.

The following table presents the LCR implementation schedule in Brazil, in which the minimum requirement of the indicator will increase gradually to reach 100% from January 2019.



Table 52 - LCR Implementation Schedule

Indicator	oct/15	jan/16	jan/17	jan/18	jan/19
LCR Requirement	60%	70%	80%	90%	100%

The following table shows LCR figures calculated using the average values sent to Bacen from October to December 2016:

Table 53 - Information on the Liquidity Coverage Ratio (LCR)

	Average Amount <sup>1</sup>	Weighted Average Amount <sup>2</sup>
<b>High Quality Liquid Assets (HQLA)</b>		
<b>1 Total High Quality Liquid Assets (HQLA)</b>		<b>116,772,055</b>
<b>Cash Outflows</b>		
<b>2 Retail funding:</b>	<b>364,075,117</b>	<b>20,362,038</b>
3 Stable funding	235,574,916	7,067,247
4 Less stable funding	128,500,201	13,294,790
<b>5 Non-collateralized wholesale funding:</b>	<b>62,053,286</b>	<b>29,165,659</b>
6 Operating deposits (all counterparties) and affiliated cooperative deposits	0	0
7 Non-operating deposits (all counterparties) and affiliated cooperative deposits	61,983,556	29,095,929
8 Other non-collateralized wholesale funding	69,730	69,730
<b>9 Collateralized wholesale funding</b>		<b>1848,019</b>
<b>10 Additional requirements:</b>	<b>161,147,111</b>	<b>30,306,101</b>
11 Related to exposure to derivatives and other collateral requirements	18,766,565	18,766,565
12 Related to funding losses through the issue of debt instruments	1297,727	1297,727
13 Related to lines of credit and liquidity	141,082,818	10,241,809
<b>14 Other contractual obligations</b>	<b>21301,278</b>	<b>21301,278</b>
<b>15 Other contingent obligations</b>	<b>9,158,928</b>	<b>1,086,850</b>
<b>16 Total cash outflows</b>		<b>104,069,944</b>
<b>Cash Inflows</b>		
<b>17 Collateralized loans</b>	<b>238,918,258</b>	<b>-</b>
<b>18 Outstanding loans whose payments are fully up-to-date</b>	<b>40,074,575</b>	<b>20,250,167</b>
<b>19 Other cash inflows</b>	<b>50,608,192</b>	<b>50,504,010</b>
<b>20 Total cash inflows</b>	<b>329,601,026</b>	<b>70,754,176</b>
		<b>Total Adjusted Amount<sup>3</sup></b>
<b>21 Total HQLA</b>		<b>116,772,055</b>
<b>22 Total net cash outflow</b>		<b>33,315,768</b>
<b>23 LCR (%)</b>		<b>350.50%</b>

1 - Total balance of cash inflow/outflow item

2 - Total balance of cash inflow/outflow item after application of weighting factors.

3 - Total balance of cash inflow/outflow item after application of weighting factors and limits.

The average Banco do Brasil LCR for 4Q16 recorded to 350.5%.

High Quality Liquid Assets are represented mainly by Brazilian Government securities in addition to the amounts considered as a return from compulsory reserve collected to the Central Bank of Brazil. The average HQLA volume for the quarter was R\$ 116.8 billion.

Cash outflows, considering the regulatory stress scenario, recorded in the quarter to an average amount of R\$ 104 billion and were mainly composed (approximately 68%):

- a) by retail and wholesale funding non-collateralized, as presented on items 2 and 5 of the table;
- b) by values mainly from credit card payments to merchants, as presented on item 14 of the table.



Cash inflows amounted to a quarter average value of R\$ 70.8 billion in the quarter. The value of cash inflows from loans amounted for R\$ 20.3 billion, or 29% of total cash inflows (item 18).

It is possible to conclude that Banco do Brasil has sufficient liquid assets to support the standardized stress scenario proposed by the regulator.

Table 54 - Information on the Liquidity Coverage Ratio (LCR)

R\$ thousand

	2Q16		3Q16		4Q16		
	Average Amount <sup>1</sup>	Weighted Average Amount <sup>2</sup>	Average Amount <sup>1</sup>	Weighted Average Amount <sup>2</sup>	Average Amount <sup>1</sup>	Weighted Average Amount <sup>2</sup>	
<b>High Quality Liquid Assets (HQLA)</b>							
1	<b>Total High Quality Liquid Assets (HQLA)</b>		<b>91,216,906</b>		<b>108,066,187</b>		
<b>Cash Outflows</b>							
2	<b>Retail funding:</b>		<b>373,232,242</b>		<b>27,529,995</b>		
3	Stable funding	145,852,891	4,375,587	148,483,011	4,454,490	235,574,916	
4	Less stable funding	227,379,351	23,154,408	224,472,714	22,854,072	128,500,201	
5	<b>Non-collateralized wholesale funding:</b>		<b>60,558,781</b>		<b>31,103,787</b>		
6	Operating deposits (all counterparties) and affiliated cooperative deposits	0	0	0	0	0	
7	Non-operating deposits (all counterparties) and affiliated cooperative deposits	60,479,851	31,024,856	53,878,420	26,686,795	61,983,556	
8	Other non-collateralized wholesale funding	78,931	78,931	71,438	71,438	69,730	
9	<b>Collateralized wholesale funding</b>		<b>97,785</b>		<b>193,073</b>		
10	<b>Additional requirements:</b>		<b>177,877,913</b>		<b>38,589,532</b>		
11	Related to exposure to derivatives and other collateral requirements	26,788,946	26,788,946	7,607,069	7,607,069	18,766,565	
12	Related to funding losses through the issue of debt instruments	903,563	903,563	653,194	653,194	1297,727	
13	Related to lines of credit and liquidity	150,185,404	10,897,023	145,273,602	10,531,719	141,082,818	
14	<b>Other contractual obligations</b>		<b>104,462</b>		<b>104,462</b>		
15	<b>Other contingent obligations</b>		<b>12,142,634</b>		<b>1,043,086</b>		
16	<b>Total cash outflows</b>		<b>98,468,648</b>		<b>94,613,389</b>		
<b>Cash Inflows</b>							
17	<b>Collateralized loans</b>		<b>228,273,390</b>		<b>-</b>		
18	<b>Outstanding loans whose payments are fully up-to-date</b>		<b>39,747,390</b>		<b>21,580,695</b>		
19	<b>Other cash inflows</b>		<b>62,431,700</b>		<b>56,702,932</b>		
20	<b>Total cash inflows</b>		<b>330,452,481</b>		<b>78,283,627</b>		
		<b>Total Adjusted Amount<sup>3</sup></b>		<b>Total Adjusted Amount<sup>3</sup></b>		<b>Total Adjusted Amount<sup>3</sup></b>	
21	<b>Total HQLA</b>		<b>91,216,905</b>		<b>108,066,187</b>		
22	<b>Total net cash outflow</b>		<b>24,617,162</b>		<b>24,365,683</b>		
23	<b>LCR (%)</b>		<b>370.54%</b>		<b>443.52%</b>		

1 - Total balance of cash inflow/outflow item

2 - Total balance of cash inflow/outflow item after application of weighting factors.

3 - Total balance of cash inflow/outflow item after application of weighting factors and limits.

## 6.4 Operational Risk

The functions and activities related to the management of that risk was centralized in the Operational Risk Unit (URO), whereas the Risk Management Directorship (Diris) is responsible for the calculation of the values of capital allocation to cover risks.

The responsible for Banco do Brasil's operational risk management before the Central Bank of Brazil (Bacen) is the Risk Management Director.

### 6.4.1 Specific Operational Risk Policy

The Specific Operational Risk Policy, reviewed and approved annually by the Board of



Directors (CA), contains guidance for the Bank's units, intended to ensure the effectiveness of the operational risk management model and it is expected that the Subsidiaries, Affiliates and investment Companies define their directions based on these guidelines, considering the specific needs, legal and regulatory issues which they are subject to.

The Bank also has other policies that make up the list of policies associated to the management of the operational risk, such as:

- a) Prevention and Combat against Money Laundering, Terrorism Financing and Corruption;
- b) Business Continuity Management;
- c) the Bank Relationship with Suppliers;
- d) Legal Risk Management;
- e) Information Security and Operational Risk Management.

#### **6.4.2 Management Strategies and Operational Risk Framework**

Banco do Brasil performs the operational risk management, segregating the functions of risk and business managements, in compliance with good risk management practices, regulations and guidelines for supervision and bank regulation.

Aiming to establish a single common language for the whole organization, the Bank uses the Operational Risk Event Dictionary. The use of this instrument, besides contributing with the acculturation of risk inside the organization, ensures a clear and easy knowledge of the risks associated to its processes and activities, by classifying them properly.

In order to reduce operational losses, indicators and targets were approved by the Board of Directors (CA) and were included in the Bank's current Corporate Strategy and in the Master Plan, with the objective of promoting timely actions on the main causes of operating losses.

Strategic management takes place in the Global Risk Superior Committee (CSRG), composed by the President and Vice - Presidents, whose purpose is to establish guidelines, as well as to define global limits to risk exposure.

Banco do Brasil defines Global Operational Loss Limit, which is based on the maximum amount of losses for the period of one year. That limit is in line with the strategy of reducing operational losses and with the values established in the institution's budget.

The Bank uses Specific Limits of Operational Losses per manager of products, services and channels in order to involve several areas in the operational risk mitigation.

In order to speed up the management process, issues related to operational risk are deliberated in the Executive Committee of Internal Controls and Operational Risk (CERO).

The consumption of the Global and Specific Limits are reported monthly to CSRG and CERO. The behavior of operational losses, mitigation and diagnosis of major losses incurred are also detailed.



The proposition/adoption of measures to keep the risk parameters (exposure, limits etc.) are also among the assignments of CERO within the maximum exposure defined by CSRG.

The Bank has Legal and Operational Risks Technical Forums, subordinated to CERO, which aim to contribute with the reduction of operational losses by means of identifying, assessing and proposing mitigating actions.

### **6.4.3 Operational Risk Assessment**

The assessment consists of quantifying the Bank's exposure to operational risks, in order to assess its impact on business and analyzing the probability and severity of the identified potential risks.

The Operational Risk Assessment Methodology adopted by the Bank considers the impact and vulnerability to assess the potential risks, improving the current Internal Control and Risk Management Bank System, maintaining the alignment to the best practices in the market and supported in the main international standards.

### **6.4.4 Measurement Systems**

The Bank uses a model based on the Alternative Standardized Approach (ASA) to calculate capital for operational risk.

The capital portion value for operational risk corresponds to the Referential Equity (PR) consumption for operational risk coverage. This metric monitoring is defined by strategic committees - CSRG and CERO.

As for the management of the provision for contingent demands, the Bank uses a methodology based on statistical techniques, which ensures greater stability and accuracy in estimating disbursement to cover losses that result from lawsuits. That methodology is continuously accompanied by the CSRG, which is the governance area that is responsible for approving the methodologies, criteria and patterns to calculate the provisions for contingent demands.

### **6.4.5 Operational Risk Mitigation**

Aiming to prevent, correct or inhibit failures or deficiencies that can cause risks, URO issues Operational Technical Recommendations, so the areas that are responsible for processes, products and services implement correcting actions aiming to mitigate the identified operational risk.

The correcting actions are registered in a corporative tool that ensures the monitoring, assessment and the reporting of the implemented measures.

URO also acts in the analysis of security incidents - physical and virtual channels - with continuous monitoring, seeking to inhibit attacks and retrieve values.

### **6.4.6 Control of Operational Risk**

The Bank monitors the behavior of the risks, limits, indicators and operational loss events in order to ensure that the values remain within the desired levels.

The following table presents the monitoring of the operational losses of the Bank held by categories of risk events, in percentage terms. It is noteworthy that the Bank considers the constitutions / reversals of provisions - especially for contingent liabilities - total calculated in operational losses for the categories: Employment Practices and Workplace Safety, Clients, Products & Business Practices and Execution, Delivery & Process Management:



**Table 55** - Operational losses monitoring by loss events category

	4Q16	3Q16	2Q16	1Q16	4Q15
Employment Practices and Workplace Safety	29.53%	29.64%	63.90%	44.13%	61.61%
Clients, Products & Business Practices	51.35%	51.6%	20.71%	33.45%	(0.92%)
External Fraud and Theft	14.56%	15.69%	16.57%	14.79%	25.66%
Execution, Delivery & Process Management	4.22%	2.1%	0.87%	6.68%	10.83%
Internal Fraud and Theft	0.26%	0.85%	0.12%	0.67%	2.07%
Damage to Physical Assets and Public Safety	0.05%	0.12%	0.01%	0.20%	0.32%
Technology and Systems Failures	0.02%	0.01%	0.00%	0.08%	0.44%
Disruption of Activities	0%	0%	(2.17%)	0.00%	0.00%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## 6.5 Environmental Risk

### 6.5.1 Environmental Responsibility Policy

In compliance with CMN Resolution nº 4,327, dated 04.25.2014 and the SARB Regulation n.14, dated 08.28.2014 (Self – regulation of Brazilian Banks Federation - Febraban), the specific environmental responsibility policy permeates activities related to the risk management.

### 6.5.2 Environmental Risk Management Strategies

The Bank's performance is based on policies and processes approved by the Senior Management and the management structure segregates the risk management process from the other corporate processes.

The Bank adopts a risk management structure that aims to identify, classify, assess, monitor, mitigate and control the environmental risk. The Bank also has an environmental responsibility governance structure and environmental risk management which is compatible to its size, business type, the complexity of the products and services, and the relations established with the interested public.

The socio-environmental risk management structure covers Directorships and Units whose roles and responsibilities are defined and has the participation of the Management Bodies and the Strategic Committees.

In the socio-environmental risk management model, the Directorships and Units provide the necessary information to the management so that the risk area can identify exposures and advise the decision-making process at risk.

The Bank has processes that contribute with the implementation of social-environmental responsibility actions, like the Dow Jones Sustainability Index (DJSI), the Entrepreneurial Sustainability Index (ISE), 30 Agenda, Sustainability for Executive Officers` Forum, the Equator Principles and the International Finance Corporation (IFC) Performance Standards.

## 6.6 Other Risks

In the model of the strategy, reputational, Complementary Pension Fund Entities and Private Health Insurance Plan Operators for Employees Risk (EFPPS) and legal risks management, the intervening directorships provide the necessary information for the management, so the risk area can identify exposures and assist the decision-making process in a risk situation.

The way the Bank acts is based on policies and processes approved by the Senior Management. The report and risks control is periodically made and the results are communicated to the competent instances.





### 6.6.1 Strategy Risk

The Bank defines strategy risk as the possibility of losses derived from adverse changes in the business environment or the usage of inadequate assumptions in strategic decision making.

The strategy risk management structure segregates the risk management process from the Strategy management corporate processes in Banco do Brasil, by bringing into evidence the responsibility of the areas involved and aiming to ensure the sustainable feedback to stakeholders.

The strategy risk management policy guides the corporate resources applied to its management, defines the scope and specifies the need to establish governance tools.

BB periodically monitors indicators that reflect the strategy risk level incurred by the Institution. The control of those indicators is made by means of pre-established tolerance limits, in order to ensure that the risk remains in the acceptable level. The objective of that process is to promote the proactive management in decision making.

Besides the monitoring of indicators, the Bank elaborates macroeconomic and the financial industry scenarios, aiming to better assess the market threats and mitigate the risk in strategic decisions. In addition, strategy risk stress tests are performed every six months to assess the impact of adverse or severe scenarios.

### 6.6.2 Reputational Risk

The Bank defines reputational risk as the possibility of losses derived from the negative perception about the Institution from clients, counterparties, shareholders, investors, governmental bodies, the community or supervisors that can adversely affect the business sustainability. That concept is subdivided into the categories “businesses and relations” and “controls and compliance”.

The reputational risk management structure segregates the risk management structure from the brand management corporate processes, which depicts the responsibility of the areas that are involved and aims to ensure a sustainable feedback to shareholders.

The reputational risk management policy guides the corporate resources applied to its management, defines the scope and specifies the need to establish governance tools.

BB periodically monitors indicators that reflect the reputational risk level incurred by the Institution. The control of those indicators is made by means of pre-established tolerance limits, in order to ensure that the risk remains in the acceptable level. The objective of that process is to promote the proactive management in decision making.

In the category “businesses and relations”, indicators about the quality of mentions in the press, social media and SAC, as well as about the perception from investors are monitored.

In the category “controls and compliance”, indicators related to the perception from regulators, the occurrences registered in the external ombudsman and the quality of the anti-money laundering process are monitored.

Besides the indicators monitoring, the Bank works on reputational risk stress tests to assess the impact of adverse or severe scenarios monthly.





### 6.6.3 Complementary Pension Fund Entities and Private Health Insurance Plan Operators for Employees Risk (EFPPS Risk)

The EFPPS risk is managed in the dimensions: sponsor, pension fund plans and health insurance plans, aiming to assess the negative impact which is consolidated in the Bank's net equity and actuarial, economic-financial balance of the pension fund plans of defined benefits and sponsored health insurance plans.

It is important to mention that the EFPPS risk management structure segregates the risk management process from Banco do Brasil's corporate processes, by establishing the responsibility of the areas that are involved, with the engagement of the Management Bodies and the Strategic Committees.

### 6.6.4 Legal Risk

As it is regulated by the CMN Resolution nº 3.380, from 06.29.2006, the legal risk is part of the operational risk definition, so the operational risk management structure, when defining its management model, predicts its identification, assessment, monitoring, mitigation and control, which have already been detailed in the item 6.4 of this report.

## 7 Stress Test Program

The Basel Committee for Banking Supervision (CBSB)<sup>2</sup> defined Stress Tests as an assessment of the Bank's financial position under a severe, but plausible stress scenario. So the capital integrated stress test model adopted by Banco do Brasil aims to test the resilience before the possibility of macroeconomic or idiosyncratic extreme events occurrence.

So, BB works on stress exercises considering:

- a) Stress Tests per Risk: stress tests used in the management of each risk, by considering their specificities;
- a) Business Stress Tests: stress tests of the results and equity items;
- b) Capital Integrated Stress Tests (TEIC): stress tests based on an only scenario of severe macroeconomic conditions or an idiosyncratic scenario, depending on the case, applicable to risk variables in an integrated way, to business variables and their impacts on the results, on the Net Equity (PL) and on the Institution's capital indicators.

For the exercise to accomplish its objective, the Bank uses assumptions that produce extreme situations, although plausible, capable of generating results in which solvency requirements are extrapolated.

It is important to mention that, for the accomplishment of TEIC, the Bank uses corporate stress integrated scenarios, which are approved by CEGC and define the intensity of different shocks.

The usage of the stress test as a management tool aims to provide the risks forward-looking assessment, aiming to evaluate the adherence to the Bank's risk appetite level, subsidize the development of contingency plans and risk mitigation processes and support capital and liquidity planning processes.

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<sup>2</sup> Principles for sound Stress Testing practices and supervision (mai/09).

