

MCDERMOTT INTERNATIONAL INC
Form DEF 14A
March 24, 2017

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

CHECK THE APPROPRIATE BOX:

<input type="checkbox"/>	Preliminary Proxy Statement
<input type="checkbox"/>	Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
<input type="checkbox"/>	Definitive Proxy Statement
<input type="checkbox"/>	Definitive Additional Materials
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McDermott International, Inc.

(Name of Registrant as Specified In Its Charter)
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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In early 2017, McDermott acquired the newly built pipelay and construction vessel Amazon to better position the Company for ultradeepwater and subsea, umbilicals, risers and flowlines projects. McDermott plans to upgrade the vessel to address the ultradeepwater market with a state-of-the-art J-lay system outfitted with the latest vessel technology.

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LETTER TO STOCKHOLDERS

Gary P. Luquette
Independent Chair
of the Board

Our 2016 results are the culmination of our three year journey to improve execution in our base business while positioning McDermott for growth.

Dear Fellow Stockholders:

A Year of Strong Financial and Operating Performance

We are pleased to report that 2016 was a year of strong operational and financial performance for McDermott, despite persistent challenges presented by the macro oil and gas market:

120% TSR **\$2.6B** Revenues **\$142.3M** Operating Income **\$4.3B** Backlog

These strong results are a testament to the leadership of McDermott and successfully executing our operational strategy. Continued improvements in project execution, increased focus on cost control and strengthening customer relationships all contributed to our best results in many years, including the strongest total shareholder return among peers for the second consecutive year.

The Culmination of a Three Year Journey

Our 2016 results are the culmination of our three year journey to improve execution in our base business while positioning McDermott for growth. Although 2014 began with the business facing financial difficulty, we took meaningful actions to develop and execute a turnaround plan for our business. These actions resulted in considerably improved financial results for 2015 against the backdrop of deteriorating market conditions. In 2016, we remained highly focused on items within our control and executed our operating strategy to drive sustainable and profitable growth with an increased focus on stockholders, customers and all of our stakeholders.

Continued Alignment of Operating Strategy, Financial Goals and Executive Compensation

Our 2016 results reflect the achievement of our 2016 business objectives, which include driving enhanced profitability through improved project execution, supporting future business through increased backlog, promoting pricing discipline on new bids, prioritizing liquidity needs through cost management and efficiently allocating capital to profitable investments. Key 2016 over-arching initiatives, the One McDermott Way and Taking the Lead, built upon 2015's progress and further drove improvements in project execution and cost management, leading to on-schedule milestone completions in all of our operating areas. Additionally, as part of our commitment to cost containment, we completed our Additional Overhead Reduction program, which generated \$45.8M of additional cash savings in 2016.

Our 2016 executive compensation programs were thoughtfully structured to align with and drive our operational performance and achieve financial targets. Stockholder feedback has been and will continue to be influential in shaping our compensation programs.

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Corporate Governance, Board Oversight and Community

The extensive stockholder outreach program we began in 2015 remained a key priority for our Board in 2016. Members of our Board held discussions with holders of approximately 30% of our outstanding common stock on an array of topics, and based on feedback received we made adjustments to our compensation program, including returning to the use of a relative metric in our long-term incentive plan, and also enhanced governance processes, including placing a limit on the number of boards on which our directors may serve. You will find additional details around these and other changes on pages 11 and 38 of this Proxy Statement.

Ethics, compliance and sustainability are integral to McDermott's long-term success and we are deeply committed to ensuring all our employees, as well as those conducting business on our behalf, adhere to principles of ethical behavior and core values which include a personal commitment to integrity. Likewise, we realize the importance of integrating sustainable and socially responsible practices into our business. We are proud of our industry leading safety culture and the progress we have made this year in reducing our environmental footprint and in supporting the communities in which we operate.

Looking Forward

Thanks to our Board and executive team's success in executing our 2016 operating plan, McDermott has entered 2017 confidently, with over \$3.0 billion of expected 2017 revenues booked in backlog as of 2016 year-end, a strong pipeline of potential new projects and excitement about our ability to continue differentiating ourselves to our global customers for years to come.

I am pleased to invite you to attend the 2017 Annual Meeting of Stockholders and, even if you are not able to attend, encourage you to vote via proxy. The accompanying Proxy Statement highlights many of our key activities and accomplishments in 2016 and contains information on the matters to be acted on at the Annual Meeting.

On behalf of the Board, our executive team, and the entire McDermott organization, thank you for your continued interest and support, as we seek to leverage the momentum of 2016 and look to the future.

Sincerely yours,

Gary P. Luquette
Independent Chair of the Board

March 24, 2017

YOUR VOTE IS IMPORTANT.

Whether or not you plan to attend the meeting, please take a few minutes now to vote your shares.

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McDERMOTT INTERNATIONAL, INC.
757 N. Eldridge Pkwy.
Houston, Texas 77079

NOTICE OF 2017 ANNUAL MEETING OF STOCKHOLDERS

Time and Location

10:00 a.m., local time, on Friday, May 5, 2017
The Westin Houston Hotel
945 Gessner Road
Houston, Texas 77024

Record Date and Voting

You are entitled to vote if you were a stockholder of record at the close of business on March 13, 2017 (the Record Date). Each share of common stock is entitled to one vote for each director nominee and one vote for each of the other proposals to be voted on at the meeting. There were 243,047,477 shares of our common stock outstanding on the Record Date.

Items of Business

1. To elect eight members to our Board of Directors, each for a one year term.
2. To conduct an advisory vote to approve named executive officer compensation.
3. To conduct an advisory vote on the frequency with which to hold advisory votes on named executive officer compensation.
To ratify our Audit Committee's appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2017.
4. December 31, 2017.
5. To transact such other business that properly comes before the meeting or any adjournment thereof.

Proxy Voting

Your vote is important. Please vote via proxy promptly so your shares can be represented, even if you plan to attend the Annual Meeting. You can vote by Internet, by telephone, or by requesting a printed copy of the proxy materials and using the proxy card enclosed with the printed materials.

Notice and Access

Instead of mailing a printed copy of our proxy materials, including our Annual Report, to each stockholder of record, we are providing access to these materials via the Internet. This reduces the amount of paper necessary to produce these materials, as well as the costs associated with mailing these materials to all stockholders. Accordingly, on March 24, 2017, we began mailing a Notice of Internet Availability of Proxy Materials (the Notice) to all stockholders of record as of the Record Date, and posted our proxy materials on the Web site referenced in the Notice (www.proxyvote.com). As more fully described in the Notice, all stockholders may choose to access our proxy materials on the Web site referred to in the Notice and/or may request a printed set of our proxy materials. In addition, the Notice and Web site provide information regarding how you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

Attending the Annual Meeting

See page 71, Questions and Answers About the Annual Meeting and Voting for details.

By Order of the Board of Directors,

Liane K. Hinrichs
Secretary
March 24, 2017

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to Be Held on May 5, 2017.

The proxy statement and annual report are available on the Internet at www.proxyvote.com.

The following information applicable to the Annual Meeting may be found in the proxy statement and accompanying proxy card:

The date, time and location of the meeting;

A list of the matters intended to be acted on and our recommendations regarding those matters;
Any control/identification numbers that you need to access your proxy card; and
Information about attending the meeting and voting in person.

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ABOUT MCDERMOTT

McDermott is a leading provider of integrated engineering, procurement, construction and installation services for offshore and subsea oil and gas field developments worldwide. We deliver fixed and floating production facilities, pipelines and subsea systems, from concept to commissioning, to customers including national oil companies and international and independent oil companies. McDermott generally has 40 or fewer active contracts at any given time, which typically span a duration of one to three years, are performed in a variety of jurisdictions, and may individually range from less than \$50 million to more than \$2 billion in total contract value.

Engineering	Procurement	Construction	Installation
We design production facilities in multiple phases through increased levels of definition to manage risks and maximize value across all stages of project development.	Certainty of supply requires early and thorough planning, a realistic timetable, reliable expediting, a network of high quality suppliers and subcontractors and understanding of the sourcing market.	Our global fabrication facilities handle multiple, fast-track projects for conventional shallow water structures, deepwater floating platforms and subsea facilities.	Our fleet of vessels can be mobilized safely and efficiently for installation campaigns anywhere in the world, optimizing productivity and mitigating various risks associated with operations offshore.

McDermott at a Glance

New York Stock Exchange:

MDR

Headquarters:

Houston, Texas

Employees:

Approximately 12,400

Operating Areas:

20 countries in oil and gas producing regions worldwide

Vessel Fleet:

12 construction and multi-service vessels

Customers:

National, International and Independent Oil Companies

Financials (as of 12/31/16):

TSR: **120%**

Revenue: **\$2.6B**

Operating Income: **\$142.3M**

Backlog: **\$4.3B**

Forward-Looking Statements

McDermott cautions that the statements in this proxy statement which are forward-looking, and provide other than historical information, including, among other things, statements about backlog, to the extent backlog may be viewed as an indicator of future revenues, and about McDermott's expected 2017 revenues, future performance, bidding pipeline and planned upgrades to the Amazon involve risks, contingencies and uncertainties that may impact McDermott's actual results of operations. Forward-looking

statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. For a more complete discussion of these and other risk factors, please see McDermott's annual and quarterly filings with the Securities and Exchange Commission, including its annual report on Form 10-K for the year ended December 31, 2016. Except to the extent required by applicable law, McDermott undertakes no obligation to update or revise any forward-looking statement.

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PROXY SUMMARY

This proxy summary highlights information contained elsewhere in this proxy statement, and is divided into four sections:

- I. 2016 Financial Performance Highlights and Strategy;
- II. Executive Compensation Highlights;
- III. Board and Corporate Governance Highlights; and
- IV. Items of Business for the Annual Meeting.

This summary does not contain all of the information that you should consider, and you should read the entire proxy statement carefully. As used in this proxy statement, unless the context otherwise indicates or requires, references to McDermott, we, us, and our mean McDermott International, Inc. and its consolidated subsidiaries. We first sent or provided this proxy statement and the form of proxy for our 2017 Annual Meeting of Stockholders on March 24, 2017.

I. 2016 Financial Performance Highlights and Strategy

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Proxy Summary

Total shareholder return (TSR) for McDermott was 120% for 2016, as compared to our Proxy Peer Group s median TSR of approximately 12%. McDermott s TSR was higher than the 2016 TSR for any of the companies constituting our Proxy Peer Group. Our operating income also continued to increase, with full year operating income of \$142.3 million compared to 2015 operating income of \$112.7 million and 2014 operating income of \$16.4 million. Order intake (including change orders) was \$2.7 billion in 2016, which, while a decrease from 2015, was considered positively in light of the lower for longer oil and gas market that continued through 2016. Year-end 2016 backlog was slightly up compared to year-end 2015, and provides a strong foundation for 2017 with approximately \$3 billion of expected 2017 revenues already recorded in backlog as of December 31, 2016. In evaluating the performance of David Dickson, our President and Chief Executive Officer, the Board has considered these performance results, as well as other financial and leadership goals detailed further below, and believes that Mr. Dickson has succeeded in positioning McDermott as a stronger, more durable business, particularly during a difficult business cycle and extended challenging macro environment.

2016 Strategy and Goals

Following the appointment of David Dickson as President and Chief Executive Officer in December 2013, and notwithstanding a challenging macro oil and gas environment, over the past three years McDermott has transformed as a company through stabilization of the business, optimization via cost-reduction initiatives and growth through strategic asset investment.

In continuation of McDermott s transformation, our strategy in 2016 was to drive a sustainable, profitable and growth-oriented business, with a focus on stockholders, customers and other stakeholders. In furtherance of this strategy, our 2016 goals were to:

- increase operating income via improved project execution;
- increase cash flows by prioritizing our liquidity needs;
- increase backlog and bookings to support our future business;
- promote pricing discipline on order intake operating margins; and
- efficiently allocate capital to profitable investments to grow our business.

Strong project execution, additional cost management, improved liquidity culture and increased organizational capabilities and competencies drove the execution of McDermott s strategy and goals in 2016.

II. Executive Compensation Highlights

The Compensation Committee is committed to targeting reasonable and competitive total direct compensation for our Named Executive Officers, or NEOs, with a significant portion of that compensation being performance-based. Our compensation programs are designed to drive achievement of our business strategies and provide competitive opportunities. Accordingly, achievement of most of those opportunities depends on the attainment of performance goals and/or stock price performance. McDermott s compensation programs are designed to provide compensation that:



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The Compensation Committee has designed and administered compensation programs aligned with this philosophy and is committed to continued outreach to stockholders to understand and address comments on our compensation programs.

2016 Compensation Program

Reflecting this philosophy, our NEO compensation arrangements in 2016 provided for the continuing use of three elements of target total direct compensation: annual base salary, annual incentive provided under our Executive Incentive Compensation Plan, or EICP, and long-term incentives, or LTI. In making compensation decisions for 2016, the Compensation Committee considered McDermott's operating strategy and goals and significantly improved operational and financial performance, with appreciation of the lower for longer macro oil and gas environment and comments received during the 2016 stockholder outreach program.

With respect to plan design, the Compensation Committee:

maintained consistency in the 2016 EICP performance metrics, with the exception of the elimination of the MPI modifier following completion of the McDermott Profitability Initiative, or MPI, in 2015; and evolved the 2016 LTI performance metric to relative Return on Average Invested Capital, or relative ROAIC, in consideration of McDermott's transformation from turnaround and stabilization to optimization for future growth.

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With respect to levels of compensation, the Compensation Committee generally sought to maintain 2016 NEO compensation consistent with 2015 levels, with the exception of Mr. Dickson, whose 2016 target LTI award was returned to 2014 levels following an increased target LTI award in 2015, Mr. Spence, who received an increase in his 2016 target LTI award to better approximate market range and Mr. Kennefick, who received an increase in his 2016 target LTI award following his promotion in 2015. Accordingly, for 2016 NEO compensation, the Compensation Committee provided:

No increases in annual base salaries.

No increases in target annual incentive.

The same number of LTI units as awarded in 2015, other than for those NEOs whose target LTI awards were adjusted as described above. Due to the decrease in the price of McDermott stock as of the grant date for the 2016 annual LTI awards, as compared to the grant date for the 2015 annual LTI awards, this resulted in a year over year decrease in the grant date fair value of LTI awarded to the NEOs, with the exception of Messrs. Spence and Kennefick, as noted above.

The mix of target total direct compensation for Mr. Dickson for 2016 is shown in the chart below.

CEO TARGET 2016 COMPENSATION

Table of Contents**Proxy Summary****Impact of 2016 Say on Pay Vote on Executive Compensation and Stockholder Outreach**

What we heard	What we have done in response	When effective
Maintain consistency in executive compensation plans	The financial metrics under our EICP operating income, free cash flow, order intake and order intake operating margin have remained consistent since 2014, with the exception of the use of the MPI Modifier in 2015, which was not included as a metric for 2016. The Compensation Committee approved the continuing use of these metrics for the 2016 and 2017 EICP awards.	2014, 2015, 2016 and 2017 EICP Awards
Consider returning to a relative metric for LTI plan awards	The Compensation Committee approved the use of Return on Average Invested Capital relative to a competitor peer group as the performance metric for both the 2016 and 2017 Performance Unit awards.	2016 and 2017 Performance Unit Awards
Consider composition of Peer Group	The Compensation Committee added a competitive peer group of both domestic and international peers for determining performance under the 2016 and 2017 Performance Unit awards.	2016 and 2017 Performance Unit Awards
Require double-trigger vesting of equity awards upon a change in control	The 2016 long-term incentive award grant agreements and 2016 McDermott International, Inc. Long-Term Incentive Plan, or the 2016 LTIP, provide for double trigger vesting upon a change in control, except where the awards are not assumed in the transaction.	February 2016 and Approval of 2016 LTIP
Maintain strong corporate governance foundation	The Board adopted limits on the number of boards on which directors may serve. Directors who serve as a CEO or senior executive of a public company generally may serve on no more than two public company boards and other directors may serve on no more than three public company boards (in both instances, including the McDermott Board).	November 2016
Maintain commitment to Board refreshment	The Governance Committee continued its commitment to Board refreshment. Consistent with our By-Laws, Roger A. Brown will retire from our Board at the 2017 Annual Meeting of Stockholders.	Ongoing
Consider periodic usage of an independent third party facilitator for Board and Committee evaluations	McDermott engaged an independent, third party facilitator in connection with the Board of Director and Committee evaluations conducted for 2017.	2017 Board Evaluations
Provide disclosure on McDermott's corporate social responsibility and sustainability activities	We have provided disclosure on McDermott's corporate social responsibility and sustainability activities in this proxy statement, and expect to continue to increase disclosures around these activities in the future.	2017 Proxy Statement
Continue stockholder engagement	The Board has prioritized stockholder engagement and will be continuing its vigorous outreach program going forward.	Ongoing

Table of Contents**Proxy Summary****III. Board and Corporate Governance Highlights**

We are committed to maintaining the highest standards of corporate governance. The Board has built a strong and effective governance framework, which has been designed to promote the long-term interests of stockholders and support Board and management accountability.

Director Nominees

The Board of Directors has nominated eight candidates, each for a one-year term.

	Age	Director Since	Independent	Committees	Other Current Public Company Boards
John F. Bookout, III Partner, Apollo Global Management, LLC	63	2006		Audit Governance	None
David Dickson President and Chief Executive Officer of McDermott	49	2013		None	None
Stephen G. Hanks President, Chief Executive Officer of Washington Group International, Inc. (retired)	66	2009		Audit Governance (Chair)	Lincoln Electric Holdings, Inc. Babcock & Wilcox Enterprises, Inc.
Erich Kaeser Chief Executive Officer of Siemens Middle East (retired)	61	2016		Audit Compensation	None
Gary P. Luquette President and Chief Executive Officer of Frank's International N.V. (retired)	61	2013		Compensation	Frank's International, N.V.
Non-Executive Chair of the Board of McDermott					
William H. Schumann, III Executive Vice President of FMC Technologies, Inc. (retired)	66	2012		Audit (Chair) Governance	Avnet, Inc. Tesoro Corporation
Mary L. Shafer-Malicki Senior Vice President and Chief Executive Officer of BP Angola (retired)	56	2011		Compensation (Chair) Governance	John Wood Group PLC
David A. Trice Chief Executive Officer of Newfield Exploration Company (retired)	69	2009		Audit Compensation	New Jersey Resources Corporation QEP Resources, Inc.

Current Board Snapshot

Board Independence

Tenure Balance

Relevant Skills and Experience

In accordance with our Corporate Governance Guidelines, 8 of our 9 directors are independent, including the Chair of the Board.

Our Board is appropriately refreshed, and our directors bring a balance of experience and fresh perspectives.

Our directors bring leadership experience in fields relevant to McDermott.

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Table of Contents**Proxy Summary****Corporate Governance Highlights**

McDermott's Board has implemented policies and structures that we believe are among best practices in corporate governance. The Corporate Governance section of this proxy statement beginning on page 16 describes our governance framework, which includes the following:

Current Board and Governance Information

Size of Board	9	Board Orientation	Yes
Number of Independent Directors	8	Succession Planning Oversight	Yes
Separate Chair and CEO	Yes	Board Risk Oversight	Yes
Board Meetings Held in 2016	16	Code of Conduct for Directors, Officers and Employees	Yes
Mandatory Retirement Age	72	Stock Ownership Guidelines for Directors and Executive Committee, or EXCOM, Members	Yes
Average Age of Directors	63	Anti-Hedging and Pledging Policies	Yes
Annual Board and Committee Evaluations	Yes	Clawback Policy and Forfeiture Provisions	Yes
Independent Directors Meet in Executive Sessions	Yes	Stockholder Outreach Program	Yes

Corporate and Social Responsibility

We are committed to improving the quality of life in the communities where we live and work.

Volunteering	Our employees donate their time and expertise to support charitable programs and outreach initiatives around the world. Local operations identify those in need and develop partnerships to support the health, safety and wellbeing of their neighbors. Employees are generous with their time and often volunteer after-hours or on weekends to support the greater good.
Giving	Donations are made at both the individual and corporate level to support non-profit social service organizations. Giving, in addition to monetary donations, can take the form of canned goods, toys and clothing that directly benefit local food banks, orphanages and shelters. McDermott is also a proud supporter of the American Heart Association, National MS Society and Dubai Centre for Special Needs.
Leading	The Batam International Charity (BIC) is a registered non-profit managed by a committee of employees and senior management of McDermott in Batam, Indonesia, the location of one of McDermott's fabrication yards. BIC focuses on improving the quality of life of those less fortunate in the Riau Island Province, with a significant focus on orphans. The charity is fully funded by an annual tournament that raised over \$350,000 USD combined in 2015 and 2016.

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Item of Business	Board Vote Recommendation and Rationale	Page Reference
Item 1 Election of Directors	The Board of Directors has nominated eight candidates, each for a one-year term, and recommends that stockholders vote for each nominee based on their specific background, experience, qualifications, attributes and skills. FOR	16
Item 2 Advisory Vote to Approve Named Executive Officer Compensation	We recommend that you review our Compensation Discussion and Analysis beginning on page 33, which explains in greater detail the philosophy of the Compensation Committee and its actions and decisions in 2016 regarding our compensation programs. While the outcome of this proposal is non-binding, the Board and Compensation Committee will consider the outcome of the vote when making future compensation decisions. EVERY YEAR	33
Item 3 Advisory Vote on the Frequency of the Advisory Vote on Named Executive Officer Compensation	The Board recommends that a stockholder vote for the advisory vote on executive compensation to be held every year, to allow our stockholders to evaluate our executive compensation and communicate their approval or disapproval to us on as prompt a basis as is practicable. FOR	66
Item 4 Ratification of Deloitte & Touche as Auditors	Our Board of Directors has ratified our Audit Committee's appointment of Deloitte & Touche LLP as McDermott's independent registered public accounting firm for the year ending December 31, 2017, and, as a matter of good governance, we are seeking stockholder ratification of that appointment.	67

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PROXY STATEMENT FOR 2017 ANNUAL MEETING OF STOCKHOLDERS

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CORPORATE GOVERNANCE

Introduction

Our Board of Directors maintains a strong commitment to corporate governance and has implemented policies and procedures that we believe are among the best practices in corporate governance.

We maintain a corporate governance section on our Web site which contains copies of our principal governance documents. The corporate governance section may be found at www.mcdermott.com under INVESTORS Corporate Governance and WHO WE ARE Leadership Board Committees. The corporate governance section contains the following documents:

Articles of Incorporation	Board of Directors Conflicts of Interest Policies and
By-Laws	Procedures
Corporate Governance Guidelines	Audit Committee Charter
Code of Ethics for CEO and Senior Financial Officers	Compensation Committee Charter
	Governance Committee Charter

In addition, our Code of Business Conduct may be found on our Web site at www.mcdermott.com at WHO WE ARE Ethics.

Item 1 Election of Directors

Unless otherwise directed, the persons named as proxies on the enclosed proxy card intend to vote FOR the election of each of the nominees. If any nominee should become unavailable for election, the shares will be voted for such substitute nominee as may be proposed by our Board of Directors. However, we are not aware of any circumstances that would prevent any of the nominees from serving.

Election Process

Our Articles of Incorporation provide that, at each annual meeting of stockholders, all directors shall be elected annually for a term expiring at the next succeeding annual meeting of stockholders or until their respective successors are duly elected and qualified. Accordingly, on the nomination of our Board, John F. Bookout, III, David Dickson, Stephen G. Hanks, Erich Kaeser, Gary P. Luquette, William H. Schumann, III, Mary L. Shafer-Malicki and David A. Trice will stand for reelection as directors at this year's Annual Meeting, each for a term of one year.

Our By-Laws provide that (1) a person shall not be nominated for election or reelection to our Board of Directors if such person shall have attained the age of 72 prior to the date of election or reelection, and (2) any director who attains the age of 72 during his or her term shall be deemed to have resigned and retired at the first Annual Meeting following his or her attainment of the age of 72. Accordingly, a director nominee may stand for election if he or she has not attained the age of 72 prior to the date of election or reelection. Pursuant to these By-Law requirements, Roger A. Brown will retire from our Board after eleven years of service, effective at this year's Annual Meeting.

2017 Nominees

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In nominating individuals to become members of the Board of Directors, the Governance Committee considers the experience, qualifications, attributes and skills of each potential member. Each nominee brings a strong and unique background and set of skills to the Board, giving the Board, as a whole, competence and experience in a wide variety of areas. The Governance Committee and the Board of Directors considered the following information, including the specific experience, qualifications, attributes or skills of each individual, in concluding each was an appropriate nominee to serve as a member of our Board for the term commencing at this year's Annual Meeting (ages are as of May 5, 2017).

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<p>JOHN F. BOOKOUT, III</p> <p>Director Since 2006</p> <p>Committee Assignments: Audit Committee Governance Committee</p>	<p>Former Public Company Directorships: Tesoro Corporation (2006-2010)</p> <p>Skills and Qualifications: Energy/Oil Field Services Industry Other Public Company Directorships Corporate Governance Executive Leadership Financial & Private Equity International Operations</p>
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Mr. Bookout, 63, currently serves as a Partner at Apollo Global Management, LLC, (Apollo) a global investment management firm, since June 2016. Previously, he served as a Senior Advisor at Apollo from October 2015 to June 2016, and Managing Director of Energy and Infrastructure at Kohlberg Kravis Roberts & Co. (KKR), a private equity firm, from March 2008 until his retirement from KKR in June 2015. Prior to joining KKR, he served as a director of McKinsey & Company, a global management consulting firm that he joined in 1978. During Mr. Bookout's career with McKinsey, he held several leadership roles, including Managing Partner and Head of North American and European energy practices and was responsible for McKinsey's 17 global industry practices. Mr. Bookout has focused his career on the petroleum refining, marketing, exploration and development, and the natural gas and electric utility industries. Mr. Bookout also served as a director of Tesoro Corporation, an independent refiner and marketer of petroleum products, from 2006 to 2010. Mr. Bookout has a Bachelor of Arts degree in Economics from Rice University and an M.B.A. from Stanford Graduate School of Business.

The Board of Directors is nominating Mr. Bookout in consideration of his broad experience in executive leadership and as a public company director within the oil and gas exploration and development industry and the petroleum refining and marketing industry. Mr. Bookout's expertise in private equity and finance, together with his extensive global energy experience, adds significant value to McDermott's strategic decision making process.

<p>DAVID DICKSON</p> <p>Director Since 2013</p> <p>President and Chief Executive Officer</p>	<p>Skills and Qualifications: Offshore Oilfield Engineering/Construction Industry Knowledge of and relationships with core customers Corporate Governance Executive Leadership Financial Oversight International Operations</p>
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Mr. Dickson, 49, has served as a member of our Board of Directors and as President and Chief Executive Officer since December 2013, and previously as our Executive Vice President and Chief Operating Officer beginning in October 2013. Mr. Dickson has over 25 years of offshore oilfield engineering and construction business experience, including 11 years of experience with Technip S.A. and its subsidiaries. From September 2008 to October 2013, he served as President of Technip U.S.A. Inc., with oversight responsibilities for all of Technip's North American operations. In addition to being the President of Technip U.S.A. Inc., Mr. Dickson also had responsibility for certain operations in Latin America. Mr. Dickson also supported the Technip organization by managing key customer accounts with international oil companies based in the United States.

The Board of Directors is nominating Mr. Dickson in consideration of his position as our President and Chief Executive Officer, his extensive executive leadership experience in and significant knowledge of the offshore oilfield engineering and construction business, and his broad understanding of the expectations of our core customers.

Table of Contents**STEPHEN G. HANKS****Director Since 2009****Committee Assignments:**

Governance Committee (Chair)
Audit Committee

Current Public Company Directorships:

Lincoln Electric Holdings, Inc. (since 2006) Finance Committee Chair
and Compensation and Executive Development Committee

Babcock & Wilcox Enterprises, Inc. (since July 2015) Governance
Chair, Compensation Committee and Lead Independent Director

Former Public Company Directorships:

Washington Group International, Inc. (2000-2007)
URS Corporation (2007-2008)
The Babcock & Wilcox Company (2010-June 2015)

Skills and Qualifications:

Engineering/Construction Industry
Other Public Company Directorships
Corporate Governance
Executive Leadership
Financial Oversight
International Operations

Mr. Hanks, 66, has held various roles over a 30-year career with Washington Group International, Inc. (and its predecessor, Morrison Knudsen Corporation), an integrated engineering, construction and management solutions company for businesses and governments worldwide. From 1994 to 1995, Mr. Hanks served as Executive Vice President Administration and Finance of Morrison Knudsen Corporation and later served as Washington Group International, Inc.'s President and Chief Executive Officer and was a member of its board of directors from 2000 through 2007. From November 2007 until his retirement in January 2008, he was President of the Washington Division of URS Corporation. He formerly served as Executive Vice President, Chief Legal Officer and Secretary for Washington Group International. He has also served as a director of Lincoln Electric Holdings, Inc., a global leader in arc welding, robotic welding systems, plasma and oxyfuel cutting equipment and brazing and soldering alloys, since 2006, and as a director of Babcock & Wilcox Enterprises, Inc., a global leader in energy and environmental technologies and services for the power and industrial markets, since July 2015. Mr. Hanks has a Bachelor of Science degree in Accounting from Brigham Young University, a Master's degree in Business Administration from the University of Utah and a Juris Doctor degree from the University of Idaho.

The Board of Directors is nominating Mr. Hanks in consideration of his extensive experience in the international engineering and construction business and his broad knowledge in accounting, auditing and financial reporting, and his legal background. Having served in executive and director capacities at several public companies, Mr. Hanks brings to the Board a valuable perspective on its oversight responsibilities, on corporate governance issues and on outstanding customer service across many global industrial sectors. Based on his knowledge and experience, Mr. Hanks qualifies as an audit committee financial expert.

ERICH KAESER**Director Since 2016****Committee Assignments:**

Audit Committee
Compensation Committee

Skills and Qualifications:

Energy/Infrastructure Services Industry
Corporate Governance
Executive Leadership
Financial Oversight
Knowledge of Core Customers
International Operations

Prior to his retirement in December 2014, Mr. Kaeser, 61, served in key executive and advisory positions, with a strong focus on the Middle East markets, throughout his 35 year career at Siemens AG, a global conglomerate producing energy-efficient and resource-saving technologies across a variety of industrial sectors. Mr. Kaeser served as Executive Advisor to the Siemens AG Board and Regional Middle East Management from December 2013 to December 2014, and as Chief Executive Officer, Siemens Middle East, responsible for overseeing Siemens business operations in 16 countries, from August 2008 to November 2013. He also served as Senior Vice President, Head of Corporate Development and Regional Strategies, Africa, Middle East, C.I.S., Siemens AG from May 2007 to August 2008, and in several other managerial and executive capacities within the Energy, Industry, Infrastructure and Cities sectors since commencing his career at Siemens in 1979, including: Senior Vice President, Head of Corporate Development and Regional Strategies, Africa, Middle East, C.I.S., Siemens A.G., from 2007 to 2008, Managing Director Branch Offices, Jordan, Syria and Lebanon, Siemens A.G., from 2006 to 2007, General Manager Power Transmission & Distribution Systems, Lower Gulf (UAE, Qatar, Bahrain, Oman, Yemen), Siemens LLC, from 2005 to 2006, President Transportation Systems Turnkey Systems (worldwide), Siemens A.G., from 2004 to 2005, and Chief Executive Officer of Siemens Ltd. in Saudi Arabia, from 2000 to 2004. Since January 2015, Mr. Kaeser has served as an Executive Advisor for MKS Consultancy FZ LLC (a member of QRC Group A.G.), an international management consulting and executive recruitment company. Mr. Kaeser holds a Bachelor degree in Electrical Power Engineering from the Regensburg University of Applied Sciences in

Germany.

The Board of Directors is nominating Mr. Kaeser in consideration of the breadth of his experience in the energy and supporting infrastructure businesses and his extensive international operations experience, particularly in the Middle East. Mr. Kaeser brings to the Board significant managerial and operational expertise in the international energy industry and provides key insight into McDermott's international operations and strategy. Based on his knowledge and experience, Mr. Kaeser qualifies as an audit committee financial expert.

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GARY P. LUQUETTE

Director Since 2013

Non-Executive Chair of the Board

Committee Assignments:

Compensation Committee

Current Public Company Directorships:

Frank's International N.V. (Since 2013) Supervisory Committee

From January 2015 until November 2016, Mr. Luquette, 61, served as President and Chief Executive Officer of Frank's International N.V. (Frank's), a global provider of engineered tubular services to the oil and gas industry, following which he served as a special advisor to Frank's until his retirement in December 2016. He has also served as a member of Frank's Supervisory Board since November 2013, and is expected to continue such service until Frank's 2017 annual meeting of shareholders. From 2006 until September 2013, he served as President of Chevron North America Exploration and Production, a unit of Chevron Corporation. Mr. Luquette began his career with Chevron in 1978 and, prior to serving as President, held several other key exploration and production positions in Europe, California, Indonesia and Louisiana, including Managing Director of Chevron Upstream Europe, Vice President, Profit Center Manager, Advisor and Engineer. He has served on the board of directors for the United Way of Greater Houston and has also been a member of the American Petroleum Institute and was the former chair of its Upstream Committee. Mr. Luquette has a Bachelor of Science degree in Civil Engineering from the University of Louisiana at Lafayette.

The Board of Directors is nominating Mr. Luquette in consideration of his extensive senior management, operational and international experience in the global oil and gas exploration and production industry and the oilfield services industry. Our Board benefits from his valuable upstream customer perspective and his knowledge and understanding of the subsea sector and our core customers.

Skills and Qualifications:

Energy/Oil Field Services Industry
 Other Public Company Directorships
 Corporate Governance
 Executive Leadership
 Knowledge of Core Customers
 Financial Oversight
 International Operations

WILLIAM H. SCHUMANN, III

Director Since 2012

Committee Assignments:

Audit Committee (Chair)
 Governance Committee

Current Public Company Directorships:

Avnet, Inc. (since 2010) Non-Executive Chairman of the Board, Audit Compensation and Corporate Governance Committees
 Tesoro Corporation (since 2016) Governance and Audit Committees

Former Public Company Directorships:

AMCOL International Corporation (2012-2014)
 URS Corporation
 (March 2014-October 2014)
 UAP Holding Corp. (2005-2008)

Skills and Qualifications:

Energy Industry
 Other Public Company Directorships
 Corporate Governance
 Financial Oversight
 Executive Leadership
 Knowledge of Core Customers
 International Operations

From 2005 until his retirement in August 2012, Mr. Schumann, 66, served as Executive Vice President of FMC Technologies, Inc. (FMC), a global provider of technology solutions for the energy industry. During his 31 year career at FMC, and its predecessor, FMC Corporation, he also served in the following positions: Chief Financial Officer of FMC Technologies from 2001 until 2011; Chief Financial Officer of FMC Corporation from 1999 until 2001; Vice President, Corporate Development from 1998 to 1999; Vice President and General Manager, Agricultural Products Group from 1995 to 1998; Regional Director, North America Operations, Agricultural Products Group from 1993 to 1995; Executive Director of Corporate Development from 1991 to 1993, and other various management positions from the time he joined FMC in 1981. He also has served as the Chairman of the Board of Avnet, Inc., an industrial distributor of electronic components and products, since February 2010, and as a director of Tesoro Corporation, an independent refiner and marketer of petroleum products, since November 2016. Mr. Schumann has a Bachelor of Science degree in Systems Engineering from the University of California, Los Angeles, and a Master of Science degree in Management Science from University of Southern California Marshall Graduate School of Business.

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The Board of Directors is nominating Mr. Schumann in consideration of his valuable experience acquired from serving in several executive leadership and board positions at public companies within the energy industry and his broad knowledge in the areas of accounting, auditing and financial reporting. Mr. Schumann brings to the Board managerial, operational and financial expertise in the global energy industry. Based on his knowledge and experience, Mr. Schumann qualifies as an audit committee financial expert.

McDermott International, Inc. 19

Table of Contents**MARY L. SHAFER-MALICKI****Director Since 2011****Committee Assignments:**

Compensation Committee (Chair)
Governance Committee

Current Public Company Directorships:

John Wood Group PLC (since 2012) Nomination and Remuneration Committees, and Safety & Assurance Committee

Skills and Qualifications:

Energy/Oilfield Services Industry
Other Public Company Directorships
Corporate Governance
Executive Leadership
Knowledge of Core Customers
Financial Oversight
International Operations

From July 2007 until her retirement in March 2009, Ms. Shafer-Malicki, 56, was Senior Vice President and Chief Executive Officer of BP Angola, a subsidiary of BP p.l.c. (BP), an oil and natural gas exploration, production, refining and marketing company. Previously, she held several other executive leadership positions during her 25 year career with BP p.l.c. and Amoco Corp. (which was acquired by BP in 1998), including Chief Operating Officer of BP Angola from January 2005 to June 2007, Director General of BP Vietnam, from 2003 to 2004, and various other international engineering and managerial positions. In addition to working with a number of non-profit organizations, Ms. Shafer-Malicki has also served as a director of John Wood Group PLC, a leading independent services provider for the oil and gas and power generation markets, since June 2012, and served as a director of Ausenco Limited, an Australian company providing engineering design, project management, process controls and operations solutions to a variety of industries, from January 2011 through December 2016. Ms. Shafer-Malicki has a Bachelor of Science degree in Chemical Engineering from Oklahoma State University.

The Board of Directors is nominating Ms. Shafer-Malicki in consideration of her diverse experience in the upstream energy and supporting infrastructure businesses and her significant international operations experience, having served in executive and director roles for public companies in Europe, the Asia Pacific region and Africa. Ms. Shafer-Malicki's significant experience in international oil and gas allows her to provide valuable insight into McDermott's operations, strategy, commercial, safety, supply chain management and core customers.

DAVID A. TRICE**Director Since 2009****Committee Assignments:**

Audit Committee
Compensation Committee

Current Public Company Directorships:

New Jersey Resources Corporation (since 2004) Compensation, and Nominating and Governance Committee
QEP Resources, Inc. (since 2011) Lead Director, Compensation Committee, Nominating and Governance Committee Chair

Former Public Company Directorships:

Hornbeck Offshore Services, Inc. (2002-2011)
Newfield Exploration Company (2000-2010)
Grant Prideco, Inc. (2003-2008)

Skills and Qualifications:

Energy/Oilfield Services Industry
Other Public Company Directorships
Corporate Governance
Executive Leadership
Financial Oversight
International Operations

From February 2000 until his retirement in May 2009, Mr. Trice, 69, was President and Chief Executive Officer of Newfield Exploration Company, an oil and natural gas exploration and production company, and served as chairman of its board from September 2004 to May 2010. He previously served in several other key leadership positions at Newfield, including Vice President and Chief Financial Officer, Chief Operating Officer and President, and Vice President of Finance and International. Prior to his career at Newfield, Mr. Trice served as President and Chief Executive Officer of Huffco Group, Inc., from 1991 to May 1997. He began his career in 1973 as an attorney. Mr. Trice has also served as a director of New Jersey Resources Corporation, an energy company providing retail and wholesale services across the United States and Canada, since 2004, and as a director of QEP Resources, Inc., an energy company specialized in natural gas and oil exploration, since 2011. Mr. Trice has an Accounting and Management Services Degree from Duke University and a Juris Doctorate from Columbia University School of Law.

The Board of Directors is nominating Mr. Trice in consideration of his significant experience gained from serving in executive leadership and board positions at public companies within the oil and gas exploration and production business. With his extensive knowledge in the areas of accounting,

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auditing and financial reporting and his legal background, Mr. Trice offers the Board valuable insight on risk oversight, financial policy, executive compensation and corporate governance matters. Based on his knowledge and experience, he qualifies as an audit committee financial expert.

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Summary of Director Nominees Qualifications and Experience

The following table illustrates the breadth and variety of business and other experience that each of our director nominees brings to McDermott.

Experience/Skill

EXECUTIVE LEADERSHIP Necessary for an understanding of management's role and responsibilities and the challenges management must address so as to be able to evaluate management's performance

ENERGY/OILFIELD SERVICES An understanding of our industry is important so that the Board can independently assess our strategy, management's progress in achieving the strategy and appropriate oversight of our business and operations

PUBLIC COMPANY BOARD Important to an understanding of the Board's role as it relates to that of management

EXPERIENCE WITH CORE CUSTOMERS Knowledge of and experience with our core customers is important for achieving our strategic goals and assessing project development and opportunities for growth

INTERNATIONAL OPERATIONS Important to assessing risks and business strategy in countries in which we operate

FINANCIAL OVERSIGHT RESPONSIBILITIES Important to understand the complexities of financial reporting, internal controls and the regulatory environment applicable to publicly traded companies

CORPORATE GOVERNANCE Necessary to understand directors' duties and the system of governance checks and balances under which a public company operates

Director Qualifications

Our Governance Committee has determined that a candidate for election to our Board of Directors must meet specific minimum qualifications. Each candidate should:

- have a record of integrity and ethics in his/her personal and professional life;
- have a record of professional accomplishment in his/her field;
- be prepared to represent the best interests of our stockholders;
- not have a material personal, financial or professional interest in any competitor of ours; and
- be prepared to participate fully in Board activities, including active membership on at least one Board committee and attendance at, and active participation in, meetings of the Board and the committee(s) of which he or she is a member, and not have other personal or professional commitments that would, in the Governance Committee's sole judgment, interfere with or limit his or her ability to do so.

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In 2016, the Board approved amendments to the Corporate Governance Guidelines which place limits on the number of boards on which McDermott directors may serve. Such limits provide that any director who is a chief executive officer or other senior executive of a public company should serve on no more than two public company boards, and any other director should serve on no more than three public company boards, in both instances including the McDermott Board. Any proposed service in excess of these limits will be considered on a case by case basis.

In addition, the Governance Committee also considers it desirable that candidates contribute positively to the collaborative culture among Board members and possess professional and personal experiences and expertise relevant to our business and industry. The Governance Committee solicits ideas for possible candidates from a number of sources, including independent director candidate search firms, members of the Board and our senior level executives.

The Board recognizes the benefits of a diversified board and believes that any search for potential director candidates should consider diversity as to gender, race, ethnic background and personal and professional experiences. Additionally, our Corporate Governance Guidelines provide that any independent director search firm retained to assist the Governance Committee in identifying director candidates shall seek to include diverse candidates in terms of race, ethnic background and gender.

Director Independence

The New York Stock Exchange (NYSE) listing standards require our Board of Directors to be comprised of at least a majority of independent directors. In 2015, however, the Board amended our Corporate Governance Guidelines to require that, with the exception of the Chief Executive Officer, the Board be comprised entirely of independent directors. For a director to be considered independent, our Board must determine that the director does not have any direct or indirect material relationship with us. To assist it in determining director independence, and as permitted by NYSE rules then in effect, the Board previously established categorical standards which conform to, or are more exacting than, the independence requirements in the NYSE listing standards. These standards are contained in our Corporate Governance Guidelines, which can be found on our Web site at www.mcdermott.com under INVESTORS Corporate Governance.

Based on these independence standards, our Board of Directors has affirmatively determined that the following directors are independent and meet our categorical independence standards:

John F. Bookout, III
Roger A. Brown
Stephen G. Hanks
Erich Kaeser

Gary P. Luquette
William H. Schumann, III
Mary L. Shafer-Malicki
David A. Trice

In determining the independence of the directors, our Board considered ordinary course transactions between us and other entities with which the directors are associated, none of which were determined to constitute a material relationship with us. Messrs. Brown, Luquette, Kaeser, Schumann and Trice have no relationship with McDermott, except as a director and stockholder. Messrs. Bookout and Hanks and Ms. Shafer-Malicki are directors of entities with which we transact business in the ordinary course. Our Board also considered contributions by us to charitable organizations with which the directors were associated. No director is related to any executive or significant stockholder of McDermott, nor is any director, with the exception of Mr. Dickson, a current or former employee of McDermott.

Director Nominations

Any stockholder may nominate one or more persons for election as one of our directors at the annual meeting of stockholders if the stockholder complies with the notice, information and consent provisions contained in our By-Laws. See Stockholders Proposals in this proxy statement and our By-Laws, which may be found on our Web site at www.mcdermott.com at INVESTORS Corporate Governance.

The Governance Committee will consider candidates identified through the processes described above and will evaluate the candidates, including incumbents, based on the same criteria. The Governance Committee also takes into account the

contributions of incumbent directors as Board members and the benefits to us arising from their experience on the Board. Although the Governance Committee will consider candidates identified by stockholders, the Governance Committee has sole discretion whether to recommend those candidates to the Board.

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The Board's Role and Responsibilities

Overview

The Board's Key Responsibilities include:

The Board's Role in Risk Oversight

As part of its oversight function, the Board is actively involved in overseeing risk management through our Enterprise Risk Management (ERM) program, which includes periodic reporting through an area and corporate ERM structure. In connection with the ERM program, the Board exercises its oversight responsibility with respect to key external, strategic, operational and financial risks and discusses the effectiveness of current efforts to mitigate certain focus risks as identified by senior management and the Board through anonymous risk surveys.

Board and Committees Risk Oversight Responsibilities

Audit Committee

Oversees management of risks related to our financial statements and the financial reporting process

Compensation Committee

Oversees management of risks related to our compensation policies and practices applicable to executives, employee benefit plans and the administration of equity plans

Governance Committee

Oversees management of risks related to succession planning for the Chief Executive Officer and other members of executive management and our Ethics and Compliance Program (excluding responsibilities assigned to the Audit Committee)

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At their respective November 2016 meetings, each committee undertook an assessment of those areas of risk oversight that were delegated to it and provided a report to the Board. Also, at its November 2016 meeting, the Board received an ERM report and performed an assessment and review of the risks described in that report that were not delegated to the committees.

Regarding risks relating to the design of our compensation programs, the Compensation Committee, with assistance from its independent compensation consultant, Pay Governance LLC, regularly reviews and assesses our compensation policies and practices to ensure that they are appropriate in terms of the level of risk-taking and in line with our business strategies and the interests of our stockholders. The Compensation Committee has designed our compensation programs to encourage performance focused on long-term stockholder value, promote company growth and allow for appropriate levels of risk-taking but to discourage excessive risk-taking. Based on the findings of the risk assessment performed at its November 2016 meeting, the Compensation Committee concluded that the risks arising from our compensation policies and practices are aligned with stockholders' interests and not reasonably likely to have a materially adverse impact on us.

Stockholder Engagement

The Board oversees and is committed to ongoing stockholder dialogue on governance and compensation matters and places considerable weight on stockholder feedback in making decisions impacting our governance processes and compensation programs. In 2016, our Board engaged in a stockholder outreach program to discuss our stockholders' perspectives on our governance and compensation policies and practices. We reached out to stockholders representing approximately 40% of our outstanding common stock and conducted face-to-face or telephonic meetings with holders of approximately 30%, which were led by either our independent Compensation Committee Chair or our independent Governance Committee Chair. This engagement process provided us with constructive stockholder feedback on governance and compensation topics, such as board refreshment, board evaluations, annual and long-term incentive programs and disclosure around our executive compensation programs.

The feedback received during the course of our outreach efforts was fully reported to and assessed by the Board and its relevant committees. Details as to our 2016 engagement effort and actions taken in response to stockholders' compensation-related comments are provided on pages 11 and 38 of this proxy statement. Stockholders were highly supportive of our corporate governance processes and were supportive of the Board's current tenure mix and commitment to director refreshment. In response to stockholder input received on annual Board and Committee performance evaluations generally, we enhanced our process by bringing in a third party to conduct the 2016 Board, Committee and Independent Director annual evaluations. Additionally, in response to general comments received relating to overboarding, the Board approved limits on the number of boards on which McDermott directors may serve. The Board will continue to seek stockholder input to identify and proactively address important governance and compensation issues.

Board Refreshment and Succession Planning

We are committed to a strong board refreshment process. As part of our commitment to board refreshment we impose a mandatory director retirement age of 72, require Committee Chairs to rotate after five years of service and annually review Committee composition and individual director skills and qualifications. Additionally, our Governance Committee, typically with the assistance of a third party search firm, identifies and considers new director candidates who have expertise that would complement and enhance the current Board's skills and experience. Our commitment to board refreshment has resulted in a Board with a well-balanced tenure, with three directors who have served four years or less, two directors who have served between five and six years and four directors who have served seven years or more.

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Director Succession Planning Process

Succession Planning	Identification of Candidates	Meeting with Candidates	Decision and Nomination
<p>The Governance Committee implements an ongoing succession planning process, seeking out director candidates to join our Board in light of our emerging business needs of our business and our current Board's composition</p>	<p>To ensure a robust search process and access to a wide range of qualified candidates, the Governance Committee works closely with an independent search firm to identify and evaluate director candidates in light of our Board's structure, tenure and qualifications</p>	<p>Potential director candidates are interviewed by our Chair of the Board, CEO, the Governance Committee and other available directors</p>	<p>The Governance Committee recommends to the full Board for nomination those director candidates with the skills and experience that would most benefit the current Board and best serve the interests of McDermott and its stockholders</p>

Voting

The Director Nominees stand for election or reelection to the Board by our stockholders at the Annual Meeting, each to serve one-year terms.

Board and Committee Evaluations

Our Board recognizes the critical role of annual Board and committee evaluations in ensuring each are functioning effectively. The Governance Committee annually reviews the Board and committee evaluation process in consideration of recent best practices and input from the directors. To that end, and in response to stockholder input received during the 2016 stockholder outreach program, the Governance Committee enhanced the evaluation process by utilizing a third party to help conduct the annual Board and committee performance evaluations conducted in early 2017.

Annual Board and Committee Evaluation Process

<p>Board Survey</p> <p>The third party facilitator worked with the Chair of the Board, the Governance Chair and selected directors and officers to set the scope and plan for the annual evaluations based on business strategy, board culture and observations on Board processes. The facilitator then conducted a written board survey to identify cultural and overall effectiveness issues.</p>	<p>Detailed Interviews</p> <p>The facilitator leveraged findings from the Board survey to obtain initial views and to create with the Governance Chair a customized interview guide. Using the interview guide, the facilitator conducted in person interviews with directors and selected officers.</p>
<p>Full Board Discussion</p> <p>The facilitator compiled feedback and developed a summary of findings and recommendations, which was presented to the full Board for discussion and proposed enhancements.</p>	<p>Follow-Through</p> <p>The Board will consider the results of these evaluations in making decisions on Board agendas, structure, responsibilities, policies and practices, as appropriate. The facilitator will reach out to the Board later in the year to determine lasting impact of changes and any further steps.</p>

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Sustainability and Corporate Social Responsibility

Sustainability and corporate social responsibility are integral components of our business strategy. In 2015, we established Taking the Lead, an internally driven initiative focused on proactively developing and supporting the behaviors and attitudes that lead to a robust quality, health, safety, environment and security (QHSES) culture and excellence in QHSES performance. Our approach to corporate responsibility and sustainability revolves around maintaining our best in class safety performance, limiting our environmental footprint and supporting local community development.

Safety

McDermott has a deeply integrated safety culture that is part of our DNA. The safety of our employees, customers, subcontractors and vendors is of utmost importance and we strive to be an industry leader in safety. In 2016, we reached significant safety milestones at our fabrication yards and on our vessels around the world, with our Middle East area setting a new record achievement in reaching 48-million man-hours without a lost time incident.

Environment

McDermott is focused on opportunities to reduce our environmental impact in areas in which we operate. Our approach to reducing our environmental impact is to consider how we can integrate new solutions in our operations and activities to create sustained change. In 2016, in particular, we were highly focused on eliminating and controlling plastic waste.

Philanthropy & Volunteerism

We realize that the success of our business is linked to the success of the communities where we operate. McDermott is committed to using its global reach to develop, strengthen and support the communities in which we operate. A few of the causes in which we participated to support our communities this year were:

- organizing a blood donation event in partnership with the Indonesian Red Cross in Batam, for which we were recognized with an award by the Riau Islands Red Cross for our commitment and contribution through blood drive activities;

- participating in the American Heart Association's 2016 Heart Walk, raising funds to save lives from heart disease and stroke, for which we were recognized as one of the top five contributors in the Houston area; and

- hosting a World Environment Day at our Altamira fabrication yard to take local action against environmental challenges, where our employees and their families gathered to plant casuarinas, a type of tree that flourishes in the local environment.

Communications with the Board

Stockholders or other interested persons may send written communications to the independent members of our Board, addressed to Board of Directors (Independent Directors), c/o McDermott International, Inc., Corporate Secretary, 757 N. Eldridge Pkwy., Houston, Texas 77079.

Board Leadership Structure

Mr. Luquette has served as Chair of the Board since May 6, 2014. Our Board believes that it is appropriate for McDermott to have a Chair of the Board separate from the Chief Executive Officer, as this structure allows Mr. Dickson, McDermott's President and Chief Executive Officer, to maintain his focus on our strategic direction and the management of our day-to-day operations and performance, while Mr. Luquette is able to set the Board's agendas and lead the Board meetings.

Executive Sessions

Our independent directors meet in executive session without management on a regular basis. Currently, Mr. Luquette, our Chair of the Board of Directors, serves as the presiding director for those executive sessions.

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Board of Directors and its Committees

Our Board met 16 times during 2016. All directors serving on the Board during 2016 attended 75% or more of the meetings of the Board and of the committees on which they served during 2016. Additionally, it is our policy that all of our directors attend our annual meeting of stockholders, and in accordance with that policy, all directors serving on the Board in 2016 attended our 2016 Annual Meeting.

Board Committees

Our Board currently has, and appoints the members of, standing Audit, Compensation and Governance Committees. Each standing Board committee is comprised entirely of independent nonemployee directors and has a written charter approved by the Board. The current charter for each standing Board committee is posted on our Web site at www.mcdermott.com under WHO WE ARE Leadership Board Committees. Attendance at committee meetings is open to every director, regardless whether he or she is a member of the committee. Occasionally, our Board may convene joint meetings of certain committees and the Board. Each portion of the joint meeting is counted separately for purposes of the number of meetings of the Board and its committees disclosed in this proxy statement. The following table shows the current membership, the principal functions and the number of meetings held in 2016 for each committee:

Audit Committee

Committee Members:	Principal Functions and Additional Information
Mr. Schumann (Chair) Mr. Bookout Mr. Hanks Mr. Kaeser Mr. Trice	<p>Monitors our financial reporting process and internal control system.</p> <p>Oversees the preparation of our financial statements.</p> <p>Monitors our compliance with legal and regulatory financial requirements, including our compliance with the applicable reporting requirements established by the U.S. Securities and Exchange Commission (the SEC).</p> <p>Evaluates the independence, qualifications, performance and compensation of our independent registered public accounting firm.</p> <p>Oversees the performance of our internal audit function.</p> <p>Oversees certain aspects of our Ethics and Compliance Program relating to financial matters, books and records and accounting and as required by applicable statutes, rules and regulations.</p> <p>Provides an open avenue of communication among our independent registered public accounting firm, financial and senior management, the internal audit department and the Board.</p> <p>Our Board has determined that Messrs. Schumann, Bookout, Hanks, Kaeser and Trice each qualify as an audit committee financial expert, within the definition established by the SEC. For more information on the backgrounds of those directors, see their biographical information under Election of Directors above.</p>
7 Meetings Held in 2016	

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Compensation Committee

Committee Members:

Ms. Shafer-Malicki (Chair)
 Mr. Brown
 Mr. Kaeser
 Mr. Luquette
 Mr. Trice

6 Meetings Held in 2016

Principal Functions and Additional Information

Oversees the design of our officer and director compensation plans, policies and programs.
 Evaluates employee benefit plans.
 Approves and/or recommends to the Board for approval such officer and director compensation plans, policies and programs.
 Annually reviews and approves goals and objectives relevant to CEO compensation, evaluates (in coordination with the Governance Committee) the CEO's performance in light of those goals and objectives and sets the CEO's compensation based on that evaluation.
 Oversees our disclosures relating to compensation plans, policies and programs, including overseeing the preparation of the Compensation Discussion and Analysis included in this proxy statement.
 Acts in its sole discretion to retain or terminate any compensation consultant to be used to assist the Compensation Committee in the discharge of its responsibilities. For additional information on the role of compensation consultants, please see Compensation Discussion and Analysis How We Make Compensation Decisions below.
 For 2016, the Compensation Committee authorized our Chief Executive Officer, in consultation with his direct reports, to establish individual goals under our Executive Incentive Compensation Plan (EICP) for our other executive officers and key employees who participate in the EICP. All payments under the EICP are subject to Compensation Committee approval.
 Under our long term incentive plans, the Compensation Committee may delegate some of its duties to our Chief Executive Officer or other senior officers. The Compensation Committee has delegated certain authority to our Chief Executive Officer and Vice President, Human Resources, for the approval of long-term incentive awards to new-hire, non-officer employees.
 Under the McDermott International, Inc. Director and Executive Deferred Compensation Plan, which we refer to as the DCP, the Compensation Committee may delegate any of its powers or responsibilities to one or more members of the Committee or any other person or entity.

Governance Committee

Committee Members:

Mr. Hanks (Chair)
 Mr. Bookout
 Mr. Brown
 Mr. Schumann
 Ms. Shafer-Malicki

6 Meetings Held in 2016

Principal Functions and Additional Information

Identifies individuals qualified to become Board members and recommends to the Board each year the director nominees for the next annual meeting of stockholders.
 Recommends to the Board the directors to serve on each Board committee.
 Leads the Board in its annual review of the performance of the Board and its committees.
 Develops, reviews and recommends to the Board any changes to our Corporate Governance Guidelines the Governance Committee deems appropriate.

Oversees the annual evaluation of our Chief Executive Officer (in conjunction with the Compensation Committee).

Reviews and assesses the succession plan for the Chief Executive Officer and other members of executive management and reviews such plan with the Board periodically, and at least on an annual basis.

Recommends to the Board the compensation of nonemployee directors.

Serves as the primary committee overseeing our Ethics and Compliance Program, excluding certain oversight responsibilities assigned to the Audit Committee.

Oversees our director and officer insurance program.

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Compensation Committee Interlocks and Insider Participation

All members of our Compensation Committee are independent in accordance with NYSE listing standards. No member of the Compensation Committee (1) was, during the year ended December 31, 2016, or had previously been, an officer or employee of McDermott or any of its subsidiaries, or (2) had any material interest in a transaction of McDermott or a business relationship with, or any indebtedness to, McDermott. No interlocking relationship existed during the year ended December 31, 2016 between any member of the Board of Directors or the Compensation Committee and an executive officer of McDermott.

Related Party Transactions

We have adopted a written Related Person Transaction Policy applicable to any individual transaction or series of related transactions, arrangements or relationships (including any indebtedness or guarantee of indebtedness) in which:

McDermott or any of its subsidiaries is, was or will be a participant;
any related person (as defined in the policy) has, had or will have a direct or indirect material interest; and
the amount involved exceeds \$120,000.

This policy requires directors, director nominees and executive officers to provide written notice to the General Counsel (GC) of any potential Related Person Transaction involving, directly or indirectly, him or her or any of his or her immediate family members. Additionally, each director, director nominee and executive officer must complete an annual questionnaire designed in part to elicit and evaluate information about potential related person transactions and any related person relationships. All related person transactions requiring compliance with the policy as determined by the GC must be presented to the Governance Committee for review, approval, ratification or other action. The Governance Committee will approve or ratify a related person transaction only if it determines that, under all of the circumstances, the transaction is not inconsistent with the best interests of McDermott. There were no such transactions found to be directly or indirectly material to a related person required by SEC rules to be disclosed in this proxy statement.

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Table of Contents**Compensation of Directors**

We did not make any changes to our nonemployee director compensation program in 2016.

Under our 2016 nonemployee director compensation program, cash compensation for nonemployee directors consisted of retainers (paid monthly and prorated for partial terms) and meeting fees as follows:

	(\$)
Annual Board Member Retainer	75,000
Audit Committee Chair Retainer	20,000
Compensation Committee Chair Retainer	20,000
Governance Committee Chair Retainer	10,000
Additional Retainer for Lead Director (if applicable)	20,000
Additional Retainer for Chair of the Board	150,000
Meeting fees for each meeting of the Board or a Committee (of which the director is a member) attended in excess of the twelfth Board or Committee meeting per annual director term	2,500

The table below summarizes the compensation earned by or paid to our nonemployee directors during the year ended December 31, 2016.

Director Compensation Table

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$) ⁽¹⁾	Total (\$)
John F. Bookout, III	75,000	119,999	194,999
Roger A. Brown	75,000	119,999	194,999
Stephen G. Hanks	85,000	119,999	204,999
Erich Kaeser	64,009	142,024	206,033
Gary P. Luquette	225,000	119,999	344,999
William H. Schumann, III	95,000	119,999	214,999
Mary L. Shafer-Malicki	95,000	119,999	214,999
David A. Trice	75,000	119,999	194,999

Under our 2016 director compensation program, equity compensation for nonemployee directors included a discretionary annual stock grant. On May 10, 2016, each of the nonemployee directors then serving as a director received a grant of 26,966 shares of restricted stock valued at \$119,999, which is the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Topic 718, using the closing market price of McDermott common stock on the date of grant (\$4.45).

(1) Additionally, Mr. Kaeser received a grant of 7,728 shares of restricted stock valued at \$22,025, which represented a prorated 2015 annual grant for his partial term of service upon joining the Board in February 2016. Under the terms of each award, the restricted stock vested immediately on the grant date and immediately became unrestricted shares of McDermott common stock. For a discussion of the valuation assumptions with respect to these awards, see Note 14 to our Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2016.

As of December 31, 2016, nonemployee directors had aggregate outstanding stock option awards as follows: Mr. Bookout stock options to purchase 5,233 shares; and Mr. Brown stock options to purchase 1,744 shares. All of such stock options were fully vested.

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Executive Officer Profiles

The following profiles provide the relevant experience, age and tenure with McDermott as of May 5, 2017 of our Chief Executive Officer, Chief Financial Officer and other executive officers currently employed by McDermott.

David Dickson, President and Chief Executive Officer

Age: 49 | Tenure: 3 years 7 months

Mr. Dickson has served as a member of our Board of Directors and as President and Chief Executive Officer since December 2013, prior to which he served as our Executive Vice President and Chief Operating Officer from October 2013. Mr. Dickson has over 25 years of offshore oilfield engineering and construction business experience, including 11 years of experience with Technip S.A. (Technip) and its subsidiaries. From September 2008 to October 2013, he served as President of Technip U.S.A. Inc., with oversight responsibilities for all of Technip's North American operations. In addition to being the President of Technip U.S.A. Inc., Mr. Dickson also had responsibility for certain operations in Latin America. Mr. Dickson also supported the Technip organization by managing key customer accounts with international oil companies based in the United States.

Stuart Spence, Executive Vice President and Chief Financial Officer

Age: 48 | Tenure: 2 years 9 months

Mr. Spence has served as McDermott's Executive Vice President and Chief Financial Officer since August 2014. Mr. Spence has approximately 20 years of combined financial and operational management experience with companies in the oilfield products and services and engineering and construction businesses. Immediately prior to joining McDermott, Mr. Spence served as Vice President, Artificial Lift for Halliburton Company, where he had overall strategic and operational responsibility for Halliburton's artificial lift product and service line. Previously, he served as Senior Director, Strategy and Marketing for Halliburton's Completion and Production Division. Mr. Spence joined Halliburton following Halliburton's acquisition of Global Oilfield Services Inc. in November 2011. He served as Executive Vice President and Chief Financial Officer of Global Oilfield Services from 2008 to May 2011 and as Executive Vice President, Strategy, in May 2011 in connection with the sale to Halliburton. His prior experience also includes positions of increasing financial and management responsibility at: Green Rock Energy, LLC; and Vetco International Ltd. (holding company for Aibel Ltd., an oilfield facilities maintenance and construction company, and Vetco Gray, Inc., a subsea production and drilling equipment company).

Liane Hinrichs, Senior Vice President, General Counsel and Corporate Secretary

Age: 59 | Tenure: 18 years

Ms. Hinrichs has been our Senior Vice President, General Counsel and Corporate Secretary since October 2008. Previously, she served as our: Vice President, General Counsel and Corporate Secretary from January 2007 to September 2008; Corporate Secretary and Associate General Counsel, Corporate Compliance and Transactions from January 2006 to December 2006; Associate General Counsel, Corporate Compliance and Transactions, and Deputy Corporate Secretary from June 2004 to December 2005; Assistant General Counsel, Corporate Secretary and Transactions from October 2001 to May 2004; and Senior Counsel from May 1999 to September 2001. Prior to joining McDermott in 1999, she was a partner in a New Orleans law firm.

Jonathan Kennefick, Senior Vice President, Project Execution and Delivery

Age: 48 | Tenure: 25 years

Mr. Kennefick has served as our Senior Vice President, Project Execution and Delivery, since November 2015. Mr. Kennefick joined McDermott in 1992, and has served in various positions of increasing responsibility, including: Vice President of Quality, Health, Safety, Environment and Security, from March 2014 to November 2015; Vice President, Operations Middle East and India,

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from May 2012 to March 2014; Director of Operations, from June 2010 to May 2012; and General Manager, Marine Operations, from March 2008 to June 2010.

Brian McLaughlin, Senior Vice President, Commercial

Age: 46 | Tenure: 10 years

Mr. McLaughlin has served as McDermott's Senior Vice President, Commercial, since September 2015. Previously, he served as our VP Commercial, Offshore, from 2014 to September 2015; General Manager, Business Development Middle East and India, from 2010 to 2014; Senior Director, Business Development Middle East and India, from 2008 to 2010; and, Proposals Manager, Middle East, from 2006 to 2008. Prior to joining McDermott, Mr. McLaughlin held roles of increasing responsibility at Al Faris, Abu Dhabi, ALE Middle East and Weir Pumps.

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Linh Austin, Vice President, Middle East and Caspian

Age: 47 | Tenure: 2 years 5 months

Mr. Austin has served as our Vice President, Middle East and Caspian since January 2016 and, previously, as our Senior Director Operations, Middle East from January 2015 to January 2016. Mr. Austin has over 20 years of executive and operational experience in the oil and gas industry, including two years in the Middle East with Abu Dhabi Marine Operating Company (ADMA-OPCO). Prior to joining McDermott, he served as: Senior Advisor for ADMA-OPCO from August 2013 until January 2015; Commercial Project General Manager for BP from July 2012 to August 2013; Director of Planning & Resources Unit Leader for BP from 2009 to 2012; President and CEO of Point Energy Group from 2007 to 2009; Global Strategy and IM Director for BP from 2004 to 2007; and Business Unit Chief of Staff, Project and Operations Management for BP and ARCO from 1993 to 2004.

Hugh Cuthbertson, Vice President, Asia

Age: 59 | Tenure: 39 years

Mr. Cuthbertson has served as our Vice President, Asia since January 2015. Previously, he served as: our Vice President & General Manager, Asia Pacific from April 2014 to January 2015; Senior Director, Operations, McDermott Australia Pty. Ltd. (MAP) from July 2013 to March 2014; Senior Director Business Development, MAP, from March 2012 to July 2013, and Managing Director, MAP, from May 2009 to March 2012. Mr. Cuthbertson joined McDermott in 1978, and since that time has held positions of increasing responsibility in business development, project management and regional responsibility.

Andrew Leys, Vice President, Human Resources

Age: 38 | Tenure: 9 years

Andrew Leys has served as Vice President, Human Resources since July 2016. Prior to his current position, Mr. Leys served as Senior Director, HR & Crewing for Marine Assets & Operations from April 2014 to June 2016. Prior to rejoining McDermott in 2014, he served as Director of HR Operations for Technip North America from January 2012 to April 2014. He also served as McDermott's Director of HR for Atlantic Operations from November 2010 to January 2012 and Director of HR for Marine from September 2006 to November 2010. Before joining McDermott in 2006, Andrew served at Smith International, Inc. as Global Compensation Manager from July 2005 to September 2006, and as a Compensation Analyst from May 2003 to June 2005.

Chris Krummel, Vice President, Finance and Chief Accounting Officer

Age: 49 | Tenure: 7 months

Chris Krummel has served as the Vice President, Finance and Chief Accounting Officer since October 2016. Previously, Mr. Krummel served as a consultant of American Industrial Partners, a firm engaging in private equity investments in industrial businesses in the United States and Canada, from November 2015 through July 2016; Chief Financial Officer and Vice President of EnTrans International, a global manufacturer of aluminum tank trailers, heavy lift trailers and oilfield pressure pumping equipment used in hydraulic fracturing and other well services, from September 2014 to October 2015; Chief Accounting Officer, Vice President and Corporate Controller of Cameron International, a worldwide provider of flow equipment products, systems and services to oil, gas and process industries from April 2008 until April 2014; and Vice President, Finance of Cameron International from April 2014 until August 2014. Mr. Krummel has also served as a member of the Board of Directors of Eco-Stim Energy Solutions, an environmentally-focused well stimulation and completion company, since January 2014.

Scott Munro, Vice President, Americas, Europe and Africa

Age: 42 | Tenure: 3 years 3 months

Mr. Munro has served as our Vice President, Americas, Europe and Africa, since January 2015. Previously, he served as our Vice President and General Manager, North Seas and Africa, from April 2014 to January 2015; and Vice President, Projects and Operations Subsea, from the time he joined McDermott in January 2014 through March 2014. Prior to joining McDermott, Mr. Munro was Vice President, Commercial, for Technip U.S.A. Inc., a subsidiary of Technip, from 2010 to 2013; and Vice President Offshore Unit, Technip France, an operating unit of Technip, from 2013 to 2014. Mr. Munro has management experience in the oil and gas industry, having worked in the United Kingdom, United States, Canada, Brazil and France in a variety of operational and project management roles in organizations such as Coflexip Stena Offshore Group S.A., Acergy, S.A., Chevron Corporation and Technip.

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EXECUTIVE COMPENSATION

Item 2 Advisory Vote to Approve Named Executive Officer Compensation

We are asking our stockholders to vote on an advisory basis to approve the compensation of our NEOs (sometimes referred to as "say on pay") in accordance with Section 14A(a)(1) of the Securities Exchange Act of 1934. The Board recommends a vote FOR this proposal because it believes that our compensation policies and practices are effective in achieving McDermott's philosophy of providing compensation that:

- attracts, motivates and retains well-qualified executives;
- provides performance-based incentives to reward achievement of short and long term business goals and strategic objectives, while recognizing individual contributions; and
- aligns the interests of our executives with those of our stockholders.

For the reasons discussed in the Compensation Discussion and Analysis, accompanying compensation tables and related narrative disclosures in this proxy statement, the Board of Directors unanimously recommends that stockholders vote FOR the following resolution:

RESOLVED, that the compensation paid to the NEOs, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and accompanying narrative discussion in McDermott's proxy statement relating to its 2017 annual meeting of stockholders, is hereby APPROVED.

Although the resolution is non-binding, the Board of Directors and Compensation Committee will consider the outcome of the vote when making future compensation decisions.

Compensation Discussion & Analysis

Introduction

The following Compensation Discussion and Analysis, or CD&A, provides information relevant to understanding the 2016 compensation of our executive officers and former executive officers identified in the Summary Compensation Table, whom we refer to as our NEOs, with the exception of Mr. Stephen L. Allen, our former Senior Vice President, Human Resources, who we refer to as our Retired NEO. NEOs, as used in the CD&A, includes only the Named Executive Officers who remained employed in their same position with McDermott through the date of this proxy statement. For 2016, our NEOs and their respective titles were as follows:

- David Dickson, our President and Chief Executive Officer;
- Stuart A. Spence, our Executive Vice President and Chief Financial Officer;
- Linh Austin, our Vice President, Middle East and Caspian;
- Liane K. Hinrichs, our Senior Vice President, General Counsel and Corporate Secretary; and
- Jonathan Kennefick, our Senior Vice President, Project Execution and Delivery.

The following discussion also contains statements regarding future individual and company performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance. We caution investors not to apply these statements in other contexts.

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Executive Compensation

CD&A Executive Summary

Our Business, the Macro Environment and our 2016 Operating Strategy

McDermott is a leading provider of integrated engineering, procurement, construction and installation services for offshore and subsea oil and gas field developments worldwide. We deliver fixed and floating production facilities, pipelines and subsea systems, from concept to commissioning, to customers including national oil companies and international and independent oil companies. McDermott generally has 40 or fewer active contracts at any given time, which typically span a duration of one to three years, are performed in a variety of jurisdictions, and may individually range from less than \$50 million to more than \$2 billion in total contract value. We execute our contracts through a variety of methods, with fixed-price contracts being the most prevalent. These contracts are often performed in difficult conditions, and the cost and gross profit we realize on these contracts could vary materially from the estimated amounts due to supplier, contractor and subcontractor performance, changes in job conditions, unanticipated weather conditions, variations in labor and equipment productivity, increases in the cost of raw materials over the term of the contract or our own performance.

The demand for our engineering, procurement, construction and installation services and our ability to book new work is dependent upon the capital expenditures of oil and gas companies for the construction of development projects. The depressed oil and natural gas market in recent years has resulted in significant reductions in capital expenditure budgets of oil and gas producing companies, which have led to the continued reprioritization and deferral of work as project economics have been reevaluated. A direct result of this has been the delay of certain project awards from those customers and increased competition to McDermott, as competitors compete to secure a more limited number of available projects. Notwithstanding the challenging macro environment, in 2016 McDermott continued its focus on customer relationships and building backlog in markets where capital is available for investment.

Following the appointment of David Dickson as Chief Executive Officer in December 2013, over the past three years McDermott has transformed as a company through a turnaround, stabilization of the business, optimization via cost-reduction initiatives and growth through strategic asset investment.

In continuation of McDermott's transformation, in 2016 our operating strategy was to drive a sustainable, profitable and growth-oriented business, with a focus on stockholders, customers and other stakeholders. In furtherance of this strategy, our 2016 goals were to:

- increase operating income via improved project execution;
- increase cash flow by prioritizing our liquidity needs;
- increase backlog and bookings to support our future business;
- promote pricing discipline on order intake operating margins; and
- efficiently allocate capital to profitable investments to grow our business.

Strong project execution, additional cost management, improved liquidity culture and increased organizational capabilities and competencies drove the execution of McDermott's strategy and goals in 2016.

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Executive Compensation

2016 Performance Highlights

Total shareholder return (TSR) for McDermott was 120% for 2016, as compared to our Proxy Peer Group 's median TSR of approximately 12%. McDermott 's TSR was higher than the 2016 TSR for any of the companies constituting our Proxy Peer Group. Our operating income also continued to increase, with full year operating income of \$142.3 million compared to 2015 operating income of \$112.7 million and 2014 operating income of \$16.4 million. Order intake (including change orders) was \$2.7 billion in 2016, which, while a decrease from 2015, was considered positively in light of the lower for longer oil and gas market that continued through 2016. Year-end 2016 backlog was slightly up compared to year-end 2015, and provides a strong foundation for 2017 with approximately \$3 billion of expected 2017 revenues already recorded in backlog as of December 31, 2016. In evaluating the performance of David Dickson, our President and Chief Executive Officer, the Board has considered these performance results, as well as other financial and leadership goals detailed further below, and believes that Mr. Dickson has succeeded in positioning McDermott as a stronger, more durable business, particularly during a difficult business cycle and extended challenging macro environment.

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Executive Compensation

Compensation Philosophy and 2016 Compensation Program Design and Levels

The Compensation Committee is committed to targeting reasonable and competitive total direct compensation for our NEOs, with a significant portion of that compensation being performance-based. Our compensation programs are designed to align with and drive achievement of our business strategies and provide competitive opportunities. Accordingly, achievement of most of those opportunities depends on the attainment of performance goals and/or stock price performance. McDermott's compensation programs are designed to provide compensation that:



The Compensation Committee has designed and administered compensation programs aligned with this philosophy and is committed to continued outreach to stockholders to understand and address comments on our compensation programs.

Reflecting this philosophy, our NEO compensation arrangements in 2016 provided for the continuing use of three elements of target total direct compensation: annual base salary, annual incentive provided under our Executive Incentive Compensation Plan, or EICP, and long-term incentives, or LTI. In making compensation decisions for 2016, the Compensation Committee considered McDermott's operating strategy and goals and significantly improved operational and financial performance, with appreciation of the lower for longer macro oil and gas environment and comments received during the 2016 stockholder outreach program.

With respect to plan design, the Compensation Committee:

maintained consistency in the 2016 EICP performance metrics, with the exception of the elimination of the MPI modifier following completion of the McDermott Profitability Initiative, or MPI, in 2015; and evolved the 2016 LTI performance metric to relative Return on Average Invested Capital, or relative ROAIC, in consideration of McDermott's transformation from turnaround and stabilization to optimization for future growth.

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Executive Compensation

With respect to levels of compensation, the Compensation Committee generally sought to maintain 2016 NEO compensation consistent with 2015 levels, with the exception of Mr. Dickson, whose 2016 target LTI award was returned to 2014 levels following an increased target LTI award in 2015, Mr. Spence, who received an increase in his 2016 target LTI award to better approximate market range and Mr. Kennefick, who received an increase in his 2016 target LTI award following his promotion in 2015. Accordingly, for 2016 NEO compensation, the Compensation Committee provided:

No increases in annual base salaries.

No increases in target annual incentive.

The same number of LTI units as awarded in 2015, other than for those NEOs whose target LTI awards were adjusted as described above. Due to the decrease in the price of McDermott stock as of the grant date for the 2016 annual LTI awards, as compared to the grant date for the 2015 annual LTI awards, this resulted in a year over year decrease in the grant date fair value of LTI awarded to the NEOs, with the exception of Messrs. Spence and Kennefick, as noted above.

The mix of target total direct compensation for Mr. Dickson for 2016 is shown in the chart below.

CEO TARGET 2016 COMPENSATION

Impact of 2016 Say on Pay Vote on Executive Compensation and Stockholder Outreach

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What we heard	What we have done in response	When effective
Maintain consistency in executive compensation plans	The financial metrics under our EICP – operating income, free cash flow, order intake and order intake operating margin – have remained consistent since 2014, with the exception of the use of the MPI Modifier in 2015, which was not included as a metric for 2016. The Compensation Committee approved the continuing use of these metrics for the 2016 and 2017 EICP awards.	2014, 2015, 2016 and 2017 EICP Awards
Consider returning to a relative metric for LTI plan awards	The Compensation Committee approved the use of Return on Average Invested Capital relative to a competitor peer group as the performance metric for both the 2016 and 2017 Performance Unit awards.	2016 and 2017 Performance Unit Awards
Consider composition of Peer Group	The Compensation Committee added a competitive peer group of both domestic and international peers for determining performance under the 2016 and 2017 Performance Unit awards.	2016 and 2017 Performance Unit Awards
Require double-trigger vesting of equity awards upon a change in control	The 2016 long-term incentive award grant agreements and 2016 McDermott International, Inc. Long-Term Incentive Plan provide for double trigger vesting upon a change in control, except where the awards are not assumed in the transaction.	February 2016 and Approval of 2016 LTIP
Maintain strong corporate governance foundation	The Board adopted limits on the number of boards on which directors may serve. Directors who serve as a CEO or senior executive of a public company generally may serve on no more than two public company boards and other directors may serve on no more than three public company boards (in both instances, including the McDermott Board).	November 2016
Maintain commitment to Board refreshment	The Governance Committee continued its commitment to Board refreshment. Consistent with our By-Laws, Roger A. Brown will retire from our Board at the 2017 Annual Meeting of Stockholders.	Ongoing
Consider periodic usage of an independent third party facilitator for Board and Committee evaluations	McDermott engaged an independent, third party facilitator in connection with the Board of Director and Committee evaluations conducted for 2017.	2017 Board Evaluations
Provide disclosure on McDermott’s corporate social responsibility and sustainability activities	We have provided disclosure on McDermott’s corporate social responsibility and sustainability activities in this proxy statement, and expect to continue to increase disclosures around these activities in the future.	2017 Proxy Statement
Continue stockholder engagement	The Board has prioritized stockholder engagement and will be continuing its vigorous outreach program going forward	Ongoing

The Compensation Committee will continue to consider the outcome of our say on pay votes when making future compensation decisions for the NEOs. The Compensation Committee expects to continue to hold the advisory vote to approve NEO compensation every year.

Table of Contents**Executive Compensation****Executive Compensation Policies and Practices**

Below we highlight certain of our executive compensation and governance policies and practices, including both those which we utilize to drive performance and those which we prohibit because we do not believe they would serve our stockholders' long-term interests:

Policy or Practice	MDR Policy
Pay for Performance	A significant portion of target total direct compensation is tied to performance, including 100% of annual incentive compensation and 50% of the NEOs' target value long-term incentive compensation.
Meaningful Stock Ownership Guidelines	We have stock ownership guidelines for our NEOs that generally require the retention of a dollar value of qualifying McDermott securities of 5x base salary for our CEO, 3x base salary for the other NEOs and 5x annual retainer for directors.
Double Trigger Change in Control Agreements & Equity Agreements	Our change in control agreements and, beginning in 2016, our equity agreements provide benefits only upon an involuntary termination or constructive termination of the executive officer within one year following a change in control.
Independent Compensation Consultant	The Compensation Committee retains an independent compensation consultant to advise on executive compensation program and practices.
Annual Compensation Risk Assessment	Our compensation consultant assists the Compensation Committee in conducting an annual risk assessment of our compensation programs.
Annual Advisory Vote on NEO Compensation	We value our stockholders' input on our executive compensation programs, and our Board of Directors seeks an annual advisory vote from stockholders to approve NEO compensation.
Modest Directed Perquisite Program	In 2016, the Compensation Committee eliminated the perquisite allowance and instead provided reimbursement to members of McDermott's EXCOM for financial planning and required executive physicals, in a combined amount not to exceed \$20,000.
Annual Review of Share Utilization	We evaluate share utilization levels annually by reviewing overhang levels (the dilutive impact of equity compensation on our stockholders) and annual run rates (the aggregate stock awarded as a percentage of total outstanding shares).
Clawback Policy	We have a clawback policy that allows McDermott to recover, under certain circumstances, compensation paid to executive officers.
Derivatives Trading, Hedging or Pledging of McDermott Stock	Members of the Board of Directors and employees are prohibited from engaging in derivatives trading, hedging or pledging of our common stock.
Excise Tax Gross-Ups	We do not provide excise tax gross-ups in our change in control agreements.
Repricing of Underwater Stock Options	Our equity incentive plans do not permit repricing or exchange of underwater stock options without stockholder approval.
Employment Contracts	None of our current NEOs has an employment contract with McDermott relating to ongoing employment.

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2016 Compensation Program

Compensation Philosophy

The Compensation Committee is committed to targeting reasonable and competitive total direct compensation for our NEOs, with a significant portion of that compensation being performance-based. Our compensation programs are designed to address business needs and provide competitive opportunities, but achievement of most of those opportunities depends on the attainment of performance goals and/or stock price performance. McDermott's compensation programs are designed to provide compensation that:



What We Pay and Why: Elements of Total Direct Compensation

Target Total Direct Compensation

The Compensation Committee seeks to provide reasonable and competitive compensation. As a result, it targets the elements of total direct compensation, or TDC, for our NEOs generally within approximately 15% of the median compensation of our market for comparable positions. Throughout this CD&A, we refer to compensation that is within approximately 15% of market median as market range compensation.

The Compensation Committee may set TDC or individual elements of TDC above or below the market range to account for a NEO's performance, experience, tenure in the role, internal pay equity and other factors or situations that are not typically captured by looking at standard market data and practices and which the Compensation Committee deems relevant to the appropriateness or competitiveness of a NEO's compensation.

When making decisions regarding individual compensation elements, the Compensation Committee also considers the effect on the NEO's target TDC and target total cash-based compensation (annual base salary and annual incentives at target level), as applicable. The Compensation Committee's goal is to establish target compensation for each element that, when combined, create a target TDC award for each NEO that is reasonable and competitive and supports our compensation philosophy and objectives.

Elements of Total Direct Compensation

Total direct compensation is comprised of three elements: annual base salary, annual incentive, and long-term incentives.

Annual Base Salary

We pay base salaries to provide a fixed level of compensation that helps attract and retain executives. Base salary levels recognize an executive officer's experience, skill and performance, with the goal of being market competitive based on the officer's role and responsibilities within the organization. Adjustments may be made based on individual performance, inflation, pay relative to market and internal pay equity considerations. No NEO received an increase in annual base salary in 2016.

Annual Incentive

The Compensation Committee administers our annual incentive compensation program under our Executive Incentive Compensation Plan, or EICP. The EICP is a cash incentive plan designed to motivate and reward our NEOs and other key employees for their contributions to strategic business goals and other factors that we believe drive our earnings and promote

creation of stockholder value. In 2016, EICP bonus pool funding was 100% based on our financial performance, with each participant's actual bonus award determined by achievement of the participant's individual performance goals.

Financial Performance Goals. For 2016 EICP awards, the Compensation Committee approved financial metric performance goals based on consolidated operating income, consolidated free cash flow (defined as consolidated cash from operations less consolidated capital expenditures), order intake (including change orders) and operating margins on order intake, weighted as set forth below. McDermott established the 2016 financial performance goals with consideration of management's internal forecast of 2016 financial results, with the exception of the operating income goals, which were established at an increase over the forecast 2016 results.

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Weight	Financial Metric Performance Goal	Reason Metric Selected	Performance Level	Business Result Goal (\$/%)	Funding Multiple
25%	Operating Income	Reflects execution performance	Threshold	100M	0.5x
			Target	137M	1.0x
			Maximum	170M	2.0x
25%	Free Cash Flow	Prioritizes liquidity needs	Threshold	(180)M	0.5x
			Target	(143)M	1.0x
			Maximum	(110)M	2.0x
30%	Order Intake	Forward-looking leading indicator to drive future performance	Threshold	3,140M	0.5x
			Target	4,192M	1.0x
			Maximum	5,240M	2.0x
20%	Order Intake Operating Margin*	Promotes pricing discipline on order intake	Threshold	6%	0.5x
			Target	8%	1.0x
			Maximum	10%	2.0x

* Due to the nature of our business, forward-looking Order Intake Operating Margin Threshold, Target and Maximum business goals are competitively sensitive and unable to be disclosed, although at this time we are able to disclose such goals after the end of the applicable performance period.

McDermott's actual performance against the stated goals determines the funding for each financial performance goal, with the weighted sum of each funding multiple determining the financial metric result.

2016 Financial Performance Results Under the EICP. McDermott's actual 2016 financial performance results against the stated performance goals under the EICP were as follows:

Financial Metric Performance Goal	Actual Result (\$/%)	Funding Multiple	Weight	Weighted Funding Multiple
Operating Income	203.1M*	2.000x	25%	0.500x
Free Cash Flow	(49.9)M	2.000x	25%	0.500x
Order Intake	2,726.4M	0.000x	30%	0.000x
Order Intake Operating Margin**	5.20%	0.000x	20%	0.000x
Total EICP Bonus Pool Funding Multiple				1.000x

* Actual result for Operating Income computed in accordance with generally accepted accounting principles in the U.S. was \$142.3 million. In consideration of McDermott's 2016 performance, however, the Compensation Committee approved adjustments to GAAP Operating Income for items that our management does not consider to be representative of our normal operations. See the Appendix for a reconciliation of the Non-GAAP to GAAP financial measure.

** Due to the nature of our business, forward-looking Order Intake Operating Margin goals are competitively sensitive and unable to be disclosed, although at this time we are able to disclose those goals and actual results after the end of the applicable performance period.

Accordingly, each NEO was eligible to earn 1.0x of his or her target EICP award, subject to modification by the Compensation Committee, based on his or her achievement of individual performance goals.

Individual Performance Goals. Following the determination of the EICP bonus pool funding multiple, an individual participant's award was determined based on the achievement of the participant's individual performance goals. In no event could any NEO's annual bonus exceed two times his or her target EICP award opportunity. The Compensation Committee had the discretion to reduce the amount of payout to any participant, even if performance goals were achieved.

Table of Contents**Long-Term Incentives**

The Compensation Committee believes that the interests of our stockholders are best served when a significant percentage of executive compensation is comprised of equity that appreciates in value contingent on increases in the value of our common stock and other performance measures that reflect improvements in McDermott's business fundamentals. Therefore, LTI compensation represents the single largest element of our NEOs' total direct compensation. The Compensation Committee maintained the performance-based component of LTI at 50% in 2016, after increasing to 50% in 2015 from 40% in 2014, and allocated LTI compensation to executive officers, including the NEOs, as follows:

Performance Units

50%

Restricted Stock Units

50%

Performance Units. Performance units are intended to align the NEOs' interests with those of our stockholders, with a focus on long-term results. The performance units awarded in 2016 are structured to be paid out, if at all, in shares of McDermott common stock, cash equal to the fair market value of the shares otherwise deliverable, or any combination thereof, at the sole discretion of the Compensation Committee, at the end of a three-year performance period, to the extent the applicable performance goals are met. Relative return on average invested capital, or ROAIC, was used as the performance metric for the performance units granted in 2016, as the Compensation Committee believed that this metric tied specifically to our strategy of appropriately investing capital to grow the business. The number of performance units earned is determined based on both (1) our average ROAIC, and (2) our relative ROAIC improvement as compared to a competitor peer group comprised of both domestic and international peers, in each case over the three-year performance period. Based on this performance, up to 200% of a participant's target award may be earned, with earned awards between the amounts shown calculated by linear interpolation. We compute McDermott's ROAIC improvement by subtracting McDermott's 2015 ROAIC from the three-year performance period average ROAIC. Similar calculations are done for each member of the competitor peer group, following which the median competitor peer group ROAIC improvement is calculated. The amount by which McDermott's ROAIC improvement exceeds the competitor peer group median ROAIC improvement determines whether the threshold, target or maximum earned award is achieved.

Performance Level	MDR 3-Year Average ROAIC Amount by which MDR ROAIC Improvement Exceeds Competitor Peer Group Median ROAIC Improvement	< 6%	≥ 6% and < 10%	≥ 10%
		Earned Award	Earned Award	Earned Award
Maximum	≥ 6%	50%	200%	200%
Target	2%	50%	100%	100%
Threshold	0%	50%	50%	50%
	< 0%	0%	0%	50%

Restricted Stock Units. Restricted stock units, or RSUs, are intended to promote the retention of employees, including the NEOs. The RSUs granted in 2016 generally vest in one-third increments on the first, second and third anniversaries of the grant date. The RSUs may be paid out in shares of McDermott common stock, cash equal to the fair market value of the shares otherwise deliverable, or any combination thereof, at the sole discretion of the Compensation Committee.

2016 NEO Compensation

For 2016 NEO compensation, the Compensation Committee provided:

No increases in annual base salaries.

No increases in annual target bonus awards. As a result of McDermott's 2016 financial performance, each NEO was eligible to earn 1.0x of his or her target EICP award, subject to adjustment by the Compensation Committee based on his or her achievement of individual performance goals.

The same number of units to participants in our LTI program as awarded in 2015, other than for those NEOs whose target LTI awards were adjusted in 2016. Due to the decrease in the price of McDermott stock as of the grant date for the 2016 annual LTI awards, as compared to the grant date for the 2015 annual LTI awards, this resulted in a year over year decrease in the grant date fair value of LTI awarded to the NEOs, with the exception of Messrs. Spence and Kennefick, who each received an increase to the target value of their LTI award for 2016. See "Sizing Long-Term Incentive Compensation and Timing of Equity Grants" below for further explanation of how the size of the 2016 LTI awards was determined.

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The compensation of each NEO is discussed in more detail on the following pages.

DAVID DICKSON
President and Chief Executive Officer

McDermott Tenure:
 3 years 6 months

2016 Target Total Direct Compensation

Element	2015 Target Compensation (\$)	2016 Target Compensation (\$)	2016 Percentage of Target TDC
Annual Base Salary	850,000	850,000	15%
Annual Incentive (% of Salary)	100%	100%	15%
Long-Term Incentive	5,000,000	4,000,000	70%
Target TDC	6,700,000	5,700,000	100%

Annual Incentive In February 2016, the Compensation Committee approved the following individual performance goals as a component of Mr. Dickson's 2016 EICP award:

Financial Deliver financial performance in line with forecast, with a focus on continuing to build backlog, and deliver cost savings under McDermott's Additional Overhead Reduction initiative

Strategic Evaluate and propose to the Board any changes to McDermott's strategy and vision for both near-term and long-term objectives

QHSES Continue focus on quality, health, safety, environment and security, or QHSES, statistics, with increased focus on the cost of non-quality and further development of McDermott's Taking the Lead initiative

Relationships Continue development of relationships with customers, potential partners, the investment community, governments and banks

Internal Organization Continue development of effectiveness and efficiency of internal organization, and continued enhancement of processes for talent management and succession planning

The Governance Committee's assessment of these individual performance goals considered McDermott's continued financial and operational performance improvements during 2016. Notably, McDermott's 2016 financial results reflected TSR of 120%, revenues of \$2.6 billion, operating income of \$142.3 million and order intake (including change orders) of \$2.7 billion, which resulted in year-end backlog of \$4.3 billion. These results reflect continued, significant improvements since Mr. Dickson was elected as President and Chief Executive Officer in 2013, and were achieved despite the difficult, lower for longer oil and gas market. Additionally, under his oversight McDermott's QHSES performance has continued on a positive trend with peer leading safety statistics, increased focus on the cost of non-quality and the deployment of McDermott's Taking the Lead initiative, designed to promote consistency in quality, safety and performance across the globe as well as operating in an environmentally conscious and socially responsible manner. During 2016, Mr. Dickson also continued improving relationships with customers, potential joint venture or consortium counterparties, the investment community, governments and banks. Finally, following significant executive management changes in prior years, in 2016 Mr. Dickson was focused on building and optimizing the executive management team as required for achievement of McDermott's operating strategy, while improving talent management and succession planning for key roles.

In consideration of the Governance Committee's assessment of Mr. Dickson's achievement of his individual performance goals as discussed above, the Compensation Committee awarded Mr. Dickson a final EICP award of \$1,190,000.

Long-Term Incentive Mr. Dickson's 2016 target LTI award was decreased from his 2015 award, with his 2016 target award returned to the amount of his 2014 target LTI award following the increase received in 2015.

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STUART A. SPENCE
Executive Vice President and Chief Financial Officer

McDermott Tenure:
 2 years 9 months

2016 Target Total Direct Compensation

Element	2015 Target Compensation (\$)	2016 Target Compensation (\$)	2016 Percentage of Target TDC
Annual Base Salary	475,000	475,000	22%
Annual Incentive (% of Salary)	70%	70%	15%
Long-Term Incentive	1,200,000	1,400,000	63%
Target TDC	2,007,500	2,207,500	100%

Annual Incentive Based on the Compensation Committee's and Mr. Dickson's assessment of Mr. Spence's achievement of his individual performance goals, the Compensation Committee awarded Mr. Spence a final EICP award of \$478,800.

Long-Term Incentive Mr. Spence received an increase in his 2016 target long-term incentive in consideration of his performance from his date of hire to the date of the 2016 LTI awards, as well as to more approximate market range.

LINH AUSTIN
Vice President, Middle East and Caspian

McDermott Tenure:
 2 years 5 months

2016 Target Total Direct Compensation

Element	2015 Target Compensation (\$)	2016 Target Compensation (\$)	2016 Percentage of Target TDC
Annual Base Salary	300,000	325,000	37%
Annual Incentive (% of Salary)	30%	50%	18%
Long-Term Incentive	250,000	400,000	45%
Target TDC	640,000	887,500	100%

Annual Incentive Based on the Compensation Committee's and Mr. Dickson's assessment of Mr. Austin's achievement of his individual performance goals, the Compensation Committee awarded Mr. Austin a final EICP award of \$214,500.

Long-Term Incentive Mr. Austin received an increase in his 2016 target long-term incentive as a result of his promotion to Vice President, Middle East and Caspian effective January 1, 2016.

Table of Contents**LIANE K. HINRICHS**
Senior Vice President, General Counsel and Corporate SecretaryMcDermott Tenure:
18 years**2016 Target Total Direct Compensation**

Element	2015 Target Compensation (\$)	2016 Target Compensation (\$)	2016 Percentage of Target TDC
Annual Base Salary	477,750	477,750	26%
Annual Incentive (% of Salary)	70%	70%	19%
Long-Term Incentive	1,000,000	1,000,000	55%
Target TDC	1,812,175	1,812,175	100%

Annual Incentive Based on the Compensation Committee's and Mr. Dickson's assessment of Ms. Hinrichs' achievement of her individual performance goals, the Compensation Committee awarded Ms. Hinrichs a final EICP award of \$401,310.

JONATHAN KENNEFICK
Senior Vice President, Project Execution and DeliveryMcDermott Tenure:
25 years**2016 Target Total Direct Compensation**

Element	2015 Target Compensation ⁽¹⁾ (\$)	2016 Target Compensation (\$)	2016 Percentage of Target TDC
Annual Base Salary	375,000	375,000	39%
Annual Incentive (% of Salary)	50%	50%	19%
Long-Term Incentive	300,000	400,000	42%
Target TDC	862,500	962,500	100%

⁽¹⁾ 2015 target compensation reflects increases to annual base salary and annual incentive received in November 2015 in connection with Mr. Kennefick's promotion to Senior Vice President, Project Execution and Delivery.

Annual Incentive Based on the Compensation Committee's and Mr. Dickson's assessment of Mr. Kennefick's achievement of his individual performance goals the Compensation Committee awarded Mr. Kennefick a final EICP award of \$213,750.

Long-Term Incentive Mr. Kennefick received an increase in his 2016 target long-term incentive as a result of his promotion to Senior Vice President, Project Execution and Delivery in November 2015 and internal pay equity considerations.

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Steve Allen

Mr. Allen served as McDermott's Senior Vice President, Human Resources, until his retirement in July 2016. Mr. Allen's 2016 target direct compensation was comprised of an annual base salary of \$400,000, annual incentive target award of 70% of annual base salary earned in 2016, and long-term incentive awards with a target value of \$600,000, all of which remained unchanged from 2015.

In connection with Mr. Allen's retirement, we entered into a separation agreement with Mr. Allen providing for various compensation-related benefits in exchange for, among other things, his agreement to comply with several restrictive covenants. Under that separation agreement, Mr. Allen received: (1) a lump-sum cash payment equal to six months of his base salary; (2) an amount of 2016 bonus under the EICP based on actual performance results for 2016, prorated for the length of his 2016 service; (3) payment of an amount to fund three months of continuing health insurance coverage under the Consolidated Omnibus Reconciliation Act; and (4) accrued but unutilized vacation pay.

Additionally, Mr. Allen received the following relating to his outstanding equity awards under the McDermott International, Inc. 2009 Long-Term Incentive Plan (the "2009 LTIP") and the 2014 LTIP: (1) each then outstanding portion of his March 6, 2014 RSU award and March 5, 2015 RSU award, and 50% of the currently outstanding portion of his February 26, 2016 RSU award, which would, absent his retirement, have remained outstanding and continued to vest through March 15, 2017 would, subject to certain conditions, vest and be settled on the date such award would otherwise be settled in accordance with the terms of the 2009 LTIP of 2014 LTIP, as applicable, and the applicable grant agreement; (2) each then outstanding portion of his May 12, 2014 RSU award which would, absent his retirement, have remained outstanding and continued to vest through May 15, 2017 would, subject to certain conditions, vest and be settled on the date such award would otherwise be settled in accordance with the terms of the 2014 LTIP and the applicable grant agreement; (3) each then outstanding portion of his May 12, 2014 award of performance shares which would, absent his retirement, have remained outstanding and continue to vest through May 15, 2017 would, subject to certain conditions, vest and be settled in accordance with the terms of the 2014 LTIP and applicable grant agreement, with the number of performance shares that would otherwise vest and settle prorated based on the number of days beginning on January 1, 2014 and ending on July 1, 2016 relative to the total number of days in the performance period; and (4) each then outstanding portion of his March 5, 2015 award of performance shares which would, absent his retirement, have remained outstanding and continued to vest through March 15, 2018 would, subject to certain conditions, vest and be settled on the date such award would otherwise be settled in accordance with the terms of the 2014 LTIP and applicable grant agreement, with the number of performance shares that would otherwise vest and settle prorated based on the number of days beginning on January 1, 2015 and ending on July 1, 2016 related to the total number of days in the performance period. All other outstanding equity and performance-based awards previously granted to Mr. Allen were forfeited at the time of his retirement. Mr. Allen's benefits under our Director and Executive Deferred Compensation Plan became fully vested as of the date of his retirement, and those benefits are to be paid in accordance with the terms of that plan.

2016 Other Compensation Elements Perquisites

In 2016, our Compensation Committee revised its approach with respect to perquisites, and provided for financial planning services and an executive physical to be reimbursed to the participant or paid directly to the participant's provider of choice, in a combined amount not to exceed \$20,000, rather than providing an allowance to be used for a company-required physical and any other purpose determined by the participant, as in recent years. No other perquisites were available to the participants in the perquisite program, with the exception of any company-required spousal travel for (1) the Chief Executive Officer, and (2) the remaining participants, as approved by the Chief Executive Officer. There were no reimbursements to any perquisite program participants for company-required spousal travel in 2016.

Additionally, and consistent with our past practice, we may provide a gross-up for any imputed income related to such company-required spousal travel, but only when the presence of the spouse is related to the underlying business purpose of the trip. There was no company-required spousal travel in 2016, and no imputed income or gross-ups were provided for any such company-required spousal travel in 2016. We also may provide our NEOs with a tax gross-up on any relocation-related expense reimbursements that may be subject to tax.

Expatriate Benefits

McDermott provides benefits to our expatriate employees, which benefits are designed to relocate and support employees who are sent on an assignment outside of their home country. Expatriate benefits generally include an expatriate premium equal to 10% of the employee's base salary, a hardship premium in certain countries, a housing allowance (or company provided housing in certain locations), transportation allowance (or company provided transportation in certain locations), a cost of living differential, where applicable, a vacation allowance based on the cost of an economy plane ticket to the employee's home location, company paid education for approved dependents in locations where public education is not an option and a tax equalization program. Following Mr. Kenefick's relocation to Houston in November 2015,

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McDermott continued to pay the cost of education for his dependents through June 2016, and also provided a tax gross-up on that cost.

Under McDermott's tax equalization program, we ensure that expatriate employees are subject to substantially the same income tax liability as they would have paid had they lived and worked in the United States. Each expatriate employee is responsible for a hypothetical US income tax liability based on an estimate of the expatriate's anticipated US income tax liability on their base compensation. Under the program, McDermott is responsible for any home country tax and assignment country taxes (if applicable) in excess of that amount based on the expatriate's full compensation, including any foreign allowances. Mr. Austin participated in expatriate benefits during 2016, as Mr. Austin is a United States citizen based in Dubai.

Defined Contribution Plans

We provide retirement benefits for most of our U.S. based employees, including our U.S. based NEOs, through sponsorship of the McDermott Thrift Plan, a qualified defined contribution 401(k) plan, which we refer to as our Thrift Plan. We provide retirement benefits for our non-U.S. expatriate employees through sponsorship of a global defined contribution plan, which we refer to as the McDermott Global Defined Contribution Plan.

Retirement and Excess Plans

We do not provide defined benefit pension plans to any of our NEOs, with the exception of Ms. Hinrichs and Mr. Kennefick, who were participants in our now closed and frozen retirement and excess plans. Ms. Hinrichs and Mr. Kennefick were eligible for participation under the McDermott (U.S.) Retirement Plan (the U.S. Retirement Plan) before it was closed to new participants in 2006. Benefit accruals under the U.S. Retirement Plan were frozen altogether in 2010. Ms. Hinrichs is also a participant in our unfunded, nonqualified excess retirement plan (the U.S. Excess Plan), under which benefits have been frozen since 2010. This plan covers a small group of highly compensated employees whose ultimate benefits under the U.S. Retirement Plan are reduced by Internal Revenue Code limits on the amount of benefits which may be provided under qualified plans and the amount of compensation which may be taken into account in computing benefits under qualified plans.

See the Pension Benefits table under Executive Compensation Tables below for more information regarding the U.S. Retirement Plan, the U.S. Excess Plan and the J. Ray McDermott, S.A. Third Country National Employees Pension Plan, or the TCN Plan, which provides retirement benefits for certain of our current and former foreign employees.

Deferred Compensation Plan

The McDermott International, Inc. Director and Executive Deferred Compensation Plan, or the DCP, is a defined contribution supplemental executive retirement plan established by our Board and the Compensation Committee to help maintain the competitiveness of our post-employment compensation as compared to our market. The DCP is an unfunded, nonqualified plan that provides each participant in the plan with benefits based on the participant's notional account balance at the time of retirement or termination. Under the DCP, on an annual basis, the Compensation Committee has the discretion to credit a specified participant's notional account with an amount equal to a percentage of the participant's prior-year base salary and annual bonus paid in the prior year. We refer to such credit as a Company Contribution. In 2016, Messrs. Dickson, Spence, Kennefick, Allen and Ms. Hinrichs were participants in the DCP and their respective accounts in the DCP received a Company Contribution in an amount equal to 5% of the sum of their respective base salaries paid in 2015 and 2014 bonus paid in 2015. Mr. Austin was not a participant in the DCP in 2016.

The Compensation Committee has designated deemed mutual fund investments to serve as indices for the purpose of determining notional investment gains and losses to each participant's account for any Company Contribution or participant-elected deferrals. Each participant allocates any Company Contributions and deferrals among the various deemed investments. DCP benefits are based on the participant's vested notional account balance at the time of retirement or termination. Please see the Nonqualified Deferred Compensation table and accompanying narrative below for more information about the DCP and Company Contributions to DCP accounts.

Employment Agreements

Except for change in control agreements described below, we do not currently have any employment agreements with any of our NEOs relating to ongoing employment. Mr. Austin has an employment agreement related to his status as an expatriate employee, which sets forth the expatriate benefits as discussed above under Expatriate Benefits. This employment agreement does not provide for any specified term of employment, and the terms of the agreement are generally consistent with those of employment agreements entered into with various other McDermott expatriate employees.

Change in Control Agreements

We believe change in control agreements for executive officers are common within our industry, and our Board and the Compensation Committee believe that providing these agreements to our NEOs protects stockholders' interests by helping to assure management continuity and focus through and beyond a change in control. Accordingly, the Compensation Committee has offered change in control agreements to key senior executives since 2005. Our change in control agreements contain what is commonly referred to as a double trigger,

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that is, they provide benefits only upon an involuntary termination or constructive termination of the executive officer within one year following a change in control. The change in control agreements for our NEOs generally provide a cash severance payment of a multiple of the sum of the NEO's annual base salary and target EICP, as set forth below, and a pro-rated bonus payment under the EICP.

NEO	Multiple of Base Salary + Target EICP
Mr. Dickson	2.5x
Mr. Spence	2.0x
Mr. Austin	1.0x
Ms. Hinrichs	2.0x
Mr. Kennefick	2.0x

In addition, upon a change in control, each such officer would become fully vested in any outstanding and unvested equity-based awards and his or her respective account balance in the DCP.

The change in control agreements: (1) do not provide for excise tax gross-ups; (2) require the applicable officer's execution of a release prior to payment of certain benefits; and (3) provide for the potential reduction in payments to an applicable officer in order to avoid excise taxes. Additionally, the change in control agreements with Messrs. Austin and Kennefick are scheduled to expire on March 15, 2019. See the Potential Payments Upon Termination or Change in Control table under Compensation of Executive Officers below and the accompanying disclosures for more information regarding the change in control agreements with our NEOs, as well as other plans and arrangements that have different trigger mechanisms that relate to a change in control.

Other Compensation Policies and Practices

Sizing Long-Term Incentive Compensation and Timing of Equity Grants

The Compensation Committee generally determines the size of equity-based grants as a dollar value, rather than granting a targeted number of shares or units, with each target value generally set within market range. To determine the number of restricted stock units and performance shares or units granted, the target value of long-term incentive compensation is divided by the fair market value of the applicable component of equity.

For purposes of determining 2016 awards, the Committee sought to ensure that award recipients did not receive larger share awards due solely to the decline in stock price during the preceding year. Accordingly, in February 2016, the Committee approved 2016 LTI award opportunities for the NEOs, with the number of units to be awarded based on McDermott's stock price on March 5, 2015 (the date of 2015 LTI awards). Due to the decrease in the price of McDermott stock as of the grant date for the 2016 annual LTI awards, as compared to the grant date for the 2015 annual LTI awards, there was a year over year decrease in the grant date fair value of LTI awarded to the NEOs, with the exception of Messrs. Spence and Kennefick, who received increases to the target value of their LTI awards for 2016.

To avoid timing equity grants ahead of the release of material nonpublic information, the Compensation Committee generally grants equity awards effective as of the first day of the open trading window following the meeting at which the grants are approved, which open window period generally begins on the third NYSE trading day following the filing of our annual report on Form 10-K or quarterly report on Form 10-Q with the SEC.

Stock Ownership Guidelines

To assist with the alignment of the interests of directors, executive officers and stockholders, we believe our directors and officers should have a significant financial stake in McDermott. To further that goal, we have adopted stock ownership guidelines requiring generally that our nonemployee directors and employees who are members of McDermott's EXCOM maintain a minimum ownership interest in McDermott. The EXCOM includes all of the NEOs. The ownership requirements are as follows:

Level

	Base Salary or Annual Retainer Multiple
CEO	5x
Members of McDermott s EXCOM	3x
Nonemployee Directors	5x

Directors and officers have five years from their initial election as a director/officer or a change in position which increases the expected ownership level, whichever is later, to comply with the guidelines. Shares of McDermott common stock, restricted shares of McDermott common stock, restricted stock units (whether or not McDermott can settle them in cash and whether or not vested), performance shares and units (whether or not McDermott can settle them in cash and whether or not vested, but to the extent not vested, at target performance level), shares of McDermott common stock held in an employee s Thrift Plan account and shares of McDermott common stock held in any trust in which an employee has a pecuniary interest (to the extent the employee has investment control over such shares) are all counted towards compliance with the stock ownership guidelines. Further,

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each director and officer subject to the stock ownership guidelines has the ability to certify his or her ownership at any time after reaching compliance with the required ownership level, following which such director or officer is not required to accumulate any additional McDermott securities, so long as he or she retains the number of securities held on the certification date, regardless of any subsequent changes in the market price of shares of McDermott common stock. All directors and NEOs currently meet or exceed their ownership requirement or are within the five-year period to achieve compliance.

Derivatives Trading and Hedging

McDermott's Insider Trading Policy prohibits all directors, officers and employees, including our NEOs, from engaging in short sales or trading in puts, calls or other options on McDermott's common stock. Additionally, directors, officers and employees are prohibited from engaging in hedging transactions and from holding McDermott shares in a margin account or pledging McDermott shares as collateral for a loan.

Clawback Policy

Our Compensation Committee has adopted a clawback policy, which provides that, if the consolidated financial statements of McDermott are materially restated within three years of their initial filing, and the Compensation Committee determines, in its reasonable discretion, that any current or former executive officer has engaged in intentional misconduct, and such misconduct caused or partially caused the need for such restatement, the Compensation Committee may, within 12 months after such a material restatement, require that the executive forfeit and/or return to McDermott all or a portion of the compensation vested, awarded or received under any bonus award, equity award or other award during the period subject to restatement and the 12-month period following the initial filing of the financial statements that were restated. The forfeiture and/or return of compensation under the policy would be limited to any portion that the executive officer would not have received if the consolidated financial statements had been reported properly at the time of their initial filing. The clawback policy would not apply to restatements occurring as a result of a change in control, as defined in the DCP, and the policy does not limit the ability of McDermott to pursue forfeiture or reclamation of amounts under applicable law.

Forfeiture Provisions

Additionally, consistent with our recent practice, our grant agreements for awards made in 2016 contain a forfeiture provision. In 2016, this provision provided that, in the event that, while the grantee is employed by McDermott or performing services on behalf of McDermott under any consulting agreement, the grantee is convicted of a felony or a misdemeanor involving fraud, dishonesty or moral turpitude, or the grantee engages in conduct that adversely affects or, in the sole judgment of the Compensation Committee, may reasonably be expected to adversely affect, the business reputation or economic interests of McDermott, then all rights and benefits awarded under the respective agreements are immediately forfeited, terminated and withdrawn.

How We Make Compensation Decisions Compensation Committee

The Compensation Committee has primary responsibility for determining and approving, on an annual basis, the compensation of our CEO and other executive officers. The Compensation Committee receives information and advice from its compensation consultant as well as from our human resources department and management to assist in compensation determinations.

Compensation Consultant

Pay Governance LLC, or Pay Governance, has been engaged by our Compensation Committee to serve as its consultant on executive compensation and benefits matters since November 2010. Pay Governance provides advice and analysis to the Compensation Committee on the design, structure and level of executive and director compensation, and, when requested by the Compensation Committee, attends meetings of the Compensation Committee and participates in executive sessions without members of management present. Pay Governance reports directly to the Compensation Committee, and the Compensation Committee reviews, on an annual basis, Pay Governance's performance and provides Pay Governance with direct feedback on its performance. When requested by the Governance Committee, Pay Governance attends meetings of the Governance Committee with respect to nonemployee director compensation.

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During 2016, Pay Governance did not perform any services for McDermott other than as described above. In January 2017, our Compensation Committee assessed whether the work performed by Pay Governance during 2016 raised any conflict of interest and determined that Pay Governance's work performed for the Compensation Committee raised no conflict of interest.

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Role of CEO and Management

While the Compensation Committee has the responsibility to approve and monitor all compensation for our executive officers, management plays an important role in determining executive compensation. Management, at the request of the Compensation Committee, recommends financial goals that drive the business and works with Pay Governance to analyze competitive market data and to recommend compensation levels for our executive officers other than our CEO. Our CEO likewise assists the Compensation Committee by providing his evaluation of the performance of our other executive officers and recommending compensation for those officers, including adjustments to their annual incentive compensation, based on individual performance.

Defining Market Range Compensation 2016 Benchmarking and Peer Groups

To identify median compensation for each element of total direct compensation, the Compensation Committee relies on benchmarking. This involves reviewing the compensation of our NEOs relative to the compensation paid to similarly situated executives at companies we consider our peers. As a result, the annual base salary, target annual incentive compensation and target LTI compensation for each of the NEOs is benchmarked. However, the specific performance metrics and performance levels used within elements of annual and long-term compensation are designed for the principal purpose of supporting our strategic and financial goals and driving the creation of stockholder value, and, as a result, generally are not benchmarked.

Proxy Peer Group

It is the Compensation Committee’s practice to periodically review and consider the individual companies used for benchmarking purposes. The Compensation Committee believes that identification of peers using a broad industry sector code is inadequate and does not establish similarity of operations and business models, nor identify historical competitors for managerial talent factors the Compensation Committee considers in the selection of companies for benchmarking purposes. Therefore, the Compensation Committee considers the revenues and market capitalization of the component companies. In this CD&A, we refer to the peer group as the Proxy Peer Group. Market data from the Proxy Peer Group was reflective of 2013 compensation, as reported in the 2014 proxy statements of the companies in the Proxy Peer Group, and was not size-adjusted, although the Compensation Committee was aware of these differences when making individual pay decisions. Market data utilized for 2016 compensation decisions was not refreshed from the data provided by Pay Governance in 2015, given the Compensation Committee’s expectation that there would be limited to no increases in elements of target direct compensation in 2016. The component companies of the Proxy Peer Group are as follows:

Archrock, Inc.	KBR, Inc.
Cameron International Corporation	Noble Corporation plc
Chicago Bridge & Iron Company N.V.	Oceaneering International, Inc.
Dresser-Rand Group, Inc.	Oil States International, Inc.
FMC Technologies, Inc.	Superior Energy Services, Inc.
Helix Energy Solutions Group, Inc.	Tidewater Inc.
Jacobs Engineering Group, Inc.	

These Proxy Peer Group companies are the same as the Proxy Peer Group utilized in 2015, except that the Proxy Peer Group for 2016 did not include Foster Wheeler AG, which was acquired by AMEC plc in November 2014. Archrock, Inc. changed its name from Exterran Holdings, Inc. after its spin-off of a new publicly held company named Exterran Corporation.

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Pay Governance also utilized market data based on a set of 78 companies in similar industries which participate in Towers Watson surveys (the Survey Peer Group). The Survey Peer Group is intended to provide a reference point for pay levels within similar industries, and is used as a secondary reference for Messrs. Dickson and Spence and Ms. Hinrichs, and a primary reference for Messrs. Allen, Austin and Kennefick. Aside from screening companies on the basis of their industry classifications, no further refinements or judgments were applied in the identification of companies within the sample. Market data from the Survey Peer Group represents 2014 compensation as reported to the survey and, when possible, was size adjusted. Corporate positions were evaluated based on average revenues of \$3.3 billion, and business unit positions were evaluated based on their respective revenue levels. The component companies of the Survey Peer Group are as follows:

Anadarko Petroleum Corporation	HNTB Corporation	PolyOne Corporation
Apache Corporation	Holly Frontier Corporation	PulteGroup, Inc.
A.O. Smith Corporation	Hunt Consolidated, Inc.	Rockwell Automation, Inc.
Archrock, Inc.	Husky Injection Molding Systems Ltd.	Rowan Companies plc
Ball Corporation	ION Geophysical Corporation	Saudi Arabian Oil Co.
Beam, Inc.	Irving Oil Commercial G.P.	Schlumberger Limited
Bemis Company, Inc.	ITT Corporation	Sealed Air Corporation
BG US Services	Jacobs Engineering Group, Inc.	ShawCor Ltd.
BP p.l.c.	KBR, Inc.	Shell Oil Company
Caterpillar Inc.	Koch Industries, Inc.	Snap-On Incorporated
CH2M Hill	Lehigh Hanson Materials Limited	Sonoco Products Co.
Chevron Corporation	Magellan Midstream Partners, L.P.	Spectra Energy Corp
ConocoPhillips	Marathon Oil Corporation	SPX Corporation
Deere & Company	Marathon Petroleum Corporation	Statoil ASA
Devon Energy Corporation	Matthews International Corporation	Terex Corporation
Donaldson Company, Inc.	MDU Resources Group, Inc.	Tesoro Corporation
Eaton Corporation	MeadWestvaco Corporation	Textron Inc.
EQT Corporation	Milacron Holdings Corp.	3M Company
Exxon Mobil Corporation	Noble Energy, Inc.	The Timken Company
GAF Materials	Occidental Petroleum Corporation	The Toro Company
The Goodyear Tire & Rubber Company	Owens Corning	Transocean Ltd.
Graco Inc.	Pall Corporation	Trinity Industries, Inc.
HD Supply, Inc.	Parker Hannifin Corporation	URS Corporation
Hercules Offshore, Inc.	Parsons Corporation	USG Corporation
Herman Miller, Inc.	Phillips 66 Company	Valero Energy Corporation
Hess Corporation	Polymer Group, Inc.	Xylem Inc.

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Performance Unit Peer Group

In consideration of comments received from the stockholder outreach efforts undertaken during 2015 and 2016 regarding the composition of the peer group, the Compensation Committee established the following peer group comprised of domestic and international competitors for purposes of the 2016 and 2017 Performance Unit awards:

Archrock, Inc.	Saipem SpA
Helix Energy Solutions Group, Inc.	Subsea7 SA
Oceaneering International, Inc.	TechnipFMC plc
Superior Energy Services, Inc.	Swiber Holdings Limited
Tidewater Inc.	SapuraKencana Petroleum Berhad

Compensation Committee Report

We have reviewed and discussed the Compensation Discussion and Analysis with McDermott's management and, based on our review and discussions, we recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

THE COMPENSATION COMMITTEE

Mary L. Shafer-Malicki, Chair
Roger A. Brown
Erich Kaeser
Gary P. Luquette
David Trice

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The following table summarizes the prior three years' compensation of our Chief Executive Officer, our Chief Financial Officer, our three highest paid executive officers who did not serve as our CEO and CFO during 2016 and were employed by McDermott as of December 31, 2016, and our former Senior Vice President, Human Resources, Mr. Allen (who served until July 1, 2016). No compensation information is provided for Messrs. Austin or Kennefick for 2014 and 2015, as they were not previously included as named executive officers in our proxy statement for our annual meeting of stockholders in 2015 or 2016. No compensation information is provided for Mr. Allen for 2014 as he was not included as a named executive officer in our proxy statement for our annual meeting of stockholders in 2015.

Summary Compensation Table

Name and Principal Position	Year	Salary (\$) ⁽¹⁾	Bonus (\$) ⁽²⁾	Stock Awards (\$) ⁽³⁾	Non-Equity Incentive Plan Compensation (\$) ⁽⁴⁾	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$) ⁽⁵⁾	All Other Compensation (\$) ⁽⁶⁾	Total (\$)
Mr. Dickson	2016	850,000	0	3,774,469	1,190,000	N/A	101,691	5,916,160
President and Chief Executive Officer	2015	850,000	0	4,999,998	1,445,340	N/A	75,750	7,371,088
	2014	850,000	0	3,999,976	552,000	N/A	74,200	5,476,176
Mr. Spence	2016	475,000	0	1,321,064	478,800	N/A	60,533	2,335,397
Executive Vice President and Chief Financial Officer	2015	475,000	0	1,199,996	565,383	N/A	55,675	2,296,054
	2014	168,229	0	2,299,994	70,656	N/A	7,570	2,546,449
Mr. Austin Vice President, Middle East	2016	325,000	70,000	377,444	214,500	N/A	397,750	1,383,694
Ms. Hinrichs	2016	477,750	0	943,608	401,310	30,704	63,982	1,917,354
Senior Vice President, General Counsel and Corporate Secretary	2015	477,750	0	999,987	473,880	14,663	58,972	2,025,252
	2014	477,750	50,000	999,992	167,213	104,829	73,474	1,768,429
Mr. Kennefick Senior Vice President, Project Execution and Delivery	2016	375,000	0	377,444	213,750	10,529	43,637	1,020,360
Mr. Allen	2016	201,515	0	566,164	141,061	N/A	259,627	1,168,367
Former Senior Vice President, Human Resources	2015	400,000	0	599,991	436,436	N/A	53,116	1,489,543

- (1) The amounts reported in this column for Messrs. Allen and Spence for 2016 and 2014, respectively, represent partial-year service. The amount reported in this column for Mr. Austin for 2016 represents payment of the remaining portion of a sign on bonus Mr. Austin received upon joining McDermott in 2015. Mr. Austin received \$70,000 on his date of hire in 2015 and the remaining \$70,000 in 2016, twelve months after his date of hire. The amount reported in this column for Ms. Hinrichs for 2014 represents a discretionary bonus award in recognition of her contributions to, and results achieved in connection with, McDermott's refinancing transactions in the first half of 2014.
- (2) The amounts reported in this column represent the aggregate grant date fair value of stock awards or option awards, as applicable, granted to each NEO and computed in accordance with FASB ASC Topic 718. See the Grants of Plan-Based Awards table for more information regarding the stock awards we granted in 2016. For a discussion of the valuation assumptions with respect to these awards, see Note 14 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2016.
- (3) The amounts reported in this column for 2016, 2015 and 2014, respectively, are attributable to the annual incentive awards earned in fiscal year 2016, but paid in 2017, earned in 2015, but paid in 2016, and earned in 2014 but paid in 2015.

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- (5) The amounts reported in this column represent the changes in actuarial present values of the accumulated benefits under defined benefit plans, determined by comparing the prior completed fiscal year end amount to the covered fiscal year end amount.
- (6) The amounts reported in this column for 2016 are attributable to the following:

All Other Compensation

	Deferred Compensation Plan Contribution (\$)(A)	Employer Match (\$)(B)	Safe Harbor Non-Elective Contribution (\$)(B)	Perquisite Program (\$)(C)	Expatriate Benefits (\$)(D)	Other (\$)(E)	Tax Payments (\$)(F)
Mr. Dickson	70,100	6,625	7,950	17,016	0	0	0
Mr. Spence	27,283	5,300	7,950	20,000	0	0	0
Mr. Austin	N/A	7,808	7,950	0	245,360	0	136,632
Ms. Hinrichs	32,248	7,134	7,950	16,650	0	0	0
Mr. Kennefick	18,474	7,750	7,950	0	7,513	0	1,950
Mr. Allen	26,417	6,000	6,045	0	0	221,165	0

- (A) The amounts reported in this column are attributable to contributions made by McDermott under the Deferred Compensation Plan.
- (B) The amounts reported in these columns are attributable to contributions made under our defined contribution plans, which we refer to as our Thrift Plan.
- (C) The amounts reported in this column are attributable to payments made pursuant to McDermott's 2016 perquisite program. For Mr. Dickson, \$15,315 related to financial planning and \$1,701 related to his required physical. For Mr. Spence, \$17,851 related to financial planning and \$2,149 related to his required physical. For Ms. Hinrichs, \$15,000 related to financial planning and \$1,650 related to her required physical. For more information on McDermott's 2016 perquisite program, see Compensation Discussion and Analysis 2016 Other Compensation Elements Perquisites.
- (D) The amounts reported in this column for 2016 are attributable to the following:

	Expatriate Premium (\$)	Commodities & Service Allowance (\$)	Housing & Utilities Allowance (\$)	Vacation Airfare (\$)	Education Allowance (\$)	Relocation (\$)	Company Provided Automobile (\$)
Mr. Austin	32,500	48,772	91,806	18,148	54,134	0	0
Mr. Kennefick	0	0	0	0	7,513	0	0

- (E) The amount reported in this column for Mr. Allen represents a cash severance payment pursuant to his Separation Agreement (\$200,000), payment for vacation earned but not taken by Mr. Allen in 2016 (\$8,975) and a payment of an amount to fund three months of continuing health insurance coverage under the Consolidated Omnibus Reconciliation Act (\$3,696). The remaining amount (\$8,494) relates to consulting services provided to McDermott by Mr. Allen following his retirement.
- (F) The amount reported for Mr. Austin represents amounts paid to Mr. Austin in 2016 pursuant to McDermott's tax equalization program. The amount reported for Mr. Kennefick represents a tax gross-up provided to Mr. Kennefick in connection with payments made to him for the education of his dependents through June 2016. For more information on McDermott's tax equalization program, see Compensation Discussion and Analysis 2016 Other Compensation Elements Expatriate Benefits.

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Grants of Plan-Based Awards

The following Grants of Plan-Based Awards table provides additional information about stock awards and equity and non-equity incentive plan awards we granted to our NEOs during the year ended December 31, 2016.

Name / Award Type	Grant Date	Committee Action Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽²⁾			All Other Stock Awards: Number of Shares of Stock or Units ⁽³⁾	Grant Date Fair Value of Stock and Option Awards ⁽⁴⁾
			Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (#)	Target (#)	Maximum (#)		
Mr. Dickson										
EICP	02/26/16	02/26/16	425,000	850,000	1,700,000					
PUnits	02/26/16	02/26/16				296,736	593,471	1,186,942		1,887,238
RSUs	02/26/16	02/26/16							593,469	1,887,231
Mr. Spence										
EICP	02/26/16	02/26/16	166,250	332,500	665,000					
PUnits	02/26/16	02/26/16				103,858	207,715	415,430		660,534
RSUs	02/26/16	02/26/16							207,714	660,531
Mr. Austin										
EICP	02/26/16	02/26/16	81,250	162,500	325,000					
PUnits	02/26/16	02/26/16				29,674	59,347	118,694		188,723
RSUs	02/26/16	02/26/16							59,346	188,720
Ms. Hinrichs										
EICP	02/26/16	02/26/16	167,213	334,425	668,850					
PUnits	02/26/16	02/26/16				74,184	148,367	296,734		471,807
RSUs	02/26/16	02/26/16							148,365	471,801
Mr. Kennefick										
EICP	02/26/16	02/26/16	93,750	187,500	375,000					
PUnits	02/26/16	02/26/16				29,674	59,347	118,694		188,723
RSUs	02/26/16	02/26/16							59,346	188,720
Mr. Allen										
EICP	02/26/16	02/26/16	140,000	280,000	560,000					
PUnits	02/26/16	02/26/16				44,510	89,020	178,040		283,084
RSUs	02/26/16	02/26/16							89,019	283,080

(1) These columns reflect the threshold, target and maximum payout opportunities under the Executive Incentive Compensation Plan, or EICP. On February 26, 2016, our Compensation Committee established target EICP awards expressed as a percentage of the NEO's 2016 annual base salary earned, as follows: Mr. Dickson 100%, Mr. Spence 70%, Mr. Austin 50%, Ms. Hinrichs 70%, Mr. Kennefick 50%, and Mr. Allen 70%. The target amounts shown for Messrs. Dickson, Spence, Kennefick, and Allen and Ms. Hinrichs were computed by multiplying their annual base salaries by their target award percentage. For all of the NEOs, the threshold amounts are equal to 50% of the respective target amounts and the maximum amounts are equal to 200% of the respective target amounts. See Compensation Discussion and Analysis What We Pay and Why: Elements of Total Direct Compensation Annual Incentive and Compensation Discussion and Analysis 2016 NEO Compensation for a detailed description of the EICP and discussions regarding the determinations made with respect to the 2016 EICP awards.

(2) These columns reflect the target, threshold and maximum payout opportunities of 2016 grants of performance units under the 2014 LTIP. Each grant represents the right to receive the value of one share of McDermott common stock for each vested performance unit, paid in shares of McDermott common stock, cash equal to the fair market value of the shares otherwise deliverable, or any combination thereof, in the sole discretion of the Compensation Committee. The amount of performance units that vest, if any, will be based on McDermott's relative ROAIC improvement as compared to a competitor peer group over a three-year measurement period (January 1, 2016 - December 31, 2018). If the threshold performance goal is achieved, a number of performance units between 50% and 200% of the target award may be earned, depending on the three-year aggregate relative ROAIC performance. See Compensation Discussion and Analysis What We Pay and Why: Elements of Total Direct Compensation Long-Term Incentives and 2016 NEO Compensation for a detailed description of the performance units awarded in 2016.

(3) This column reflects grants of restricted stock units under the 2014 LTIP. The restricted stock units are generally scheduled to vest in one-third increments on the first, second and third anniversaries of the date of grant. Each restricted stock unit represents the right to receive one share of McDermott common stock, cash equal to the fair market value of the share otherwise deliverable, or any combination thereof, in the sole discretion of the Compensation Committee.

(4) This column reflects the full grant date fair values of the equity awards computed in accordance with FASB ASC Topic 718. Grant date fair values are determined using the closing price of our common stock on the date of grant, as reported on the NYSE. For more information

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regarding the compensation expense related to 2016 awards, see Note 14 to our consolidated financial statements included in our annual report on Form 10-K for the year ended December 31, 2016.

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Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

The following Outstanding Equity Awards at Fiscal Year-End table summarizes the equity awards we have made to our NEOs which were outstanding as of December 31, 2016.

Name	Grant Date	Option Awards ⁽¹⁾		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price (\$)	Option Expiration Date	Stock Awards		Equity Incentive Plan Awards: Number of Shares, Units or Other Rights That Have Not Vested (\$) ⁽³⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) ⁽²⁾
		Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable				Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested (\$) ⁽²⁾		
Mr. Dickson										
RSA ⁽⁴⁾	10/31/13						108,439	801,364		
RSUs ⁽⁵⁾	03/06/14						102,040	754,076		
RSUs ⁽⁵⁾	03/05/15						494,558	3,654,784		
RSUs ⁽⁵⁾	02/26/16						593,469	4,385,736		
PShares	03/06/14								306,122	2,262,238
PUnits	03/05/15								370,920	2,741,095
PUnits	02/26/16								296,736	2,192,875
Mr. Spence										
RSUs ⁽⁵⁾	08/25/14						27,027	199,730		
RSUs ⁽⁶⁾	08/25/14						58,559	432,751		
RSUs ⁽⁵⁾	03/05/15						118,694	877,149		
RSUs ⁽⁵⁾	02/26/16						207,714	1,535,006		
PShares ⁽⁷⁾	08/25/14								81,081	599,189
PUnits	03/05/15								89,021	657,861
PUnits	02/26/16								103,858	767,507
Mr. Austin										
RSUs ⁽⁵⁾	03/05/15						49,454	365,465		
RSUs ⁽⁶⁾	03/05/15						24,726	182,725		
RSUs ⁽⁵⁾	02/26/16						59,346	438,567		
PUnits	02/26/16								29,674	219,287
Ms. Hinrichs										
NQSO	03/04/10	45,313			13.09	03/04/17				
NQSO	03/04/11	22,080			25.64	03/04/18				
NQSO	03/05/12	35,970			14.44	03/05/19				
NQSO	03/05/13	56,700			10.50	03/05/20				
RSUs ⁽⁸⁾	03/05/13						6,547	48,382		
RSUs ⁽⁵⁾	03/06/14						25,510	188,519		
RSUs ⁽⁵⁾	03/05/15						98,910	730,945		
RSUs ⁽⁵⁾	02/26/16						148,365	1,096,417		
PShares	03/05/12								10,845	80,145
PShares	03/06/14								76,530	565,557
PUnits	03/05/15								74,184	548,216
PUnits	02/26/16								74,184	548,216

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Name	Grant Date	Option Awards ⁽¹⁾				Stock Awards		Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested ⁽³⁾		Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ⁽²⁾	
		Number of Securities Underlying Unexercised Options Exercisable	Number of Securities Underlying Unexercised Options Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested ⁽²⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested ⁽³⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ⁽²⁾	
Mr. Kennefick											
NQSO	03/04/10	3,489			13.09	03/04/17					
NQSO	03/04/11	4,416			25.64	03/04/18					
NQSO	03/05/12	6,906			14.44	03/05/19					
NQSO	03/05/13	9,894			10.50	03/05/20					
RSUs ⁽⁸⁾	03/05/13						1,904	14,071			
RSUs ⁽⁵⁾	03/06/14						6,802	50,267			
RSUs ⁽⁵⁾	03/05/15						29,672	219,276			
RSUs	02/26/16						59,346	438,567			
PShares	03/05/12								1,041	7,693	
PShares	03/06/14								7,653	56,556	
PUnits	03/05/15								22,255	164,464	
PUnits	02/26/16								29,674	219,287	
Mr. Allen											
RSUs ⁽⁵⁾	03/06/14						3,679	27,188			
RSUs ⁽⁵⁾	05/12/14						12,288	90,808			
RSUs ⁽⁵⁾	03/05/15						28,520	210,763			
RSUs ⁽⁵⁾	02/26/16						14,261	105,389			
PShares	05/12/14								42,636	315,080	
PUnits	03/05/15								22,235	164,317	

- (1) The awards in this column represent grants of stock options, which generally become exercisable in one-third increments on each of the first, second and third anniversaries of the grant date.
- (2) Market values in these columns are based on the closing price of our common stock as reported on the NYSE as of December 30, 2016 (\$7.39).
- (3) The awards in this column represent grants of performance shares or performance units, which, for the awards made in 2012, generally may vest on the third, fourth and/or fifth anniversaries of the grant date, and for the awards made in 2014, 2015 and 2016 generally may vest on the third anniversary of the grant date, based on the attainment of stated performance levels. The number and value of the 2012, 2015 and 2016 performance shares or performance units listed are based on achieving threshold performance, and the number and value of the 2014 performance units listed are based on achieving maximum performance, each as of the nearest year-end measurement date under the applicable grant agreement.
- (4) The award to Mr. Dickson represents a grant of restricted stock, the outstanding portion of which will generally vest on June 15, 2017.
- (5) These awards represent grants of restricted stock units, which generally vest in one-third increments on each of the first, second and third anniversaries of the grant date.
- (6) These awards represent one-time awards of restricted stock units made to Messrs. Spence and Austin to compensate them for the forfeiture of incentives from their prior employer. The restricted stock units generally vest 1/3 per year on the first, second and third anniversaries of the grant date.
- (7) This award vests on March 6, 2014 based on the attainment of stated performance levels.
- (8) These awards represent grants of restricted stock units, which generally vest in one-fourth increments on each of the first, second, third and fourth anniversaries of the grant date.

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The following Option Exercises and Stock Vested table provides information about the value realized by our NEOs on exercises of option awards and vesting of stock awards during the year ended December 31, 2016.

Name	Option Awards	Value Realized on Exercise	Stock Awards ⁽¹⁾	Value Realized on Vesting (\$)
	Shares Acquired on Exercise (#)		Shares Acquired on Vesting (#)	
Mr. Dickson	0	N/A	303,497	\$1,226,040
Mr. Spence	0	N/A	92,437	\$422,747
Mr. Austin	0	N/A	24,109	\$93,543
Ms. Hinrichs	0	N/A	58,879	\$228,451
Mr. Kennefick	0	N/A	16,715	\$64,854
Mr. Allen	0	N/A	31,224	\$126,419

(1) The number of shares acquired on vesting reflected in this table represents the aggregate number of shares that vested during 2016 in connection with awards of restricted stock and restricted stock units. The value realized on vesting was calculated based on the fair market value of the underlying shares on the vesting date. The following table sets forth the number of shares withheld by McDermott to satisfy the minimum statutory withholding tax due upon vesting of such restricted stock and restricted stock units:

Name	Shares Withheld by McDermott on Vesting of Stock Awards (#)
Mr. Dickson	154,262
Mr. Spence	52,495
Mr. Austin	12,981
Ms. Hinrichs	22,633
Mr. Kennefick	6,827
Mr. Allen	17,431

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The following Pension Benefits table shows the present value of accumulated benefits payable to the only two of our NEOs who are entitled to benefits under the defined benefit pension plans that we sponsor. All benefits under the defined benefit pension plans that we sponsor are frozen.

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit (\$)	Payments During 2016 (\$)
Mr. Dickson	N/A	N/A	N/A	N/A
Mr. Spence	N/A	N/A	N/A	N/A
Mr. Austin	N/A	N/A	N/A	N/A
Ms. Hinrichs	U.S. Retirement Plan ⁽¹⁾	11.167	506,346	0
	U.S. Excess Plan ⁽¹⁾	11.167	211,966	0
Mr. Kennefick	U.S. Retirement Plan ⁽¹⁾	9.583	225,902	0
Mr. Allen	N/A	N/A	N/A	N/A

(1) The present value of accumulated benefits reflected above for the U.S. Retirement Plan and the U.S. Excess Plan is based on a 4.1% discount rate and the RP2014 mortality table for annuitants projected with generational mortality improvement scale MP2016.

U.S. Retirement Plan

We refer to our qualified defined benefit pension plan as the U.S. Retirement Plan. Ms. Hinrichs and Mr. Kennefick are the only NEOs who participate in the U.S. Retirement Plan, which plan has been frozen since 2006 and under which they are accruing no additional benefits. The U.S. Retirement Plan is funded by a trust, and includes provisions related to eligibility, participation and benefit formulas for applicable employees.

Under the U.S. Retirement Plan, normal retirement is the later of (1) age 65 or (2) the fifth anniversary of the date an employee becomes a participant. The normal form of payment is a single-life annuity or a 50% joint and survivor annuity, depending on the employee's marital status when payments are scheduled to begin. Early retirement eligibility and benefits under the Retirement Plan depend on the employee's date of hire and age. For employees hired on or after April 1, 1998 (including Ms. Hinrichs and Mr. Kennefick), an employee is eligible for early retirement upon the latter of completing at least 15 years of continuous service and attaining the age of 55. Early retirement benefits are based on the same formula as normal retirement, but the pension benefit is generally reduced 0.4% for each month that benefits commence before age 62. Ms. Hinrichs is eligible for early retirement under the U.S. Retirement Plan.

Ms. Hinrichs and Mr. Kennefick's benefits under the U.S. Retirement Plan are calculated as follows: 1.2% of final average monthly compensation as of June 30, 2010 up to the Social Security limit times credited service up to 35 years, plus 1.65% of final average monthly compensation as of June 30, 2010 in excess of the Social Security limit times credited service up to 35 years. Final average monthly compensation excludes bonuses and commissions.

U.S. Excess Plan

We refer to our nonqualified pension plan as the U.S. Excess Plan. Ms. Hinrichs is the only NEO who participates in the U.S. Excess Plan, which plan has been frozen since 2006 and under which she is accruing no additional benefits. To the extent benefits payable under the U.S. Retirement Plan are limited by Section 415(b) or 401(a)(17) of the U.S. Internal Revenue Code, pension benefits will be paid under the terms of the U.S. Excess Plan. Because benefits entitlement under the U.S. Excess Plan and the U.S. Retirement Plan are linked, benefits under the U.S. Excess Plan have been frozen since 2006, when benefit accruals under the U.S. Retirement Plan were frozen.

TCN Pension Plan

We refer to our defined benefit pension plan for certain non-U.S. employees as the TCN Pension Plan. There are no NEO participants in the TCN Pension Plan, which is now frozen. The TCN Pension Plan is funded by a trust, and includes provisions related to eligibility, participation and benefit formulas for employees who were employed by certain of our non-U.S. subsidiaries.

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Under the TCN Pension Plan, normal retirement age is 65. The normal form of payment is a single-life annuity or a 66% joint and survivor annuity, depending on the employee's marital status when the payments are scheduled to begin. Early retirement eligibility and benefits under the TCN Pension Plan are generally available for employees who have completed at least 10 years of service and attained the age of 55. Early retirement benefits are based on the same formula as normal retirement, but the pension benefit is generally reduced 0.5% for each month that benefits commence before age 60.

Normal retirement benefits under the TCN Pension Plan are calculated as follows: Number of years of credited service times 1/100th of the average of the highest three successive annual base salaries during the last 10 years of credited service preceding December 31, 2011, the normal retirement date, date of death or severance from service date, whichever occurs first.

For more information on our retirement plans, see Compensation Discussion and Analysis 2016 Other Compensation Elements Retirement and Excess Plans.

Nonqualified Deferred Compensation

The following Nonqualified Deferred Compensation table summarizes our NEOs' compensation under the Deferred Compensation Plan. The compensation shown in this table is entirely attributable to the Deferred Compensation Plan.

The Deferred Compensation Plan is an unfunded, defined contribution retirement plan for officers of McDermott and its subsidiaries selected to participate by our Compensation Committee. Benefits under the Deferred Compensation Plan are based on: (1) the participant's deferral account, which is comprised of the notional account balance reflecting any executive contributions of deferred compensation; and (2) the participant's vested percentage in his or her company account, which is comprised of the notional account balance reflecting any contributions by us. A participant is at all times 100% vested in his or her deferral account. A participant generally vests in his or her company account 20% each year, subject to accelerated vesting for death, disability, termination of service by McDermott without cause or the occurrence of a change in control. Mr. Austin was not a participant in the Deferred Compensation Plan in 2016.

Name	Executive Contributions in 2016 (\$) ⁽¹⁾	Company Contributions in 2016 (\$) ⁽²⁾	Aggregate Earnings in 2016 (\$) ⁽³⁾	Aggregate Withdrawals/Distributions (\$)	Aggregate Balance at 12/31/16 (\$) ⁽⁴⁾	Percentage Vested at 12/31/16 (%) ⁽⁵⁾
Mr. Dickson	0	70,100	13,794	0	170,932	40%
Mr. Spence	0	27,283	4,922	0	55,149	20%
Mr. Austin						
Ms. Hinrichs	0	32,248	1,409	0	290,897	100%
Mr. Kennefick	0	18,474	0	0	18,474	0%
Mr. Allen	0	26,417	3,107	0	47,379	100%

In November 2010, our Compensation Committee approved the deferral of eligible executives' compensation beginning January 1, 2011. Under (1) the terms of our Deferred Compensation Plan, an eligible executive may defer up to 50% of his or her annual salary and/or up to 100% of any bonus earned in any year.

We make annual contributions to specified participants' notional accounts equal to a percentage of the participant's prior-year compensation. Under the terms of the Deferred Compensation Plan, the contribution percentage does not need to be the same for each participant.

(2) Additionally, our Compensation Committee may make a discretionary contribution to a participant's account at any time. Our contributions on behalf of NEOs who were participants equaled 5% of their respective Compensation (as defined in the Deferred Compensation Plan) received in 2015. All of our 2016 contributions are included in the Summary Compensation Table above as All Other Compensation.

The amounts reported in this column represent notional accrued gains or losses during 2016 on each NEO's account. The accounts are (3) participant-directed, in that each participant personally directs the investment of contributions made on his or her behalf. As a result, any accrued gains or losses are attributable to the performance of the NEO's notional mutual fund investments. No amount of the earnings shown is reported as compensation in the Summary Compensation Table.

(4) The amounts reported in this column consist of contributions made by McDermott and notional accrued gains or losses as of December 31, 2016. The balances shown include contributions from previous years which have been reported as compensation to the NEOs in the Summary Compensation Table for those years to the extent a NEO was included in the Summary Compensation Table during those years. The amounts of such contributions previously included in the Summary Compensation Table and years reported are as follows: we made contributions to Mr. Dickson's account of \$42,500 in 2014 and \$42,500 in 2015; we made contributions to Mr. Spence's account of \$23,750 in 2015; we made

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contributions to Ms. Hinrichs account of \$23,888 in 2015, \$22,437 in 2013, \$37,662 in 2012 and \$43,511 in 2011; and we made contributions to Mr. Allen s account in the amount of \$18,333 in 2015.

(5) Under the terms of his separation agreement, Mr. Allen became 100% vested in his Deferred Compensation Plan balance as of his resignation date.

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The following tables show potential payments to our NEOs under existing contracts, agreements, plans or arrangements, whether written or unwritten, for various scenarios under which a payment would be due (assuming each is applicable) involving a change in control or termination of employment of each of our NEOs, assuming a December 31, 2016 termination date and, where applicable, using the closing price of our common stock of \$7.39 as of December 30, 2016 (as reported on the NYSE). These tables do not reflect amounts that would be payable to the Continuing NEOs pursuant to benefits or awards that are already vested.

The amounts reported in the below tables for stock options, restricted stock, restricted stock units and performance shares or performance units represent the value of unvested and accelerated shares or units, as applicable, calculated by:

for stock options: multiplying the number of accelerated options by the difference between the exercise price and \$7.39 (the closing price of our common stock on December 30, 2016, as reported on the NYSE); and

for restricted stock, restricted stock units and performance shares or performance units: multiplying the number of accelerated shares or units by \$7.39 (the closing price of our common stock on December 30, 2016, as reported on the NYSE).

Mr. Allen resigned from his position as Senior Vice President, Human Resources in July 2016. In connection with Mr. Allen's resignation, we entered into a separation agreement with Mr. Allen providing for various compensation-related benefits in exchange for, among other things, his agreement to comply with several restrictive covenants. See page 46 of this proxy statement for information on compensation received by Mr. Allen under that separation agreement.

Estimated Value of Benefits to Be Received Upon Termination Due to Death or Disability

The following table shows the value of payments and other benefits due the listed NEOs, assuming their death or disability as of December 31, 2016.

	Dickson (\$)	Spence (\$)	Austin (\$)	Hinrichs (\$)	Kennefick (\$)
Severance Payments					
EICP					
Deferred Compensation Plan ⁽¹⁾	102,559	44,119		0	18,474
Stock Options ⁽²⁾ (unvested and accelerated)				0	0
Restricted Stock Awards ⁽³⁾	801,364				
Restricted Stock Units ⁽⁴⁾ (unvested and accelerated)	8,794,595	3,044,636	986,757	2,064,263	722,180
Performance Shares or Units ⁽⁵⁾ (unvested)	12,130,179	3,449,925	438,574	2,838,566	831,752
Total	21,828,697	6,538,680	1,425,331	4,902,829	1,572,406

The amounts reported represent 60% of Mr. Dickson's, 80% of Mr. Spence's, and 100% of Mr. Kennefick's DCP balance as of December 31,

(1) 2016 that would become vested on death or disability. Mr. Austin was not a participant in the DCP as of December 31, 2016. Because Ms.

Hinrichs is 100% vested in her DCP balance, no additional amount would become vested on her death or disability.

Under the terms of the outstanding stock option awards held by each of the listed NEOs as of December 31, 2016, all unvested option awards would become vested and exercisable on death or disability. Due to the exercise price of the stock options outstanding and the closing price of our common stock on December 31, 2016, the aggregate value of stock options that would become vested and exercisable on death or disability for each applicable NEO would be \$0.

(2) Under the terms of the restricted stock award agreement between McDermott and Mr. Dickson, all unvested restricted stock would become vested upon Mr. Dickson's death or disability.

(3) Under the terms of the outstanding restricted stock unit awards held by each of the listed NEOs as of December 31, 2016, all unvested restricted stock unit awards would become vested and exercisable on his or her death or disability.

(4) Under the terms of the outstanding 2012 performance share awards held by each of the listed NEOs as of December 31, 2016, 100% of the initial performance shares granted would vest on the third, fourth and fifth anniversary of the grant date on his or her death or disability.

(5) The number of performance shares that would vest is the number of performance shares that would have vested based on actual performance had the NEO remained employed with McDermott until the third, fourth and fifth

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anniversaries of the grant date. Under the terms of the outstanding 2014, 2015 and 2016 performance share or performance unit awards held by each of the listed NEOs as of December 31, 2016, 100% of the initial performance shares or performance units granted would vest on the third anniversary of the grant date on his or her death or disability. The number of performance shares or performance units that would vest is the number of performance shares or performance units that would have vested based on actual performance had the NEO remained employed with McDermott until the third anniversary of the grant date. Accordingly, each applicable listed NEO may vest in a number of performance shares or performance units ranging from 0% - 200% of the initial performance shares or performance units granted, depending on McDermott's performance during the applicable measurement periods.

The amounts reported represent a total of 50% of the initial performance shares granted for the 2012 awards, a total of 150% of the initial performance shares granted for the 2014 awards, in each case based on actual performance as of December 31, 2016, and assume that a total of 100% of the initial performance units granted for the 2015 and 2016 awards will vest during the applicable measurement periods, all valued at the closing price of McDermott stock as reported on the NYSE on December 30, 2016. The actual value of performance units granted for the 2015 and 2016 awards that may vest could be \$0 for each NEO and up to \$19,735,882 for Mr. Dickson, \$ 5,701,474 for Mr. Spence, \$ 877,149 for Mr. Austin, \$4,385,729 for Ms. Hinrichs, and \$ 1,535,006 for Mr. Kennefick, in each case, as applicable, representing a total of 200% of the initial performance units granted for the 2015 and 2016 awards. Additionally, the value of McDermott common stock could be greater or less than the amount used to value the performance shares or performance units for this table.

Estimated Value of Benefits to Be Received Upon Change in Control and Termination

We have change in control agreements with various officers, including each of our NEOs. Generally, under these agreements, if a NEO is terminated within one year following a change in control either: (1) by our company for any reason other than cause or death or disability; or (2) by the NEO for good reason, McDermott is required to pay the NEO a severance payment based on the NEO's salary and a severance payment based on the NEO's target EICP percentage. In addition to these payments, the NEO would be entitled to various accrued benefits earned through the date of termination, such as earned but unpaid salary, earned but unused vacation and reimbursements.

Under these agreements, a change in control generally occurs on the occurrence of any of the following:

a person becomes the beneficial owner of 30% or more of the combined voting power of McDermott's then outstanding voting stock unless such acquisition is made directly from McDermott in a transaction approved by a majority of McDermott's incumbent directors;

individuals who are incumbent directors cease for any reason to constitute a majority of McDermott's board;

completion of a merger or consolidation of McDermott with another company or an acquisition by McDermott or its subsidiaries, unless immediately following such merger, consolidation or acquisition: (1) all or substantially all of the individuals or entities that were the beneficial owners of outstanding McDermott voting securities immediately before such merger, consolidation or acquisition beneficially own at least 50% of the then outstanding shares of voting stock of the parent corporation resulting from the merger, consolidation or acquisition in the same relative proportions as their ownership immediately before such merger, consolidation or acquisition; (2) if such merger, consolidation or acquisition involves the issuance or payment by McDermott of consideration to another entity or its stockholders, the total fair market value of such consideration plus the principal amount of the consolidated long-term debt of the entity or business being acquired, does not exceed 50% of the sum of the fair market value of the outstanding McDermott voting stock plus the principal amount of our consolidated long-term debt; (3) no person beneficially owns 30% or more of the then outstanding shares of the voting stock of the parent company resulting from such merger, consolidation or acquisition; and (4) a majority of the members of the board of directors of the parent corporation resulting from such merger, consolidation or acquisition were incumbent directors of McDermott immediately before such merger, consolidation or acquisition;

completion of the sale or disposition of 50% or more of the assets of McDermott and its subsidiaries on a consolidated basis, unless immediately following such sale or disposition: (1) the individuals and entities that were beneficial owners of outstanding McDermott voting stock immediately before such sale or disposition beneficially own at least 50% of the then outstanding shares of voting stock of McDermott and of the entity that acquires the largest portion of such assets, and (2) a majority of the members of the McDermott Board (if it continues to exist) and the board of directors of the entity that acquires the largest portion of such assets were incumbent directors of McDermott immediately before the completion of such sale or disposition; or any other set of circumstances is deemed by the Board in its sole discretion to constitute a change in control.

The change in control agreements do not provide for excise tax gross-ups. They do, however, provide for the potential reduction in payments to the applicable officer in order to avoid excise taxes.

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The following table shows the estimated value of payments and other benefits due the listed NEOs, assuming a change in control and termination as of December 31, 2016.

	Dickson (\$)	Spence (\$)	Austin (\$)	Hinrichs (\$)	Kennefick (\$)
Salary-Based Severance Payment⁽¹⁾	4,250,000	1,615,000	487,500	1,624,350	1,125,000
EICP-Based Severance Payment ⁽²⁾	850,000	332,500	162,500	334,425	187,500
Deferred Compensation Plan ⁽³⁾	102,559	44,119		0	18,474
Stock Options ⁽⁴⁾ (unvested and accelerated)				0	0
Restricted Stock Awards ⁽⁴⁾ (unvested and accelerated)	801,364				
Restricted Stock Units ⁽⁴⁾ (unvested and accelerated)	8,794,595	3,044,636	986,757	2,064,263	722,180
Performance Shares or Units ⁽⁴⁾ (unvested and accelerated)	12,130,179	3,449,925	438,574	2,918,710	839,445
Total	26,928,697	8,486,180	2,075,331	6,941,749	2,892,599

*The salary-based severance payment made to Mr. Dickson in connection with a change in control would be a cash payment equal to 250% of the sum of his annual base salary prior to termination and his EICP target award applicable to the year in which the termination occurs. The severance payment made to Messrs. Spence and Kennefick and Ms. Hinrichs in connection with a change in control would be a cash payment equal to 200% of the sum of his or her annual base salary prior to termination and his or her EICP target award applicable to the year in which the termination occurs. The severance payment made to Mr. Austin in connection with a change in control would be a cash payment equal to the sum of his annual base salary prior to termination and his EICP target award applicable to the year in which the termination occurs. For a hypothetical termination as of December 31, 2016, the salary-based severance payment under a change in control would have been calculated based on the following base salary and target EICP awards. See *Grants of Plan-Based Awards* above for more information on the calculation of target EICP awards.*

NEO	Annual Base Salary (\$)	Target EICP Award (\$)
Mr. Dickson	850,000	850,000
Mr. Spence	475,000	332,500
Mr. Austin	325,000	162,500
Ms. Hinrichs	477,750	334,425
Mr. Kennefick	375,000	187,500

⁽²⁾ Each listed NEO could receive up to two EICP-based severance payments in connection with a change in control depending on the timing of the termination relative to the payment of an EICP award, as follows:

If an EICP award for the year prior to termination is paid to other EICP participants after the date of the NEO's termination, the NEO would be entitled to a cash payment equal to the product of the NEO's target EICP percentage (or, if greater, the actual amount of the bonus determined under the EICP for the year prior to termination) and the NEO's annual base salary for the applicable period. No such payment would have been due a NEO on a December 31, 2016 termination, because the 2015 EICP awards had already been paid.

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The NEO would be entitled to a prorated EICP payment based upon the NEO's target EICP percentage for the year in which the termination occurs and the number of days in which the NEO was employed with us during that year. Based on a hypothetical December 31, 2016 termination, each NEO would have been entitled to an EICP payment equal to 100% of his or her 2016 target EICP percentage times annual base salary, calculated based on the following base salary and target EICP percentage:

NEO	Annual Base Salary (\$)	Target EICP Percentage (\$)
Mr. Dickson	850,000	100%
Mr. Spence	475,000	70%
Mr. Austin	325,000	50%
Ms. Hinrichs	477,750	70%
Mr. Kennefick	375,000	50%

The amounts reported represent 60% of Mr. Dickson's, 80% of Mr. Spence's and 100% of Mr. Kennefick's respective DCP balances as of December 31, 2016 that would become vested on a change in control. Mr. Austin was not a participant in the DCP as of December 31, 2016.

(3) Because Ms. Hinrichs is 100% vested in her DCP balance, no additional amount would become vested in connection with a termination of employment following a change in control. Under the Deferred Compensation Plan, a change in control generally occurs if:

a person (other than a McDermott employee benefit plan or a corporation owned by McDermott stockholders in substantially the same proportion as the ownership of McDermott voting shares) is or becomes the beneficial owner of 30% or more of the combined voting power of McDermott's then outstanding voting stock;

during any period of two consecutive years, individuals who at the beginning of such period constitute McDermott's Board of Directors, and any new director whose election or nomination by McDermott's Board was approved by at least two-thirds of the directors of McDermott's Board then still in office who either were directors at the beginning of the period or whose election or nomination was previously approved, cease to constitute a majority of McDermott's Board;

a merger or consolidation of McDermott with any other corporation or entity has been completed, other than a merger or consolidation which results in the outstanding McDermott voting securities immediately prior to such merger or consolidation continuing to represent at least 50% of the combined voting power of the voting securities of McDermott or the surviving entity outstanding immediately after such merger or consolidation;

McDermott's stockholders approve (1) a plan of complete liquidation of McDermott; or (2) an agreement for the sale or disposition by McDermott of all or substantially all of McDermott's assets; or

within one year following the completion of a merger or consolidation transaction involving McDermott, (1) individuals who, at the time of execution and delivery of definitive agreements completing such transaction constituted the Board, cease for any reason (excluding death, disability or voluntary resignation) to constitute a majority of the Board; or (2) either individual, who at the first execution and delivery of definitive agreements completing the transaction, served as Chief Executive Officer or Chief Financial Officer does not, for any reason (excluding death, disability or voluntary resignation), serve as the Chief Executive Officer or Chief Financial Officer, as applicable, of McDermott, or if McDermott does not continue as a registrant with a class of equity securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, as the Chief Executive Officer or Chief Financial Officer, as applicable, of a corporation or other entity that is (A) a registrant with a class of equity securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, and (B) the surviving entity in such transaction or a parent entity of the surviving entity or McDermott following the completion of such transaction; provided, however, that a change in control would not be deemed to have occurred pursuant to this clause in the case of a merger or consolidation which results in the voting securities of McDermott outstanding immediately prior to the completion of the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 55% of the combined voting power of the voting securities of the McDermott or the surviving entity outstanding immediately after such merger or consolidation.

Under the terms of the stock option, restricted stock and the 2013, 2014 and 2015 restricted stock unit awards outstanding, all unvested stock options would become vested and exercisable and all unvested restricted stock and restricted stock units would become vested on a change in control, regardless of whether there is a subsequent termination of employment. Under the terms of the 2016 restricted stock unit awards outstanding, all unvested restricted stock units would become vested on a change in control, regardless of whether there is a subsequent termination of employment, only if the awards are not assumed in the transaction. Due to the exercise price of the stock options outstanding for our NEOs and the closing price of our common stock on the NYSE on December 31, 2016, the aggregate value of stock options that would (4) become vested and exercisable on a change in control would be \$0. Under the terms of the 2012, 2014 and 2015 performance share or performance unit awards outstanding, the greater of (1) 100% of the initial performance shares or performance units granted, or (2) the vested percentage of initial performance shares or performance units determined in accordance with the grant agreement would become vested on a change in control, regardless of whether there is a subsequent termination of employment. Under the terms of the 2016 performance unit awards outstanding, the greater of (1) target level, or (2) the actual performance level measured through the date the change in control becomes effective as determined in accordance with the grant agreement would become vested on a change in control, regardless of whether there is a subsequent termination of employment, only if the awards are not

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assumed in the transaction. If the 2016 performance unit awards are assumed in a change in control, such awards would only vest on a subsequent termination of employment by the employer without cause or by the executive for good reason. Under the 2009 LTIP, a change in control generally occurs under the same circumstances described above with respect to our Deferred Compensation Plan. Under the 2014 LTIP, a change in control generally occurs under the same circumstances described in the first three bullets in note (3) above with respect to our Deferred Compensation Plan, as well as on the occurrence of the below circumstances:

McDermott's stockholders approve a plan of complete liquidation of McDermott;

the consummation of a sale or disposition by McDermott of all or substantially all of McDermott's assets other than to an entity that is under common control with McDermott or to an entity for which at least fifty percent (50%) of the combined voting power of its voting securities outstanding immediately after such sale or disposition are owned or controlled by the stockholders of McDermott immediately prior to such sale or disposition; or

within one year following the completion of a merger or consolidation transaction involving McDermott, (1) individuals who, at the time of execution and delivery of definitive agreements relating to such transaction constituted the Board, cease for any reason (excluding death, disability or voluntary resignation) to constitute a majority of the Board; or (2) the individual, who at the first execution and delivery of definitive agreements relating to the transaction, served as Chief Executive Officer does not, for any reason (excluding death, disability or voluntary resignation), serve as the Chief Executive Officer of McDermott, or if McDermott does not continue as a registrant with a class of equity securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, as the Chief Executive Officer of a corporation or other entity that is (A) a registrant with a class of equity securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, as amended, and (B) the surviving entity in such transaction or a parent entity of the surviving entity or McDermott following the completion of such transaction; provided, however, that a change in control would not be deemed to have occurred pursuant to this clause in the case of a merger or consolidation which results in the voting securities of McDermott outstanding immediately prior to the completion of the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) at least 55% of the combined voting power of the voting securities of the McDermott or the surviving entity outstanding immediately after such merger or consolidation.

Under the 2016 LTIP, a change in control generally occurs under the same circumstances described in the first three bullets in note (3) above with respect to our Deferred Compensation Plan, and under the same circumstances described in the first two bullets above with respect to our 2014 LTIP, as well as on the occurrence of the below circumstance:

within one year following the consummation of a merger or consolidation transaction involving the Company (whether as a constituent corporation, the acquiror, the direct or indirect parent entity of the acquiror, the entity being acquired, or the direct or indirect parent entity of the entity being acquired), as a result of which the voting securities of the Company outstanding immediately prior thereto continue to represent more than fifty percent (50%) but less than fifty-five percent (55%) of the combined voting power of the voting securities of the Company or the surviving entity outstanding immediately after such merger or consolidation (a Merger of Equals): (i) individuals who, at the time of the execution and delivery of the definitive agreement pursuant to which such transaction has been consummated by the parties thereto (a Definitive Transaction Agreement) (or, if there are multiple such agreements relating to such Merger of Equals, the first time of execution and delivery by the parties to any such agreement) (the Execution Time), constituted the Board cease, for any reason (excluding death, disability or voluntary resignation but including any such voluntary resignation effected in accordance with any Definitive Transaction Agreement), to constitute a majority of the Board; or (ii) the individual who, at the Execution Time, served as the Chief Executive Officer of the Company does not, for any reason (excluding as a result of death, disability or voluntary termination but including any such voluntary termination effected in accordance with any Definitive Transaction Agreement), serve as the Chief Executive Officer of the Company or, if the Company does not continue as a registrant with a class of equity securities registered pursuant to Section 12(b) of the Exchange Act, as the Chief Executive Officer of a corporation or other entity that is (A) a registrant with a class of equity securities registered pursuant to Section 12(b) of the Exchange Act and (B) the surviving entity in such Merger of Equals or a direct or indirect parent entity of the surviving entity or the Company following the consummation of such Merger of Equals.

The amounts reported in the chart above represent a total of 100% of the initial performance shares or units granted for the 2012, 2015 and 2016 awards and a total of 150% of the initial performance shares granted for the 2014 awards.

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FREQUENCY OF THE ADVISORY VOTE ON EXECUTIVE COMPENSATION

Item 3 Advisory Vote on Frequency of Advisory Votes on Executive Compensation

As required by Section 14A(a)(2) of the Exchange Act, we are providing our stockholders with the opportunity to vote, on a non-binding, advisory basis, on how frequently we should seek future advisory votes on the compensation of our named executive officers, as disclosed in accordance with disclosure rules established by the SEC. By voting with respect to this proposal, stockholders may indicate whether they would prefer that we conduct future advisory votes on the compensation of our named executive officers once every one, two or three years. Our Board believes having an advisory vote on our named executive officer compensation every year, rather than every two or three years, is the best practice, in that it provides stockholders the opportunity to provide us their views on our compensation programs, as they potentially change to meet market and McDermott specific needs, on an annual basis.

For the reasons discussed above, the Board of Directors recommends that stockholders vote to hold the advisory vote on compensation of our named executive officers every year. Stockholders are not voting, however, to approve or disapprove of this particular recommendation. The proxy card provides for four choices and stockholders are entitled to vote on whether the advisory vote on compensation of our named executive officers should be held every one, two or three years, or to abstain from voting. While the result of this advisory vote on the frequency of the vote on named executive officer compensation is nonbinding, the Board of Directors plans to consider the outcome of the vote when deciding how frequently to conduct the vote on named executive officer compensation.

The Board of Directors unanimously recommends that you vote to hold the advisory vote on named executive officer compensation EVERY YEAR.

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AUDITOR AND AUDIT COMMITTEE MATTERS

Item 4 Ratification of Appointment of Independent Registered Public Accounting Firm for Year Ending December 31, 2017

Our Board of Directors has ratified the decision of the Audit Committee to appoint Deloitte & Touche LLP (D&T) to serve as the independent registered public accounting firm to audit our financial statements for the year ending December 31, 2017. Although we are not required to seek stockholder approval of this appointment, it has been our practice to do so. No determination has been made as to what action the Audit Committee or the Board of Directors would take if our stockholders fail to ratify the appointment. Even if the appointment is ratified, the Audit Committee retains discretion to appoint a new independent registered public accounting firm at any time if the Audit Committee concludes such a change would be in the best interests of McDermott. Representatives of D&T will be present at the Annual Meeting and will have an opportunity to make a statement if they desire to do so and to respond to appropriate questions.

Our Board of Directors recommends that stockholders vote FOR the ratification of the decision of our Audit Committee to appoint Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2017. The proxy holders will vote all proxies received for approval of this proposal unless instructed otherwise. Approval of this proposal requires the affirmative vote of a majority of the outstanding shares of common stock present in person or represented by proxy and entitled to vote and actually voting on this proposal at the Annual Meeting. Because abstentions are not actual votes with respect to this proposal, they have no effect on the outcome of the vote on this proposal.

Audit Committee Report

The Board of Directors appoints an Audit Committee to review McDermott International, Inc. s financial matters. Each member of the Audit Committee meets the independence requirements established by the NYSE. The Audit Committee is responsible for the appointment, compensation, retention and oversight of McDermott s independent registered public accounting firm. We are also responsible for recommending to the Board that McDermott s audited financial statements be included in its Annual Report on Form 10-K for the fiscal year.

In making our recommendation that McDermott s financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2016, we have taken the following steps:

We reviewed, and discussed with McDermott s management and D&T, McDermott s audited consolidated balance sheet at December 31, 2016, and consolidated statements of income, comprehensive income, cash flows and stockholders equity for the year ended December 31, 2016.

We discussed with D&T, McDermott s independent registered public accounting firm for the year ended December 31, 2016, those matters required to be discussed under the applicable standards of the Public Company Accounting Oversight Board, including information regarding the scope and results of the audit. These communications and discussions are intended to assist us in overseeing the financial reporting and disclosure process.

We received and reviewed the written disclosures and the letter from D&T required by applicable requirements of the Public Company Accounting Oversight Board regarding D&T s communications with the Audit Committee concerning D&T s independence from McDermott, and have discussed with D&T its independence from McDermott. We also considered whether the provision of non-audit services to McDermott is compatible with D&T s independence.

We conducted periodic executive sessions with D&T, with no members of McDermott management present during those discussions. D&T did not identify any material audit issues, questions or discrepancies, other than those previously discussed with management, which were resolved to the satisfaction of all parties.

We conducted periodic executive sessions with McDermott s internal audit department and regularly received reports regarding McDermott s internal control procedures.

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We reviewed, and discussed with McDermott's management and D&T, management's report and D&T's report and attestation on internal control over financial reporting, each of which was prepared in accordance with Section 404 of the Sarbanes-Oxley Act.

We determined that there were no former D&T employees, who previously participated in the McDermott audit, engaged in a financial reporting oversight role at McDermott.

Based on the reviews and actions described above, we recommended to the Board that McDermott's audited financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2016 for filing with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

William H. Schumann, III, Chair

John F. Bookout, III

Stephen G. Hanks

Erich Kaeser

David A. Trice

Audit Firm Fees

For the years ended December 31, 2016 and 2015, the aggregate fees billed to McDermott by D&T, including expenses and taxes, totaling \$4,213,047 and \$4,684,488, which can be categorized as follows:

	2016	2015
	(\$)	(\$)
Audit	3,520,809	4,177,240
The Audit fees for the years ended December 31, 2016 and 2015 were for professional services rendered for the audits of the consolidated financial statements of McDermott, the audit of McDermott's internal control over financial reporting, statutory and subsidiary audits, reviews of the quarterly consolidated financial statements of McDermott and assistance with review of documents filed with the SEC.		
Audit-Related	34,722	73,185
The Audit-Related fees for the years ended December 31, 2016 and 2015 were for assurance and related services, employee benefit plan audits and advisory services related to Sarbanes-Oxley Section 404 compliance.		
Tax	657,516	434,063
The Tax fees for the years ended December 31, 2016 and 2015 were for professional services rendered for consultations on various U.S. federal, state and international tax matters, international tax compliance and tax planning, and assistance with tax examinations.		
All Other	0	0
During the years ended December 31, 2016 and December 31, 2015, there were no other services.		
Total	4,213,047	4,684,488
It is the policy of our Audit Committee to preapprove all audit, review or attest engagements and permissible non-audit services to be performed by our independent registered public accounting firm, subject to, and in compliance with, the <i>de minimis</i> exception for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934 and the applicable rules and regulations of the SEC. Our Audit Committee did not rely on the <i>de minimis</i> exception for any of the fees disclosed above.		

Table of Contents**STOCK OWNERSHIP INFORMATION****Security Ownership of Directors and Executive Officers**

The following table sets forth the number of shares of our common stock beneficially owned as of March 13, 2017 by each director or nominee as a director, and each NEO and all of our directors and executive officers as a group, including shares that those persons have the right to acquire within 60 days on the exercise of stock options.

Name	Shares that may be Acquired on Stock Option Exercise⁽¹⁾	Shares held in Thrift Plan⁽²⁾	Total Shares Beneficially Owned⁽³⁾
Linh Austin			61,077
John F. Bookout, III	5,233		332,109
Roger A. Brown	1,744		141,933
David Dickson			969,817
Stephen G. Hanks			109,495
Liane K. Hinrichs	114,750	2,840	488,139
Erich Kaeser			24,287
Jonathan Kennefick	21,216	876	97,270
Gary P. Luquette			77,436
William H. Schumann, III			107,733
Mary Shafer-Malicki			99,665
Stuart A. Spence			252,520
David A. Trice			129,040
Stephen L. Allen ⁽⁴⁾			43,089
All directors and executive officers as a group (19 persons)	172,568	4,107	3,157,961

(1) This column includes shares of common stock that the director or NEO has the right to acquire within 60 days on the exercise of stock options. As of March 13, 2017, the share price of our common stock (\$6.61) did not exceed the strike price of any of the stock option awards in this column.

(2) This column includes shares of common stock held in the NEO's McDermott Thrift Plan account.

(3) Shares beneficially owned by each individual in all cases constituted less than one percent of the outstanding shares of common stock on March 13, 2017, as determined in accordance with Rule 13d-3(d)(1) under the Securities Exchange Act of 1934. Shares beneficially owned by all directors and executive officers as a group constituted approximately 1.30% of the outstanding shares of common stock on March 13, 2017.

(4) The number of shares reported as beneficially owned by Mr. Allen is as of his July 1, 2016 resignation date.

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The following table furnishes information concerning all persons known by us to beneficially own 5% or more of our outstanding shares of common stock as of March 13, 2017, which is our only class of voting stock outstanding:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class⁽¹⁾
Common Stock	The Vanguard Group 100 Vanguard Blvd. Malvern, PA 19355	22,279,625 ⁽²⁾	9.17%
Common Stock	BlackRock, Inc. 55 East 52nd Street New York, NY 10055	16,669,250 ⁽³⁾	6.86%
Common Stock	Fairpointe Capital LLC One N. Franklin, Ste 3300 Chicago, IL 60606	16,248,869 ⁽⁴⁾	6.69%
Common Stock	Dimensional Fund Advisors LP Building One 6300 Bee Cave Road Austin, Texas, 78746	13,803,751 ⁽⁵⁾	5.68%

(1) Percent is based on outstanding shares of our common stock on March 13, 2017.

(2) As reported on the Schedule 13G/A filed with the SEC on February 10, 2017. The Schedule 13G/A reports beneficial ownership of 22,279,625 shares, sole voting power over 287,109 shares, shared voting power over 23,700 shares, sole dispositive power over 21,980,916 shares and shared dispositive power over 298,709 shares.

(3) As reported on the Schedule 13G/A filed with the SEC on January 25, 2017. The Schedule 13G/A reports beneficial ownership of 16,669,250 shares, sole voting power over 15,968,869 shares and sole dispositive power over 16,669,250 shares. The Schedule 13G/A further reports that various subsidiaries of BlackRock, Inc. beneficially own shares reported on by the filing and lists those subsidiaries.

(4) As reported on the Schedule 13G/A filed with the SEC on February 13, 2017. The Schedule 13G/A reports beneficial ownership of 16,248,869 shares, sole voting power over 15,759,008 shares, sole dispositive power over 15,987,169 shares and shared dispositive power over 261,700 shares.

(5) As reported on the Schedule 13G filed with the SEC on February 9, 2017. The Schedule 13G reports beneficial ownership of 13,803,751 shares, sole voting power over 13,398,845 shares and sole dispositive power over 13,803,751 shares.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and executive officers, and persons who own 10% or more of our voting stock, to file reports of ownership and changes in ownership of our equity securities with the SEC and the NYSE. Directors, executive officers and 10% or more holders are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on a review of the copies of those forms furnished to us, or written representations that no forms were required, we believe that our directors, executive officers and 10% or more beneficial owners complied with all Section 16(a) filing requirements during the year ended December 31, 2016.

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OTHER INFORMATION

Questions and Answers About the Annual Meeting of Stockholders and Voting

What is the purpose of these proxy materials?

As more fully described in the Notice, the Board of Directors of McDermott has made these materials available to you in connection with our 2017 Annual Meeting of Stockholders, which will take place on May 5, 2017 at 10:00 a.m., local time (the Annual Meeting or Meeting). We mailed the Notice to our stockholders beginning on March 24, 2017, and our proxy materials were posted on the Web site referenced in the Notice on that same date.

McDermott, on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2017 Annual Meeting of Stockholders. We solicit proxies to give all stockholders of record an opportunity to vote on matters that will be presented at the Annual Meeting. In this proxy statement you will find information on these matters, which is provided to assist you in voting your shares.

Who will pay for the cost of this proxy solicitation?

We will bear all expenses incurred in connection with this proxy solicitation, which we expect to conduct primarily by mail. We have engaged Georgeson to assist in the solicitation for a fee that will not exceed \$12,500, plus out-of-pocket expenses. In addition, our officers and regular employees may solicit your proxy by telephone, by facsimile transmission or in person, for which they will not be separately compensated. If your shares are held through a broker or other nominee (*i.e.*, in street name) and you have requested printed versions of these materials, we have requested that your broker or nominee forward this proxy statement to you and obtain your voting instructions, for which we will reimburse them for reasonable out-of-pocket expenses. If your shares are held through the McDermott Thrift Plan and you have requested printed versions of these materials, the trustee of that plan has sent you this proxy statement and you can instruct the trustee on how to vote your plan shares.

Who is entitled to vote at the Annual Meeting?

Our Board of Directors selected March 13, 2017 as the record date for determining stockholders entitled to vote at the Annual Meeting. This means that if you owned McDermott common stock on the Record Date, you may vote your shares on the matters to be considered by our stockholders at the Annual Meeting.

There were 243,047,477 shares of our common stock outstanding on the Record Date. Each outstanding share of common stock entitles its holder to one vote on each matter to be acted on at the meeting.

Who may attend the Annual Meeting?

Attendance at the meeting is limited to stockholders and beneficial owners as of the record date or duly appointed proxies. No guests will be admitted, except for guests invited by McDermott. Registration will begin at 9:00 a.m., and the meeting will begin promptly at 10:00 a.m. If your shares are held in street name through a broker, bank, trustee or other nominee, you are a beneficial owner, and beneficial owners will need to show proof of beneficial ownership, such as a copy of a brokerage account statement, reflecting stock ownership as of the Record Date in order to be admitted to the meeting. If you are a proxy holder for a stockholder, you will need to bring a validly executed proxy naming you as the proxy holder, together with proof of record ownership of the stockholder naming you as proxy holder. Please note that you may be asked to present valid photo identification, such as a valid driver's license or passport, when you check in for registration. No cameras, recording equipment or other electronic devices will be allowed to be brought into the meeting room by stockholders or beneficial owners.

What is the difference between holding shares as a stockholder of record and as a beneficial owner through a brokerage account or other arrangement with a holder of record?

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If your shares are registered in your name with McDermott's transfer agent and registrar, Computershare Trust Company, N.A., you are the stockholder of record of those shares. The Notice and the proxy materials have been provided or made available directly to you by McDermott.

If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the beneficial owner but not the holder of record of those shares, and the Notice and the proxy materials have been forwarded to you by your broker, bank or other holder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record how to vote your shares by using the voting instruction card or by following their instructions for voting by telephone or on the Internet.

How do I cast my vote?

Most stockholders can vote by proxy in three ways:

by Internet at www.proxyvote.com;

by telephone; or

by mail.

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If you are a stockholder of record, you can vote your shares in person at the Annual Meeting or vote now by giving us your proxy via Internet, telephone or mail. You may give us your proxy by following the instructions included in the Notice or, if you received a printed version of these proxy materials, in the enclosed proxy card. If you want to vote by mail but have not received a printed version of these proxy materials, you may request a full packet of proxy materials by following the instructions in the Notice. If you vote using either the telephone or the Internet, you will save us mailing expenses.

By giving us your proxy, you will be directing us how to vote your shares at the meeting. Even if you plan on attending the meeting, we urge you to vote now by giving us your proxy. This will ensure that your vote is represented at the meeting. If you do attend the meeting, you can change your vote at that time, if you then desire to do so.

If you are the beneficial owner of shares, but not the holder of record, you should refer to the instructions provided by your broker or nominee for further information. The broker or nominee that holds your shares has the authority to vote them, absent your approval, only as to matters for which they have discretionary authority under the applicable NYSE rules. Neither the election of directors, the advisory vote to approve named executive officer compensation, nor the advisory vote on the frequency of advisory votes on named executive officer compensation are considered routine matters. That means that brokers may not vote your shares with respect to those matters if you have not given your broker specific instructions as to how to vote. Please be sure to give specific voting instructions to your broker.

If you received a printed version of these proxy materials, you should have received a voting instruction form from your broker or nominee that holds your shares. For shares of which you are the beneficial owner but not the holder of record, follow the instructions contained in the Notice or voting instruction form to vote by Internet, telephone or mail. If you want to vote by mail but have not received a printed version of these proxy materials, you may request a full packet of proxy materials as instructed by the Notice. If you want to vote your shares in person at the Annual Meeting, you must obtain a valid proxy from your broker or nominee. You should contact your broker or nominee or refer to the instructions provided by your broker or nominee for further information. Additionally, the availability of telephone or Internet voting depends on the voting process used by the broker or nominee that holds your shares.

Why did I receive more than one Notice or proxy statement and proxy card or voting instruction form?

You may receive more than one Notice, proxy statement, proxy card or voting instruction form if your shares are held through more than one account (e.g., through different brokers or nominees). Each proxy card or voting instruction form only covers those shares of common stock held in the applicable account. If you hold shares in more than one account, you will have to provide voting instructions as to each of your accounts in order to vote all your shares.

What is householding ?

SEC rules regarding the delivery of the Notice of Internet Availability of Proxy Materials, proxy statements and annual reports permit us, in specified circumstances, to deliver a single set of these materials to any address at which two or more stockholders reside. This method of delivery, often referred to as householding, will reduce the amount of duplicative information that stockholders receive and lower printing and mailing costs for us. Each stockholder will continue to receive a separate proxy card.

We have delivered only one Notice of Internet Availability of Proxy Materials to eligible stockholders who are the beneficial owner of shares who share an address, unless contrary instructions were received from any such stockholder prior to the mailing date. We will deliver promptly, upon written or oral request, a separate copy of the Notice of Internet Availability of Proxy Materials to a stockholder at a shared address to which a single copy of such document was delivered. Any stockholder who would like to receive a separate copy of the Notice of Internet Availability of Proxy Materials should submit this request to McDermott's Corporate Secretary at the following address: McDermott International, Inc., 757 N. Eldridge Pkwy., Houston, Texas 77079, Attn: Corporate Secretary. Beneficial owners sharing an address who receive multiple copies of the Notice of Internet Availability of Proxy Materials and who would like to receive a single copy of such materials in the future will need to contact their broker, bank or other nominee to request that only a single copy of such document be mailed to all stockholders at the shared address in the future.

What can I do if I change my mind after I vote?

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If you are a stockholder of record, you may change your vote by written notice to our Corporate Secretary, by granting a new proxy before the Annual Meeting or by voting in person at the Annual Meeting. Unless you attend the meeting and vote your shares in person, you should change your vote before the meeting using the same method (by Internet, telephone or mail) that you first used to vote your shares. That way, the inspectors of election for the meeting will be able to verify your latest vote.

If you are the beneficial owner, but not the holder of record, of shares, you should follow the instructions in the information provided by your broker or nominee to change your vote before the meeting. If you want to change your vote as to shares of which you are the beneficial owner by voting in person at the Annual Meeting, you must obtain a valid proxy from the broker or nominee that holds those shares for you.

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What is a broker non-vote?

If you are a beneficial owner whose shares are held of record by a broker or other holder of record, you must instruct the broker or other holder of record how to vote your shares. If you do not provide voting instructions, your shares will not be voted on any proposal on which the broker does not have discretionary authority to vote. This is called a broker non-vote. In these cases, the broker or other holder of record can include your shares as being present at the Annual Meeting for purposes of determining the presence of a quorum but will not be able to vote on those matters for which specific authorization is required under the rules of the NYSE.

For this Annual Meeting, if you are a beneficial owner whose shares are held by a broker or other holder of record, your broker or other holder of record has discretionary voting authority under NYSE rules to vote your shares on the ratification of Deloitte & Touche LLP, even if it has not received voting instructions from you. However, such holder does not have discretionary authority to vote on the election of directors, the advisory vote to approve named executive officer compensation or the advisory vote on the frequency of advisory votes on named executive officer compensation without instructions from you, in which case a broker non-vote will result and your shares will not be voted on those matters.

What is the quorum for the Annual Meeting?

The Annual Meeting will be held only if a quorum exists. The presence at the meeting, in person or by proxy, of holders of a majority of our outstanding shares of common stock as of the Record Date will constitute a quorum. If you attend the meeting or vote your shares by Internet, telephone or mail, your shares will be counted toward a quorum, even if you abstain from voting on a particular matter. Broker non-votes will be treated as present for the purpose of determining a quorum.

Which items will be voted on at the Annual Meeting?

At the Annual Meeting, we are asking you to vote on the following:

the election of John F. Bookout, III, David Dickson, Stephen G. Hanks, Erich Kaeser, Gary P. Luquette, William H. Schumann, III, Mary L. Shafer-Malicki and David A. Trice to our Board of Directors, each for a term of one year;

the advisory vote to approve named executive officer compensation;

the advisory vote on the frequency of advisory votes on named executive officer compensation; and

the ratification of our Audit Committee's appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2017.

We are not aware of any other matters that may be presented or acted on at the Annual Meeting. If you vote by signing and returning the enclosed proxy card or using the telephone or Internet voting procedures, the individuals named as proxies on the card may vote your shares, in their discretion, on any other matter requiring a stockholder vote that comes before the meeting.

What are the Board's voting recommendations?

For the reasons set forth in more detail previously in this proxy statement, our Board recommends a vote:

FOR the election of each director nominee;

FOR the advisory vote to approve named executive officer compensation;

for holding the advisory vote on named executive officer compensation EVERY YEAR; and

FOR the ratification of our Audit Committee's appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2017.

What are the voting requirements to elect the Directors and to approve each of the proposals discussed in this proxy statement?

Each proposal requires the affirmative vote of a majority of our outstanding shares present in person or represented by proxy at the meeting and entitled to vote and actually voting on the matter. Because votes withheld in the election of any director, abstentions and broker non-votes are not actual votes with respect to a proposal, they will have no effect on the outcome of the vote on any proposal.

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Our Corporate Governance Guidelines provide that, in an uncontested election of directors, the Board expects any incumbent director nominee who does not receive FOR votes by a majority of shares present in person or by proxy and entitled to vote and either voting FOR or registering a decision to withhold a vote with respect to the election of such director to promptly tender his or her resignation to the Governance Committee, subject to acceptance by our Board. Any shares subject to broker non-votes shall not be considered in making any determination pursuant to the immediately preceding sentence. The Governance Committee will then make a recommendation to the Board with respect to the director nominee's resignation and the Board will consider the recommendation and take appropriate action within 120 days from the date of the certification of the election results.

What happens if I do not specify a choice for a proposal when returning a proxy or do not cast my vote?

You should specify your choice for each proposal on your proxy card or voting instruction form. Shares represented by proxies will be voted in accordance with the instructions given by the stockholders.

If you are a stockholder of record and your proxy card is signed and returned without voting instructions, it will be voted according to the recommendations of our Board. If

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you do not return your proxy card or cast your vote, no votes will be cast on your behalf on any of the items of business at the Annual Meeting.

If you are the beneficial owner, but not the holder of record, of shares and fail to provide voting instructions, your broker or other holder of record is permitted to vote your shares on the ratification of Deloitte as our independent registered public accounting firm. However, absent instructions from you, your broker or other holder of record may not vote on the election of directors, the advisory vote to approve named executive officer compensation, or the advisory vote on the frequency of advisory votes on named executive officer compensation, and no votes will be cast on your behalf for those matters.

Is my vote confidential?

All voted proxies and ballots will be handled in a manner intended to protect your voting privacy as a stockholder. Your vote will not be disclosed except:

- to meet any legal requirements;
- in limited circumstances such as a proxy contest in opposition to our Board of Directors;
- to permit independent inspectors of election to tabulate and certify your vote; or
- to respond to your written comments on your proxy card.

Stockholders Proposals

Any stockholder who wishes to have a qualified proposal considered for inclusion in our proxy statement for our 2018 Annual Meeting must send notice of the proposal to our Corporate Secretary at our principal executive office no later than November 24, 2017. If you make such a proposal, you must provide your name, address, the number of shares of common stock you hold of record or beneficially, the date or dates on which such common stock was acquired and documentary support for any claim of beneficial ownership.

In addition, any stockholder who intends to submit nominees for election as directors or a proposal for consideration at our 2018 Annual Meeting, in each case not for inclusion in our proxy materials, must notify our Corporate Secretary. Under our By-Laws, such notice must (1) be received at our executive offices no earlier than November 6, 2017 or later than January 5, 2018, and (2) satisfy specified requirements. A copy of the pertinent By-Law provisions can be found on our Web site at www.mcdermott.com at INVESTORS Corporate Governance.

By Order of the Board of Directors,

LIANE K. HINRICHS
Secretary

Dated: March 24, 2017

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McDermott reports its financial results in accordance with the U.S. generally accepted accounting principles (GAAP). This Proxy Statement includes references to Adjusted Operating Income, a Non-GAAP financial measure as defined under the SEC's Regulation G. The following table reconciles the Non-GAAP financial measures to Operating Income, the most comparable GAAP financial measures.

	Year Ended Dec 31, 2016
<u>(Dollars In thousands)</u>	
GAAP Operating Income	\$142,253
Add: Adjustments	
Restructuring Charges ¹	11,263
Impairment Loss ²	54,958
Non-Cash Actuarial Loss (Gain) on Benefit Plans ³	(5,391)
Total Non-GAAP Adjustments	60,830
Non-GAAP Adjusted Operating Income	\$203,083

¹ Restructuring charges were primarily associated with personnel reductions, facility closures, consultant fees, lease terminations and asset impairments.

² Impairment charges: (i) \$11.8 million and \$10.9 million in the third and fourth quarters, respectively, related to certain marine assets after we determined their carrying values were either not recoverable or exceeded their respective fair values; (ii) \$32.8 million in the first quarter related to our Agile vessel following the customer's termination of the vessel charter in May 2016 and given the lack of opportunities for the vessel. The Agile was decommissioned and disposed of in the third quarter.

³ Our Non-GAAP measures exclude 100% of pension actuarial loss (gain) included in our Consolidated Financial Statements, including the \$5.4 million gain from year-end mark to market pension adjustments for the year ended December 31, 2016. This adjustment is recorded in selling, general and administrative expenses in the fourth quarter of each year in accordance with our pension accounting policy. Actuarial gains and losses are primarily driven by changes in the actuarial assumptions, discount rates and actual return on pension assets. The \$5.4 million 2016 mark to market adjustment was comprised of a \$4.5 million gain on our pension plan assets and \$0.9 million of lower actuarial pension liabilities. The \$4.5 million of mark to market adjustment is the difference between \$21.6 million of expected return on pension plan assets recognized during 2016 and a \$26.1 million actual gain on plan assets as of December 31, 2016. Our non-GAAP pension adjustment does not include \$1.0 million of net pension benefit recognized during 2016 related to expected return on plan assets net of interest costs for our non-contributory defined benefit pension plans.

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McDermott International, Inc.

Annual Meeting

Friday, May 5, 2017 at 10:00 a.m.

**The Westin Houston Hotel
945 Gessner Road
Houston, Texas 77024**

Dear Stockholder:

McDermott International, Inc. encourages you to vote the shares electronically through the Internet or the telephone, which are available 24 hours a day, 7 days a week. This eliminates the need to return the proxy card.

Your electronic vote authorizes the named proxies in the same manner as if you marked, signed, dated and returned the proxy card.

If you choose to vote the shares electronically, there is no need for you to mail back the proxy card.

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.proxyvote.com

**IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG PERFORATION,
DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE**

E20004-P87974

McDERMOTT INTERNATIONAL, INC.

**This proxy is solicited on behalf of the Board of Directors
Annual Meeting of Stockholders - Friday, May 5, 2017 at 10:00 a.m.**

The undersigned hereby appoints David Dickson and Liane K. Hinrichs, and each of them individually as proxies, each with the power to appoint his or her substitute, and hereby authorizes them to represent and to vote, as designated on the reverse side of this ballot, all of the shares of Common Stock of MCDERMOTT INTERNATIONAL, INC. ("McDermott") that the stockholder(s) is/are entitled to vote at the Annual Meeting of Stockholders to be held at 10:00 a.m. local time, on Friday, May 5, 2017 at The Westin Houston Hotel, 945 Gessner Road, Houston, Texas 77024, and any adjournment or postponement thereof.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED AS DIRECTED BY THE STOCKHOLDER(S) SIGNATORY(IES). IF NO DIRECTION IS MADE, THE SHARES REPRESENTED BY THIS PROXY WILL BE VOTED FOR ALL FOR ITEM 1, FOR ITEMS 2 AND 4 AND 1 YEAR ON ITEM 3. IF ANY OTHER MATTERS PROPERLY COME BEFORE THE MEETING, INCLUDING PROCEDURAL MATTERS AND MATTERS RELATING TO THE CONDUCT OF THE MEETING, THE PERSONS NAMED IN THIS PROXY ARE AUTHORIZED TO VOTE IN THEIR DISCRETION.

THE STOCKHOLDER(S) SIGNATORY(IES) HERETO ACKNOWLEDGE(S) RECEIPT OF MCDERMOTT'S ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 2016 AND ITS NOTICE OF 2017 ANNUAL MEETING AND RELATED PROXY STATEMENT.

ATTENTION PARTICIPANTS IN MCDERMOTT'S THRIFT PLAN: If the shares of McDermott Common Stock represented hereby are held through the McDermott Thrift Plan, this proxy covers all shares for which the undersigned has the right to give voting instructions to Vanguard Fiduciary Trust Company ("Vanguard"), Trustee of the McDermott Thrift Plan. Your proxy must be received no later than 11:59 p.m., Eastern Time, on May 2, 2017. Any shares of McDermott Common Stock held in the McDermott Thrift Plan for which Vanguard does not receive timely voting instructions will be voted in the same proportion as the shares for which Vanguard receives timely voting instructions from other participants in the McDermott Thrift Plan.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY CARD PROMPTLY USING THE REPLY CARD ENVELOPE

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

Table of Contents

MCDERMOTT INTERNATIONAL, INC.
757 N. ELDRIDGE PKWY
HOUSTON, TX 77079

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M., Eastern Time, on May 4, 2017 (May 2, 2017 for participants in McDermott's Thrift Plan). Have your proxy card in hand when you access the Web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M., Eastern Time, on May 4, 2017 (May 2, 2017 for participants in McDermott's Thrift Plan). Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Using a blue or black ink pen, mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in the future.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:
 E20003-P87974

KEEP THIS PORTION FOR YOUR RECORDS
 DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.
MCDERMOTT INTERNATIONAL, INC.

The Board of Directors recommends you vote FOR the following:

For All Withhold All For All Except

1. To elect eight members to our Board of Directors, each for a one year term.

Nominees

01)	John F. Bookout, III	05)	Gary P. Luquette
02)	David Dickson	06)	William H. Schumann, III
03)	Stephen G. Hanks	07)	Mary L. Shafer-Malicki
04)	Erich Kaeser	08)	David A. Trice

To withhold authority to vote for any individual nominee(s), mark **For All Except** and write the number(s) of the nominee(s) on the line below.

The Board of Directors recommends you vote FOR the following proposal:

For Against Abstain

2. To conduct an advisory vote to approve named executive officer compensation.

1 Year 2 Years 3 Years Abstain

The Board of Directors recommends you vote 1 Year on the following proposal:

3. To conduct an advisory vote on the frequency with which to hold advisory votes on named executive officer compensation.

The Board of Directors recommends you vote FOR the following proposal:

For Against Abstain

4. To ratify our Audit Committee's appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the year ending December 31, 2017.

The shares represented by this proxy when properly executed will be voted in the manner directed herein by the undersigned Stockholder(s). **If no direction is made, the shares represented by this proxy will be voted FOR ALL for item 1, FOR items 2 and 4 and 1 Year on item 3. If any other matters properly come before the meeting, including procedural matters and matters relating to the conduct of the meeting, the persons named in this proxy are authorized to vote in their discretion.**

For address changes and/or comments, please check this box and write them on the back where indicated.

Please indicate if you plan to attend this meeting.

Yes No

Please sign your name exactly as it appears hereon. When signing as attorney, executor, administrator, trustee, guardian or other fiduciary, please give full title as such. When signing as joint tenants, all parties in the joint tenancy must sign. If a signer is a corporation or partnership, please sign in full corporate or partnership name by duly authorized officer.

Signature [PLEASE SIGN WITHIN BOX] Date

Signature (Joint Owners)

Date

TD width="50%">

Economic and Financial Analysis

NII - Interest-Earning Portion

Interest-Earning Portion – Rates

In the fourth quarter of 2016, the NII - interest-earning portion rate in the last 12 months was 7.5%, remaining stable both in the quarterly comparison and in the annual comparison.

Interest-Earning Portion – Average Rates (12 months)

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Credit Intermediation	49,897	383,242	13.0%	42,788	366,001	11.7%
Insurance	5,895	199,691	3.0%	5,558	164,894	3.4%
Securities/Other	7,267	440,329	1.7%	6,431	395,896	1.6%
NII - Interest-Earning Portion	63,059	-	7.5%	54,777	-	7.5%

Credit Intermediation	13,403	398,804	13.0%	13,600	407,559	12.7%
Insurance	1,471	218,715	3.0%	1,534	211,380	3.2%
Securities/Other	1,869	468,281	1.7%	1,665	451,501	1.6%
NII - Interest-Earning Portion	16,743	-	7.5%	16,799	-	7.5%

Bradesco _____

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation****Earning Portion of Credit Intermediation – Breakdown**

R\$ million	12M16	12M15	4Q16	3Q16	Variation	
					12 months	Quarter
NII - Interest-earning portion - Credit Intermediation						
NII - Interest-earning portion - due to volume					2,245	(294)
NII - Interest-earning portion - due to spread					4,864	97
NII - Interest-Earning Portion	49,897	42,788	13,403	13,600	7,109	(197)
Allowance for loan losses (ALL) expenses	(21,739)	(15,174)	(5,525)	(5,742)	(6,565)	217
Net Margin of ALL	28,158	27,614	7,878	7,858	544	20

In the fourth quarter of 2016, the NII - the interest-earning portion of “Credit Intermediation” reached R\$13,403 million, a decrease of R\$197 million or 1.4%, compared with the previous quarter. The variation was mainly the result of: (i) a R\$294 million decrease in the average business volume, offset by: (ii) the average spread increase, in the amount of R\$97 million.

In the annual comparison, there was an increase of 16.6% or R\$7,109 million, due to the increase in: (i) average spread, amounting to R\$4,864 million, due to improved management in investment resources and funding operations; and (ii) the average business volume in the amount of R\$2,245 million, partly due to HSBC Brasil’s consolidation as of the third quarter of 2016.

In the annual comparison, there was an increase of 16.6% or R\$7,109 million, due to the increase in: (i) average spread, amounting to R\$4,864 million, due to improved management in investment resources and funding operations; and (ii) the average business volume in the amount of R\$2,245 million, partly due to HSBC Brasil’s consolidation as of the third quarter of 2016.

(1) Without the effect of the leveling of provisioning from one specific corporate client; and

(2) If we ignore the effect of the leveling of provisioning from one specific corporate client, net margin, in the second quarter of 2016 would be R\$6,749 million, and in the first quarter of 2016 would be R\$6,874 million.

Net Earning Portion of Credit Intermediation

The graph to the right presents a summary of “Credit Intermediation” activity. The Gross Margin line refers to interest income from loans, deducted from the client acquisition costs.

The bar relating to the ALL shows delinquency costs, which are represented by Allowance for Loan Losses (ALL) Expenses, plus discounts granted in net transactions of loan recoveries arising from the sale of foreclosed assets, among others.

In the fourth quarter of 2016, the bar relating to the net margin, which presents the result of the net revenue from credit interest of the ALL, remained stable in comparison with the previous quarter.

In the annual comparison, there was a 2.0% variation in the net credit margin, mainly due to: (i) the increase of (a) average spread and (b) average business volume, partly due to HSBC Brasil's consolidation as of the third quarter of 2016, offset by: (ii) the higher delinquency rate, mainly as a result of the intensification of the downturn in economic activities in the period; and (iii) the impact produced by the leveling of provisioning for certain corporate client operations, occurred in the first semester of 2016, particularly a specific case, whose decline to H rating had an impact of R\$1,201 million.

Economic and Financial Analysis Report – December 2016

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation****Expanded Loan Portfolio ⁽¹⁾**

In December 2016, Bradesco's expanded loan portfolio stood at R\$515.0 billion, presenting a 1.3% decrease compared with the previous quarter and a 8.6% increase in the last 12 months. It is worth noting the expansion of loans to Individuals and Large Companies in the quarter and in the last 12 months.

R\$ million	Dec16	Sept16	Dec15	Variation %	
				Quarter	12 months
Customer Profile					
Individuals	172,045	171,067	147,749	0.6	16.4
Companies	342,945	350,704	326,278	(2.2)	5.1
Large Corporates	240,410	240,119	215,892	0.1	11.4
Micro, Small and Medium-Sized Enterprises	102,535	110,584	110,386	(7.3)	(7.1)
Total Loan Operations	514,990	521,771	474,027	(1.3)	8.6

(1) In addition to Bacen loan portfolio, it includes sureties, guarantees, letters of credit, advances of credit card receivables, debentures, promissory notes and co-obligation (receivables-backed investment funds, mortgage-backed receivables, and rural loans).

Expanded Loan Portfolio Breakdown by Product and Type of Client (Individuals and Companies)

A breakdown of expanded loan portfolio products for the Individuals section is presented below:

R\$ million	Dec16	Sept16	Dec15	Variation %	
				Quarter	12 months
Individuals					
Payroll-deductible Loans	38,804	38,133	34,565	1.8	12.3
Credit Card	35,622	33,469	28,592	6.4	24.6
Real Estate Financing	32,298	31,719	22,781	1.8	41.8
CDC / Vehicle Leasing	19,952	20,513	21,689	(2.7)	(8.0)
Personal Loans	18,437	18,623	15,201	(1.0)	21.3
Rural Loans	7,887	7,738	8,215	1.9	(4.0)
BNDES/Finame Onlendings	6,685	6,641	7,029	0.7	(4.9)
Overdraft Facilities	4,509	5,237	3,905	(13.9)	15.5
Sureties and Guarantees	644	1,061	707	(39.3)	(9.0)
Other	7,208	7,936	5,065	(9.2)	42.3
Total	172,045	171,067	147,749	0.6	16.4

Operations in the Individuals section increased 0.6% in the quarter and 16.4% over the last 12 months, influenced by the effect of HSBC Brasil's consolidation. The categories highlighted in the 12-month period were "real estate financing" and "credit cards".

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation**

A breakdown of expanded loan portfolio products for Companies is presented below:

R\$ million	Dec16	Sept16	Dec15	Variation % Quarter	12 months
Companies					
Working Capital	45,943	48,207	42,432	(4.7)	8.3
Operations Abroad	37,250	39,564	48,453	(5.8)	(23.1)
Export Financing	27,829	30,634	23,158	(9.2)	20.2
BNDES/Finame Onlendings	29,261	30,345	31,129	(3.6)	(6.0)
Real Estate Financing	29,466	29,215	26,508	0.9	11.2
Overdraft Account	8,606	9,577	9,794	(10.1)	(12.1)
CDC / Leasing	8,091	8,513	9,666	(5.0)	(16.3)
Rural Loans	6,531	6,462	5,404	1.1	20.9
Sureties and Guarantees	78,304	75,263	69,176	4.0	13.2
Operations bearing Credit Risk - Commercial Portfolio ⁽¹⁾	41,605	43,506	34,319	(4.4)	21.2
Other	30,061	29,417	26,238	2.2	14.6
Total	342,945	350,704	326,278	(2.2)	5.1

(1) Includes debentures and promissory note operations.

Companies' operations decreased by 2.2% in the quarter and increased by 5.1% in the last 12 months, due to the effect of HSBC Brasil's consolidation. In the annual comparison, the categories highlighted were "operations with credit risk – debentures" and "export financing".

Expanded Loan Portfolio – Consumer Financing^(j)

The graph below shows the types of credit related to Consumer Financing of the Individuals section, which stood at R\$112.8 billion, in December 2016, representing a 1.9% increase over the quarter and a 12.8% increase over the last 12 months, partly due to the effect of HSBC Brasil's consolidation.

The categories highlighted in December 2016 are: (i) personal loans, including payroll-deductible loans, totaling R\$57.2 billion; and (ii) credit card, totaling R\$35.6 billion.

(1) Includes vehicle CDC/Leasing, personal loans, revolving credit card and cash, and installment purchases at merchants operations.

Economic and Financial Analysis Report – December 2016

Economic and Financial Analysis

Interest-Earning Portion of Credit Intermediation

Payroll-deductible Loans

In December 2016, payroll-deductible loans operations totaled R\$38,804 million, showing an increase of R\$671 million in the quarterly comparison, or 1.8%, and, in comparison with December of the previous year, an increase in the amount of R\$4,239 million, or 12.3%.

Payroll-deductible loans operations represented, in December 2016, 67.8% of total personal loans operations.

Real Estate Financing

Real estate financing operations totaled R\$61,764 million in December 2016, presenting an increase in the Individuals portfolio of R\$579 million, or 1.8%, in the quarter, and R\$9,517 million, or 41.8%, in comparison with December of the previous year. Companies' operations increased R\$251 million, or 0.9%, in the quarter, and R\$2,958 million, or 11.2%, in comparison with December of the previous year.

In 2016, the origination of real estate financing registered R\$9,877 million (R\$6,582 million by individuals and R\$3,295 million by builders), representing 45,672 properties in the period.

Vehicle financing

In December 2016, vehicle financing operations totaled R\$34,116 million, showing an increase in the quarterly comparison and a decrease in the annual comparison. Of the total vehicle portfolio, 74.0% corresponds to "CDC", 23.6% to "Finame" and 2.4% to "Leasing".

The variations presented in the portfolio are reflective of a reduced financing market and of Bradesco's search for lower risk and more profitable operations, due to the demand for the higher entry value for these financing operations.

Bradesco . ____

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation**

The expanded loan portfolio by the economic activity sector remained stable in the share of the sectors that it comprises. We highlight an increase in the participation of "Individuals" in the periods analyzed.

R\$ million	Dec16	%	Sept16	%	Dec15	%
Economic sector						
Public Sector	12,939	2.5	12,211	2.3	12,806	2.7
Private Sector	502,051	97.5	509,560	97.7	461,221	97.3
Companies	330,006	64.1	338,493	64.9	313,472	66.1
Manufacturing	104,109	20.2	107,698	20.6	98,916	20.9
Commerce	59,978	11.6	61,507	11.8	54,156	11.4
Financial Intermediaries	3,997	0.8	4,098	0.8	7,562	1.6
Services	157,349	30.6	160,613	30.8	149,403	31.5
Agriculture, Cattle Raising, Fishing, Forestry and Forest Exploration	4,573	0.9	4,577	0.9	3,435	0.7
Individuals	172,045	33.4	171,067	32.8	147,749	31.2
Total	514,990	100.0	521,771	100.0	474,027	100.0

Expanded Loan Portfolio – Distribution per Business Sector

The expanded loan portfolio showed an increase of 8.6% in the annual comparison and a decrease of 1.3% in the last quarter. We positively highlight the evolution of the "Prime" sector, mainly due to HSBC Brasil's consolidation.

R\$ million	Dec16	%	Sept16	%	Dec15	%	Variation % Quarter 12 months
Business Segments							
Retail	123,562	24.0	121,790	23.3	130,268	27.5	1.5 (5.1)
Corporate	242,879	47.2	202,960	38.9	217,298	45.8	19.7 11.8
Middle Market	51,984	10.1	41,982	8.0	48,855	10.3	23.8 6.4
Prime	42,392	8.2	25,104	4.8	23,893	5.0	68.9 77.4
Other / Non-checking account Holders ⁽¹⁾	54,173	10.5	129,935	25.0	53,714	11.3	(58.3) 0.9
Total	514,990	100.0	521,771	100.0	474,027	100.0	(1.3) 8.6

(1) It consists, mostly, of non-account holders, originating from the financing activities of vehicles, credit cards and payroll-deductible loans. In September 2016, it also includes loans arising from HSBC Brasil, not yet classified by business segment.

Expanded Loan Portfolio – Per Currency

The balance of loans and indexed onlending and/or denominated forms in foreign currency (excluding ACCs) totaled R\$43.9 billion in December 2016, showing a 4.6% decrease in the quarter and a 20.8% decrease in the last 12 months.

In December 2016, the total number of credit operations in reais reached R\$471.1 billion, presenting a 1.0% decrease in the quarterly comparison and an increase of 12.5% in the last 12 months.

- **Economic and Financial Analysis Report – December 2016**

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation****Changes to the Expanded Loan Portfolio**

New borrowers in the expanded loan portfolio, mainly due to the effect of HSBC Brasil's consolidation, were responsible for the R\$46.8 billion growth in the loan portfolio over the last 12 months, and accounted for 9.1% of the portfolio in December 2016.

(1) Includes new loans contracted in the last 12 months by clients with operations in December 2015.

Changes in the Expanded Loan Portfolio – By Rating

The chart below shows that the majority of new borrowers and clients that have remained in the loan portfolio since December 2015 received ratings between AA and C, demonstrating the suitability and consistency of the loan policy and processes (assignment and monitoring), as well as the quality of guarantees.

				x			x		
Rating									
AA - C	452,083	87.8	41,702	89.1	410,381	87.6			
D	18,881	3.7	1,767	3.8	17,114	3.7			
E - H	44,026	8.5	3,324	7.1	40,702	8.7			
Total	514,990	100.0	46,793	100.0	468,197	100.0			

(1) Partly due to the consolidation of HSBC Brasil.

Expanded Loan Portfolio – By Client Profile and Rating (%)

The range represented by credits classified between AA and C remained at comfortable levels.

Large Corporates	90.2	4.5	5.3	92.2	2.9	4.9	96.5	2.0	1.5
Micro, Small and Medium-Sized Enterprises	82.8	4.1	13.1	84.9	3.9	11.1	87.4	3.6	9.0
Individuals	87.4	2.3	10.3	88.3	2.2	9.5	90.0	1.9	8.1
Total	87.8	3.7	8.5	89.2	3.0	7.8	92.4	2.3	5.3

Bradesco . ____

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation****Expanded Loan Portfolio – By Debtor**

All concentration ranges show an increase compared to the previous quarter. The classification of ratings is aligned to the context of the current economic scenario.

Loan Portfolio ⁽¹⁾ – By Type

All operations carrying credit risk amounted to R\$543.9 billion, showing a decrease of 1.4% in the quarter and an increase of 6.6% in the last 12 months, due to the consolidation of HSBC Brasil.

R\$ million	Dec16	Sept16	Dec15	Variation % Quarter	12 months
Discounted trade receivables and loans	183,565	187,292	179,044	(2.0)	2.5
Financing	139,470	144,665	130,894	(3.6)	6.6
Agricultural and agribusiness loans	21,671	21,475	20,844	0.9	4.0
Leasing Operations	2,783	2,987	3,073	(6.8)	(9.4)
Advances on Foreign Exchange Contracts	9,226	10,079	7,647	(8.5)	20.6
Other Loans	35,436	32,911	25,493	7.7	39.0
Subtotal Loan Operations ⁽²⁾	392,151	399,409	366,995	(1.8)	6.9
Sureties and Guarantees Granted (Memorandum Accounts)	78,948	76,324	69,883	3.4	13.0
Operations bearing Credit Risk - Commercial Portfolio ⁽³⁾	41,605	43,506	34,319	(4.4)	21.2
Letters of Credit (Memorandum Accounts)	395	486	286	(18.6)	38.2
Advances on credit card receivables	776	890	1,293	(12.8)	(40.0)
Co-obligation in Loan Assignment - CRI (Memorandum Accounts)	1,034	1,064	1,160	(2.9)	(10.9)
Co-obligation in Rural Loan Assignment (Memorandum Accounts)	82	92	91	(11.1)	(10.3)
Subtotal of Operations bearing Credit Risk - Expanded Portfolio	514,990	521,771	474,027	(1.3)	8.6
Other Operations Bearing Credit Risk ⁽⁴⁾	28,956	29,852	36,083	(3.0)	(19.8)
Total Operations bearing Credit Risk	543,946	551,622	510,109	(1.4)	6.6

(1) In addition to the Expanded Portfolio, it includes other operations bearing credit risk;

(2) As defined by Bacen;

(3) Includes debentures and promissory note operations; and

(4) Includes CDI operations, rural DI, international treasury, swap, non-deliverable forward transaction and investments in FIDC, Certificate of Agribusiness Credit Rights (CDCA) and Certificates of Real Estate Receivables (CRI).

- **Economic and Financial Analysis Report – December 2016**

Economic and Financial Analysis

Interest-Earning Portion of Credit Intermediation

The charts below refer to the Loan Portfolio, as defined by Bacen:

Loan Portfolio ⁽¹⁾ – By Flow of Maturities⁽²⁾

The loan portfolio by flow of maturities of operations has, as one of its features, a longer profile, mainly due to the presence of real estate financing and payroll-deductible loan operations. It must be noted that, due to their guarantees and characteristics, these operations are not only exposed to lower risk, but they also provide favorable conditions to gain client loyalty.

Loan Portfolio – Delinquency Ratio⁽¹⁾

90-day Delinquency Ratio

The delinquency ratio, comprising of the balance of operations delayed for more than 90 days, showed an increase in this quarter due to the low demand for credit and the intensification of the downturn in economic activities, which has impacted the ability to pay, mainly for companies. Nonetheless, we highlight that defaulting has declined in the Large Companies segment in the quarter, from 2.03%, in September 2016, to 1.24%, in December 2016.

In the fourth quarter of 2016, credit assignments without retention of risks and benefits were carried out, already written off for losses, in the amount of R\$2.0 billion, which did not alter the rates of delinquency in the period, as well as did not impact the results in a relevant way.

15-90 Day Delinquency Ratio

In the fourth quarter of 2016, short-term delinquency, including operations overdue by between 15 and 90 days, showed an increase, due to a client from the Large Corporates segment, fully provisioned, having migrated from a delinquency range to another in the amount of R\$1,075 million. It is worth noting the improvement of this indicator in the Individuals segment, which decreased by 0.69 p.p..

(1) As defined by Bacen; and

(2) Only performing loans

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Economic and Financial Analysis

Interest-Earning Portion of Credit Intermediation

Allowance for Loan Losses (ALL) vs. Delinquency vs. Losses ⁽¹⁾

Composition of the Provision

Bradesco monitors the development of its loan portfolio, as well as respective risks, by internally applying the expanded portfolio concept. In addition to the allowance for loan losses required by Bacen, Bradesco has excess ALL to support potential stress scenarios, as well as other operations/commitments carrying credit risks.

Allowance for Loan Losses totaled R\$40.7 billion in December 2016, representing 10.4% of the total loan portfolio, comprising of: (i) generic provision (client and/or operation rating); (ii) specific provision (non-performing loans); and (iii) excess provision (internal criteria, including provision for guarantees provided).

Provisioning levels are deemed appropriate and sufficient to support possible changes in scenarios, such as higher delinquency levels and/or changes in the loan portfolio profile.

Provisioning, Delinquency, ALL and Effective Coverage Ratio

The strength of the provisioning criteria adopted must be mentioned, which is proven by: (i) historical data analysis of recorded allowances for loan losses; and (ii) effective losses in the subsequent 12-month period. When analyzed in terms of net loss of recovery, for an existing provision of 8.0% of the portfolio⁽¹⁾, in December 2015, the net loss in the subsequent 12 months was 3.9%, representing an effective coverage of 204.3%.

It should be highlighted that, considering the losses expected for one year (dotted part), which has a correlation with the operations of abnormal course of the E-H ratings, there is an effective coverage of 206.8% for December 2016.

(1) As defined by Bacen; and

(2) Includes provision for guarantees provided, encompassing sureties, guarantees, letters of credit and standby letters of credit, which comprises the concept of ALL “excess”.

- **Economic and Financial Analysis Report – December 2016**

Economic and Financial Analysis

Interest-Earning Portion of Credit Intermediation

Coverage Ratio

The graph below presents the behavior of the ratios covering the provision for doubtful accounts in relation to default credits exceeding 60 and 90 days, considering HSBC Brasil, as of July 2016. In December 2016, these ratios showed very comfortable levels, reaching coverages of 158.8%

and 188.4%, respectively. Besides the provision for doubtful accounts required by Bacen, Bradesco has a surplus provision of R\$7.5 billion, to cover possible adverse scenarios, as well as other operations/commitments with credit risk.

NPL Creation 90 days vs Write-offs

The NPL creation reached R\$6,963 million in the fourth quarter of 2016, representing 1.8% of the

Bacen loan portfolio, a reduction of 0.1 p.p. compared to the previous quarter.

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Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation****Loan Portfolio – Portfolio Indicators**

With the aim of facilitating the monitoring of the quantitative and qualitative performance of Bradesco's loan portfolio, emphasizing that as of July 2016, it includes consolidation of HSBC Brasil, a comparative summary of the main figures and indicators is presented below:

R\$ million (except %)	Dec16	Sept16	Dec15
Total Loan Operations ⁽¹⁾	392,151	399,409	366,995
- Individuals	170,994	169,571	146,540
- Companies	221,156	229,838	220,454
Total Provision ⁽²⁾	40,714	40,416	29,499
- Specific	22,469	21,254	14,274
- Generic	10,755	11,672	8,815
- Excess ⁽²⁾	7,490	7,491	6,410
Specific Provision / Total Provision ⁽²⁾ (%)	55.2	52.6	48.4
Total Provision ⁽²⁾ / Loan Operations (%)	10.4	10.1	8.0
AA - C Rated Loan Operations / Loan Operations (%)	87.2	87.9	90.6
D-rated Operations under Risk Management / Loan Operations (%)	3.4	3.1	2.7
E-H rated Loan Operations / Loan Operations (%)	9.4	9.1	6.6
D-rated loan operations	13,170	12,228	10,027
Provision for D-rated loans	2,511	3,191	2,432
Provision / D-rated loans (%)	19.1	26.1	24.3
D-H rated Non-Performing Loans	30,790	29,242	20,775
Total Provision ⁽²⁾ / D-to-H-rated Non-performing Loans (%)	132.2	138.2	142.0
E-H Rated Loan Operations	36,871	36,243	24,383
Provision for E-H rated loans	32,431	32,087	21,327
Provision / E-H rated loans (%)	88.0	88.5	87.5
E-H rated Non-Performing Loans	26,209	24,767	17,224
Total Provision ⁽²⁾ / E-to-H-rated Non-performing Loans (%)	155.3	163.2	171.3

(1) As defined by Bacen; and

(2) Includes provision for guarantees provided, encompassing sureties, guarantees, letters of credit and standby letters of credit, which comprises the concept of ALL "excess".

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation****Loans vs. Funding**

In order to analyze Loan Operations in relation to Funding, the following should be deducted from the total client funding: (i) the amount committed to reserve requirements at Bacen, (ii) the amount of available funds within the customer service network, along with the addition of, (iii) funds from domestic and foreign lines of credit that finance the demand for loans.

Bradesco shows low dependency on interbank deposits and foreign lines of credit, given its

capacity to effectively obtain funding from clients. This is a result of: (i) the prominent position of its Service Points; (ii) the broad diversity of products offered; and (iii) the market's confidence in the Bradesco brand.

Note that the use of funds provides a comfortable margin. It proves that Bradesco is capable of meeting demands for loan operations through its own funding.

R\$ million	Dec16	Sept16	Dec15	Variation % Quarter	12 months
Funding vs. Investments					
Demand Deposits + Sundry Floating	34,151	36,427	24,421	(6.2)	39.8
Savings Deposits	97,089	93,289	91,879	4.1	5.7
Time Deposits + Debentures ⁽¹⁾	189,180	195,377	158,662	(3.2)	19.2
Funds from Financial Bills ⁽²⁾	144,992	147,789	100,070	(1.9)	44.9
Customer Funds	465,412	472,882	375,032	(1.6)	24.1
(-) Reserve Requirements	(58,037)	(62,570)	(54,792)	(7.2)	5.9
(-) Available Funds	(12,610)	(10,556)	(9,372)	19.5	34.5
Customer Funds Net of Reserve Requirements	394,765	399,756	310,868	(1.2)	27.0
Onlending	36,031	36,986	38,206	(2.6)	(5.7)
Securities Abroad	5,815	6,187	9,477	(6.0)	(38.6)
Borrowing	22,166	25,819	32,132	(14.1)	(31.0)
Other (Subordinated Debt + Other Borrowers - Cards)	76,329	75,734	69,384	0.8	10.0
Total Funding (A)	535,106	544,482	460,067	(1.7)	16.3
Expanded Loan Portfolio (Excluding Sureties and Guarantees)	436,042	445,447	404,144	(2.1)	7.9
B/A (%)	81.5	81.8	87.8	(0.3) p.p.	(6.3) p.p.

(1) Debentures mainly used as collateral for repo operations; and

(2) Considers: Real Estate Credit Notes, Agribusiness Notes, Financial Bills and Structured Operations Certificate.

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation****Main Funding Sources**

The following table presents the changes in these sources:

R\$ million	Dec16	Sept16	Dec15	Variation			
				Quarter Amount	%	12 months Amount	%
Demand Deposits	33,420	32,678	23,820	742	2.3	9,600	40.3
Savings Deposits	97,089	93,289	91,879	3,800	4.1	5,210	5.7
Time Deposits	103,116	113,214	79,595	(10,098)	(8.9)	23,521	29.6
Debentures ⁽¹⁾	86,064	82,163	79,067	3,901	4.7	6,997	8.8
Borrowing and Onlending	58,197	62,805	70,338	(4,608)	(7.3)	(12,141)	(17.3)
Funds from Issuance of Securities ⁽²⁾	150,807	153,976	109,547	(3,169)	(2.1)	41,260	37.7
Subordinated Debts	52,611	53,843	50,283	(1,232)	(2.3)	2,328	4.6
Total	581,304	591,968	504,529	(10,664)	(1.8)	76,775	15.2

(1) Mostly considers debentures used as collateral for repo operations; and

(2) Includes: Financial Bills, in December 2016, totaling R\$108,475 million (R\$110,885 million in September 2016 and R\$71,692 million in December 2015).

Demand Deposits

In December 2016, demand deposits totaled R\$33,420 million, showing an increase of R\$742 million or 2.3% in the quarterly comparison and of R\$9,600 million, or 40.3%, in the comparison with the previous year. The increases verified in this line of fundraising were originated primarily due to the increase in the base of account holders in the period, partly due to the effect of the consolidation of HSBC Brasil, as of the third quarter of 2016.

Savings Deposits

Savings deposits totaled R\$97.089 million in December 2016, showing an increase of R\$3,800 million or 4.1% in the quarterly comparison, and an increase of R\$5,210 million, or 5.7%, in the comparison with the previous year, mainly due to: (i) increased funding volume; (ii) the expansion of the base of savings accounts, which showed a net growth of 2 million new savings accounts; and (iii)

the remuneration of stock.

Economic and Financial Analysis Report – December 2016

Economic and Financial Analysis

Interest-Earning Portion of Credit Intermediation

Time Deposits

At the end of December 2016, the balance of time deposits totaled R\$103,116 million, presenting a decrease in the amount of R\$10,098 million, or 8.9%, in the quarterly comparison, and an increase of R\$23,521 million, or 29.6% in the annual comparison, mainly due to the effect of the consolidation of HSBC Brasil as of the third quarter of 2016.

The performance of these movements is mainly due to interest rate oscillations occurring in the period and to the investment alternatives available to clients.

Debentures

In December 2016, Bradesco's debentures balance totaled R\$86,064 million, registering an increase of R\$3,901 million, or 4.7%, in the quarterly comparison, and of R\$6,997 million, or 8.8%, in the annual comparison

Such variations refer mainly to the placement of these financial instruments, which are also used as collateral for repo operations.

Borrowing and Onlending

In December 2016, the balance of onlending registered at R\$58,197 million, a decrease of R\$4,608 million, or 7.3%, compared with the previous quarter, mainly due to: (i) the decrease of

R\$3,627 million, or 14.1%, in borrowings and onlendings denominated and/or indexed in foreign currency; and (ii) the decrease in the volume of funds raised by borrowings and onlending in the country, mainly through Finame operations.

In the comparison between December 2016 and December of the previous year, the balance of borrowings and onlending recorded a decrease of R\$12,141 million, or 17.3%, due to: (i) a decrease of R\$9,961 million, or 31.0%, in borrowings and onlendings denominated and/or indexed in foreign currency, whose balance changed from R\$32,119 million in December 2015 to R\$22,158 million, in December 2016, partly due to the negative exchange rate variation of 16.5% in the period; and (ii) a decrease in the volume of funds raised by borrowings and onlending in the country, mainly in the form of Finame operations; offset by: (iii) the increase in the volume of funds raised through BNDES operations.

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Economic and Financial Analysis

Interest-Earning Portion of Credit Intermediation

Funds from Issuance of Securities

In December 2016, funds from issuance of securities totaled R\$150,807 million, presenting a decrease in the amount of R\$3,169 million, or 2.1%, compared with the previous quarter, mainly due to: (i) the decreased inventory of Financial Bills, in the amount of R\$2,410 million; (ii) the decreased inventory of Mortgage Bonds, in the amount of R\$1,251 million; mainly offset by: (iii) the growth in Agribusiness Notes operations, in the amount of R\$945 million.

In the comparison between December 2016 and December of the previous year, the increase in the amount of R\$41,260 million, or 37.7%, was mainly due to: (i) the increased inventory of Financial Bills, from R\$71,692 million in December 2015 to R\$108,475 million in December 2016, as a result of the new issuances in the period; (ii) the higher volume of Real Estate Credit Notes, in the amount of R\$6,733 million; and (iii) the effect of the consolidation of HSBC Brasil as of the third quarter of 2016.

Subordinated Debts

Subordinated debts totaled R\$52,611 million in December 2016, showing a decrease in the amount of R\$1,232 million, or 2.3%, in the quarterly comparison, mainly driven by the maturity of debts. In the comparison between December 2016 and December of the previous year, the increase of R\$2,328 million, or 4.6%, was mainly due to the issue of new subordinated debts in the period.

Economic and Financial Analysis Report – December 2016

Economic and Financial Analysis**Interest-Earning Portion of Credit Intermediation****Earning Portion of Insurance – Breakdown**

R\$ million	12M16	12M15	4Q16	3Q16	Variation 12 months	Quarter
NII - Interest-earning portion - insurance						
NII - Interest-earning portion - due to volume					1,027	49
NII - Interest-earning portion - due to spread					(690)	(112)
NII - Interest-Earning Portion	5,895	5,558	1,471	1,534	337	(63)

Comparing the fourth quarter of 2016 with the previous quarter, the interest-earning portion of insurance operations recorded a R\$63 million decrease, which was due to: (i) a R\$112 million decrease in the average spread; partly offset by: (ii) an increase in the volume of operations, totaling R\$49 million.

In the annual comparison, the interest-earning portion showed an increase of R\$337 million, due to: (i) an increased volume of operations, in the amount of R\$1,027 million, partly due to the effect of the consolidation of HSBC Brasil as of the third quarter of 2016, offset by: (ii) a R\$690 million decrease in the average spread.

Interest-Earning Portion of Securities/Other**Earning Portion of Securities/Other – Breakdown**

R\$ million	12M16	12M15	4Q16	3Q16	Variation 12 months	Quarter
NII - Interest-earning portion - Securities/Other						
NII - Interest-earning portion - due to volume					734	67
NII - Interest-earning portion - due to spread					102	137
NII - Interest-Earning Portion	7,267	6,431	1,869	1,665	836	204

In the comparison between the fourth quarter of 2016 and the previous quarter, there was an increase of R\$204 million in the NII - interest-earning portion of “Securities/Other”, mainly due to the increase in the: (i) average spread, impacted by the positions in the pre-fixed portfolios, in the amount of R\$137 million; and (ii) average volume of operations, in the amount of R\$67 million. In the

annual comparison, the NII – interest-earning portion of “Securities/Other”, recorded an increase of R\$836 million mainly due to: (i) an increase in the volume of operations, resulting in R\$734 million; and (ii) an increase of R\$102 million in the average spread.

Non-Interest-Earning Portion

Non-Interest-Earning Portion – Breakdown

R\$ million	12M16	12M15	4Q16	3Q16	Variation 12 months	Quarter
NII - Non-Interest-Earning Portion						
NII - Non-Interest Earning Portion	659	610	190	132	49	58

Non-interest-earning portion of the NII stood at R\$190 million in the fourth quarter of 2016, showing a R\$58 million increase in comparison with the previous quarter, due to higher gains with arbitration of markets. In the annual comparison there was an increase in the NII margin of R\$49 million or 8.0%.

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Economic and Financial Analysis**Insurance, Pension Plans and Capitalization
Bonds**

Below is an analysis of Grupo Bradesco Seguros' statement of financial position and statement of income. From July, 2016, we began to consolidate the financial statements of companies of the insurance segment of HSBC Brasil.

Consolidated Statement of Financial Position

R\$ million	Dec16	Sept16	Dec15	Dec16 x Sept16	Dec16 x Dec15
Assets					
Current and Long-Term Assets	255,121	243,870	205,167	4.6	24.3
Securities	242,063	230,787	191,921	4.9	26.1
Insurance Premiums Receivable	3,932	4,000	3,329	(1.7)	18.1
Other Loans	9,126	9,083	9,917	0.5	(8.0)
Permanent Assets	5,073	4,987	5,040	1.7	0.7
Total	260,194	248,857	210,207	4.6	23.8
Liabilities					
Current and Long-Term Liabilities	232,364	222,000	188,740	4.7	23.1
Tax, Civil and Labor Contingencies	2,316	2,278	3,019	1.7	(23.3)
Payables on Insurance, Pension Plan and Capitalization Bond Operations	734	870	533	(15.6)	37.7
Other liabilities	5,972	5,244	7,352	13.9	(18.8)
Insurance Technical Provisions	14,858	14,978	13,341	(0.8)	11.4
Life and Pension Plan Technical Provisions	200,982	191,161	157,600	5.1	27.5
Capitalization Bond Technical Provisions	7,502	7,469	6,893	0.4	8.8
Non-controlling Interest	561	547	631	2.6	(11.1)
Shareholder's Equity ⁽¹⁾	27,269	26,310	20,837	3.6	30.9
Total	260,194	248,857	210,207	4.6	23.8

(1) Considering the shareholders' equity of Bradesco Seguros S.A, which controls the operating companies (insurance, pension plans and capitalization bonds), it would amount to R\$15,959 million in December 2016.

Consolidated Income Statement

R\$ million	12M16	12M15	4Q16	3Q16	12M16 x 12M15	4Q16 x 3Q16
Insurance Written Premiums, Pension Plan Contributions and Capitalization Bond Income	71,419	64,612	21,247	17,733	10.5	19.8
Premiums Earned from Insurance, Pension Plan Contribution and Capitalization Bond Income	39,025	35,179	10,171	10,122	10.9	0.5
Financial Results	6,085	5,441	1,486	1,693	11.8	(12.2)
Sundry Operating Income	1,611	1,143	626	350	40.9	78.9
Retained Claims	(24,379)	(21,429)	(6,116)	(6,493)	13.8	(5.8)
Capitalization Bond Draws and Redemptions	(5,372)	(5,007)	(1,398)	(1,447)	7.3	(3.4)
Selling Expenses	(3,630)	(3,300)	(1,012)	(908)	10.0	11.5
General and Administrative Expenses	(2,973)	(2,654)	(875)	(772)	12.0	13.3
Tax Expenses	(780)	(772)	(236)	(175)	1.0	34.9
Other Operating Income/Expenses	(884)	(653)	(236)	(181)	35.3	30.4
Operating Income	8,704	7,948	2,410	2,190	9.5	10.0
Equity Results	906	746	198	361	21.4	(45.2)
Income before Taxes and Profit Sharing	9,610	8,694	2,608	2,551	10.5	2.2
Taxes and Contributions	(3,851)	(3,186)	(1,055)	(1,011)	20.9	4.4
Profit Sharing	(96)	(88)	(21)	(22)	9.1	(4.5)
Non-controlling interests in subsidiaries	(112)	(131)	(27)	(16)	(14.5)	68.8
Net Income	5,551	5,289	1,505	1,502	5.0	0.2

Note: For comparison purposes, the effects of non-recurring events are not considered.

Economic and Financial Analysis Report – December 2016

Economic and Financial Analysis**Insurance, Pension Plans and Capitalization Bonds****Income Distribution of Grupo Bradesco Seguros e Previdência**

R\$ million	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15
Life and Pension Plans	908	894	644	725	727	738	785	762
Health	180	108	57	208	247	139	116	182
Capitalization Bonds	107	118	111	133	125	122	145	152
Property & Casualty and Others	310	382	352	313	307	318	238	187
Total	1,505	1,502	1,164	1,380	1,405	1,317	1,284	1,283

Performance Ratios

%	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15
Claims Ratio ⁽¹⁾	72.8	77.1	76.8	72.1	71.9	73.1	71.4	71.7
Expense Ratio ⁽²⁾	10.2	10.2	10.1	9.9	10.4	10.4	10.7	10.4
Administrative Expenses Ratio ⁽³⁾	4.0	4.0	4.0	4.2	4.1	4.3	4.0	4.1
Combined Ratio ^{(4) (5)}	85.9	90.0	89.6	86.1	86.5	86.9	86.5	86.8

(1) Retained Claims/Earned Premiums;

(2) Sales Expenses/Earned Premiums;

(3) Administrative Expenses/Net Written Premiums;

(4) (Retained Claims + Sales Expenses + Other Operating Income and Expenses)/Earned Premiums + (Administrative Expenses + Taxes)/Net Written Premiums; and

(5) Excludes additional reserves.

Note: For comparison purposes, the effects of non-recurring events are not considered.

Written Premiums, Pension Plan Contributions and Capitalization Bond Income

In the fourth quarter of 2016, the turnover showed a growth of 19.8% in comparison with the previous quarter, driven by the product of "Life and Pension", which showed a growth of 41.0%.

In 2016, the production recorded a growth of 10.5% in comparison with the previous year, influenced by "Health", "Life and Pension" and "Capitalization Bonds" products, which presented an increase of 14.7%, 10.7% and 6.5%, respectively.

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Economic and Financial Analysis

**Insurance, Pension Plans and Capitalization
Bonds**

Indexes of Claims Ratio per Industry

Indexes of Commercialization of Insurance per Industry

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Economic and Financial Analysis

**Insurance, Pension Plans and Capitalization
Bonds**

Administrative Efficiency Ratio

General and Administrative Expenses / Billing.

Maintenance of administrative efficiency ratio, in the comparison between the fourth quarter of 2016 and the previous quarter, is due to: (i) the benefits generated with the rationalization of expenditures; and (ii) the increase of 19.8% in the period's revenue.

Technical Provisions

Bradesco _____

Economic and Financial Analysis**Life and Pension Plans**

	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15
Net Income	908	894	644	725	727	727
Premium and Contribution Income ⁽¹⁾	12,552	8,899	8,755	7,175	11,153	7,175
- Income from Pension Plans and VGBL	11,046	7,289	7,337	5,786	9,744	5,786
- Income from Life/Personal Accidents Insurance Premiums	1,506	1,610	1,418	1,389	1,409	1,389
Technical Provisions	200,982	191,161	169,885	162,579	157,600	148,885
Investment Portfolio	207,208	200,162	177,599	168,992	162,686	155,885
Claims Ratio	34.1	42.0	38.0	31.2	38.9	31.2
Expense Ratio	20.1	18.2	17.4	17.3	17.6	17.3
Combined Ratio	63.5	67.9	61.1	56.1	63.6	61.1
Participants / Policyholders (in thousands)	34,631	33,351	32,570	33,070	31,985	30,700
Premium and Contribution Income Market Share (%) ⁽²⁾	25.1	25.5	24.6	26.0	28.8	24.6
Life/Personal Accident Market Share - Insurance Premiums (%) ⁽²⁾	19.2	19.3	18.6	19.1	17.7	18.6

(1) Life/VGBL/PGBL/Traditional; and

(2) The fourth quarter of 2016 includes the latest data released by SUSEP (November/16).

Note: For comparison purposes, the effects of non-recurring events are not considered.

Net income for the fourth quarter of 2016 was 1.6% higher compared with the results of the previous quarter, influenced by the following factors: (i) an increase of 41.0% in revenue; (ii) the decrease of 7.9 p.p. in the claims ratio; and partly offset by: (iii) the increase of 1.9 p.p. in the commercialization ratio; and (iv) the decrease in the financial results, due to the behavior of the economic-financial ratios of the fourth quarter of 2016 in comparison with the previous quarter.

Net income of 2016 was 5.3% higher compared with the results from the previous year, influenced by the following factors: (i) an increase of 10.7%

in revenue; (ii) the maintenance of the commercialization index and claims ratio; (iii) an increase in financial results; and partly offset by (vi) an increase in the aliquot of the Social Contribution (CSLL).

In December 2016, technical provisions for Bradesco Life and Pension Plans, stood at R\$200.9 billion, made up of R\$191.3 billion from "Pension Plans and VGBL" and R\$9.6 billion from "Life, Personal Accidents and other lines", resulting in an increase of 27.5% in December 2015.

Growth of Participants and Life and Personal Accident Policyholders

In December 2016, the number of Bradesco Life and Pension Plans clients exceeded the 2.6 million mark of “Pension Plans and VGBL” participants, and 32.0 million “Life and Personal

Accident” policyholders. Such performance is fueled by the strength of the Bradesco brand and the improvement in selling and management policies

Economic and Financial Analysis Report – December 2016

Economic and Financial Analysis**Health**

R\$ million (unless otherwise stated)	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15
Net Income	180	108	57	208	247	139	116	182
Net Written Premiums	5,401	5,347	5,119	4,909	4,864	4,621	4,376	4,186
Technical Provisions	8,352	8,331	7,378	7,031	6,848	6,806	6,785	6,665
Claims Ratio	88.7	92.7	94.2	87.5	85.7	89.9	89.7	88.5
Expense Ratio	4.9	5.0	5.0	5.3	5.2	5.3	5.4	5.3
Combined Ratio	100.6	103.6	104.2	99.6	99.7	102.3	102.9	101.5
Policyholders (in thousands)	4,112	4,210	4,246	4,394	4,444	4,461	4,472	4,478
Written Premiums Market Share (%) ⁽¹⁾	50.1	49.9	49.9	49.1	49.3	49.3	48.6	48.0

(1) The fourth quarter of 2016 includes the latest data released by ANS (November/16).

Note: For comparison purposes, effects of non-recurring events are not considered.

Net income for the fourth quarter of 2016 increased by 66.7% in relation to the results calculated for the previous quarter, mainly due to: (i) a decrease of 4.0 p.p. in the claims ratio; (ii) the maintenance of the commercialization index; and partly offset by: (iii) the reduction in financial results, due to the behavior of the economic-financial ratios of the fourth quarter of 2016 in comparison with the previous quarter.

Net income of 2016 showed a decrease of 19.2% in comparison with the results calculated in the previous year, mainly due to: (i) the increase of 2.4 p.p. in the claims ratio; (ii) the increase in the aliquot of the Social Contribution (CSLL); partly offset by: (iii) an increase of 15.1% in revenue; (iv)

maintaining the commercialization index; and (v) the improvement in equity and financial results.

In December 2016, Bradesco Saúde and Mediservice maintained a strong market position in the corporate sector (source: ANS).

Approximately 141 thousand companies in Brazil have Bradesco Saúde insurance and Mediservice plans.

Of the 100 largest companies in Brazil in terms of billing, 43 are Bradesco Saúde and Mediservice customers (source: *Exame* magazine – "Melhores e Maiores" ranking, July 2016).

Number of Bradesco Saúde and Mediservice Policyholders

These two companies have a combined total of more than 4.1 million clients. The large share of corporate insurance in this portfolio (96.1% in December 2016) is proof of its high level of specialization and customization in providing group coverage

plans.

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Economic and Financial Analysis**Capitalization**

R\$ million (unless otherwise stated)	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15
Net Income	107	118	111	133	125	122	145	152
Capitalization Bond Income	1,516	1,579	1,425	1,343	1,369	1,477	1,323	1,338
Technical Provisions	7,502	7,469	6,725	6,820	6,893	6,985	6,968	6,921
Customers (in thousands)	3,011	3,135	2,995	3,076	3,190	3,287	3,349	3,393
Premium Income Market Share (%) ⁽¹⁾	28.0	28.0	27.1	27.5	25.6	26.4	25.6	27.7

(1) The fourth quarter of 2016 includes the latest data released by SUSEP (November/16).

Net income for the fourth quarter of 2016 recorded a decrease of 9.3% over the previous quarter primarily due to: (i) a 4.0% decrease in revenue influenced by the behavior of economic-financial ratios of the fourth quarter of 2016 in comparison with the previous quarter; and partly offset by: (iii) the maintenance in the administrative efficiency ratio.

Net income of 2016 recorded a decrease of 13.8% compared with the results of the previous year primarily due to: (i) the decrease of financial income; (ii) the increase of the aliquot of the Social Contribution (CSLL); partly offset by: (iii) the 6.5% growth in revenue; and (iv) the maintenance of the administrative efficiency ratio.

Bradesco Capitalização reached a 6.5% growth in revenue in 2016, in comparison with 2015, thanks to its transparency policy and by adjusting its products based on potential consumer demand, consistent with market changes.

Concerned with providing products that better fit the most varied profiles and budgets of its clients, Bradesco Capitalização has a product portfolio, which ranges in payment method (lump or monthly), contribution term, periodicity and value of premiums that meet the requirements and expectations of the clients.

Achieving these goals has been possible thanks to constant investments in people, systems, and processes, turning Bradesco Capitalização into one of Brazil's largest and most solid Capitalization Companies.

In 2016, significant investments were made in the development of systems and in the development of new products. Among the new products, we highlight Pé Quente Max Prêmios Bradesco Capitalização, an innovative, differentiated, and comprehensive product that offers our clients an excellent way to save money and, further, a chance to win prizes every week.

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Economic and Financial Analysis**Automobile and Property & Casualty**

R\$ million (unless otherwise stated)	4Q16	3Q16	2Q16	1Q16	4Q15	3Q15	2Q15	1Q15
Net Profit / Loss	(49)	26	41	46	52	87	73	42
Net Written Premiums	1,399	1,510	1,549	1,328	1,380	1,548	1,466	1,401
Technical Provisions	5,823	5,963	6,025	5,951	5,955	5,995	5,970	5,910
Claims Ratio	55.7	57.7	56.3	58.4	56.9	56.3	57.3	61.2
Expense Ratio	20.2	20.4	20.5	20.5	20.7	20.8	20.9	19.7
Combined Ratio	107.1	105.9	102.3	106.5	105.1	102.6	103.7	107.3
Policyholders (in thousands)	3,268	2,952	3,446	3,675	3,781	3,762	3,971	4,285
Premium Income Market Share (%) ⁽¹⁾	9.2	9.4	9.4	9.1	9.5	9.7	10.0	9.9

(1) The fourth quarter of 2016 considers the latest data released by SUSEP (November/16).

Note: In August 2015, we transferred the investment in the IRB – Brasil Resseguro S.A. to Bradesco Seguros.

The result of the Property & Casualty operation in the fourth quarter of 2016 was lower than the results presented in the previous quarter, due to: (i) the effect of R\$101.9 million arising from the review of the extended warranty operation's business plan; (ii) a decrease of 7.4% in revenue; and (iii) a decrease in the financial results, influenced by the behavior of economic-financial ratios of the fourth quarter of 2016 in comparison with the previous quarter, partly offset by: (iv) a decrease of 2.0 p.p in claims ratio; and (v) the maintenance of the commercialization index.

Net income of 2016 was 74.8% lower than the previous year, mainly due to: (i) the effect of R\$101.9 million arising from the review of the extended warranty operation's business plan; (ii) the slight decrease in revenue; (iii) the decrease in financial results; (iv) the decrease in the administrative efficiency ratio; (v) of the Social Contribution (CSLL) aliquot; partly offset by: (vi) the decrease of 0.9 p.p. in the claims ratio; and (vii) the maintenance of the commercialization index.

highlight the launch of the Day and Night Assistance app for the Insured and a Claims Service Chat for Brokers.

Despite strong competition in the "Auto/RCF" branches, the insurance company preserved its fleet of approximately 1.5 million items, confirming the maintenance of competitiveness. This was due mainly to more refined and segmented pricing, which helped reduce the rate of accidents/claims and increase the margin.

In "Products", Bradesco Seguro Residencial has been classified, for the seventh consecutive year, as the "Right Choice" ("Escolha Certa") by Proteste (the largest consumer association in Latin America), as well as granting the Carta Verde Insurance free of charge for up to 30 days for those insured by Bradesco Seguro Auto.

The network activity of the automotive centers of Bradesco Auto Center (BAC), with 30 units throughout the entire country, offers policyholders

Bradesco Auto/P&C is present in 40 of the 100 largest groups in the country, as the insurer of its equities. And, to ensure the retention of clients, the company has invested in the revision of its internal processes, mainly, in the areas dedicated to customer service and the analysis and regulation of claims, in search of greater efficiency and quality in the provision of services.

In order to give clients more freedom to customize their Automobile insurance according to their needs, Bradesco Auto/P&C has been investing in the flexibility of contracting coverage and services. The heavy investment in technology, particularly in the online services, has aided the simplification of internal processes, making the purchase of mass market insurance of Property & Casualty more agile. In the Automobile segment, we

access to a varied range of services in a single place. Since 2007 there have been more than 500 thousand assistances, between claims, provision of spare cars, installation of anti-theft equipment, prior inspections performed, preventative maintenance checks and glass repairs.

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Economic and Financial Analysis**Fee and Commission Income**

A breakdown of the variation in Fee and Commission Income for the respective periods is presented below:

Fee and Commission Income

Card Income	10,374	9,612	2,798	2,696	762	7.9	102	3.8	37.0
Checking Account	6,012	4,946	1,623	1,615	1,066	21.6	8	0.5	21.5
Fund Management	3,090	2,617	851	864	473	18.1	(13)	(1.5)	11.0
Loan Operations	2,811	2,801	678	767	10	0.4	(89)	(11.6)	10.0
Collections	1,778	1,574	477	489	204	13.0	(12)	(2.5)	6.3
Consortium Management	1,279	1,040	363	347	239	23.0	16	4.6	4.6
Underwriting / Financial Advisory Services	745	541	232	147	204	37.7	85	57.8	2.7
Custody and Brokerage Services	725	557	203	201	168	30.2	2	1.0	2.6
Payments	374	383	94	93	(9)	(2.3)	1	1.1	1.3
Other	837	767	226	231	70	9.1	(5)	(2.2)	3.0
Total	28,024	24,839	7,545	7,450	3,185	12.8	95	1.3	100.0
Business Days	251	250	62	65	1	-	(3)	-	-

Explanations of the main items that influenced the variation in Fee and Commission Income between the periods can be found below.

Card Income

Income from card fees totaled R\$2,798 million in the fourth quarter of 2016, an increase of R\$102 million, or 3.8%, compared with the previous quarter mainly due to: (i) the increase in financial volume traded; and (ii) greater number of transactions performed in the quarter. In the annual comparison, the growth was R\$762 million or 7.9% primarily due to: (i) the increase in the financial volume traded; and (ii) the increased amount of transactions carried out in the period; partly influenced by the effect of the consolidation of HSBC Brasil, as of the third quarter of 2016.

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Fee and Commission Income

Checking Account

In the fourth quarter of 2016, the service revenues from checking accounts totaled R\$1,623 million, remaining stable in comparison with the previous quarter.

In the annual comparison, such income showed an increase in the amount of R\$1,066 million, or 21.6%, mainly due to: (i) the expansion of the portfolio of services rendered, with the inclusion of clients for the new “Classic” and “Exclusive” sections; (ii) the increase in the volume of business; and (iii) the effect of the consolidation of HSBC Brasil, as from third quarter of 2016.

Loan Operations

In the fourth quarter of 2016, revenues from loan operations totaled R\$678 million, a decrease of R\$89 million, or 11.6% in comparison with the previous quarter, partly influenced by: (i) low demand for credit products; and (ii) fewer business days in the quarter.

In the annual comparison, such incomes totaled R\$2,811 million, remaining stable in the periods

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Economic and Financial Analysis**Fee and Commission Income****Fund Management**

In the fourth quarter of 2016, fund management income totaled R\$851 million, showing a decrease of R\$13 million, or 1.5%, compared with the previous quarter mainly due to fewer business days in the quarter.

In the annual comparison, there was an increase of R\$473 million, or 18.1% primarily due to the: (i) increase in the volume of funds raised and managed, which grew 37.5% over the period, investments in fixed income funds being notable, that increased 38.0%; and (ii) the effect of the consolidation of HSBC Brasil, as of the third quarter of 2016.

R\$ million	Dec16	Sept16	Dec15	Variation % Quarter	12 months
Shareholders' Equity					
Investment Funds	701,047	670,993	506,420	4.5	38.4
Managed Portfolios	40,181	46,839	37,694	(14.2)	6.6
Third-Party Fund Quotas	15,260	15,925	6,170	(4.2)	147.3
Total	756,488	733,757	550,284	3.1	37.5

R\$ million	Dec16	Sept16	Dec15	Variation % Quarter	12 months
Distribution					
Investment Funds – Fixed Income	669,657	641,082	485,125	4.5	38.0
Investment Funds – Equities	31,390	29,911	21,295	4.9	47.4
Investment Funds – Third-Party Funds	7,710	8,409	3,923	(8.3)	96.5
Total - Investment Funds	708,757	679,402	510,343	4.3	38.9
Managed Portfolios - Fixed Income	33,083	39,516	32,797	(16.3)	0.9
Managed Portfolios – Equities	7,098	7,323	4,897	(3.1)	44.9
Managed Portfolios - Third-Party Funds	7,550	7,516	2,247	0.5	236.0
Total - Managed Portfolios	47,731	54,355	39,941	(12.2)	19.5
Total - Fixed Income	702,740	680,598	517,922	3.3	35.7

Total - Equities	38,488	37,234	26,192	3.4	46.9
Total - Third-Party Funds	15,260	15,925	6,170	(4.2)	147.3
Overall Total	756,488	733,757	550,284	3.1	37.5

Cash Management Solutions (Payments and Collection)

In the fourth quarter of 2016, payment and collection income totaled R\$571 million, a decrease of R\$11 million, or 1.9%, partly impacted by the lower number of business days in the quarter.

In the annual comparison, there was an increase of R\$195 million or 10.0%, due to: (i) the greater volume of processed documents, up from 2,217 million in 2015 to 2,430 million in 2016; and (ii) the effect of the consolidation of HSBC Brasil as of the third quarter of 2016.

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Fee and Commission Income

Consortium Management

In the fourth quarter of 2016, income from consortium management increased by R\$16 million, or 4.6%, compared with the previous quarter, because of the sales made in that period, which had 1,334 thousand active quotas, ensuring a leading position in all the sectors in which it operates (real estate, auto and trucks/machinery and equipment).

In the annual comparison, there was an increase of R\$239 million or 23.0% in income from consortium management, due to a higher volume of: (i) received bids; (ii) average ticket; and (iii) billing of sales, ranging from 1,194 thousand active quotas, in December 2015, to 1,334 thousand active quotas in December 2016, generating an increase of 140 thousand net quotas.

Custody and Brokerage Services

In the fourth quarter of 2016, earnings from custody and brokerage services totaled R\$203 million, remaining stable compared with the previous quarter.

In the annual comparison, these revenues increased R\$168 million, or 30.2%, mainly due to the increase in total assets in custody in the amount of R\$322 billion, partly impacted by the effect of the consolidation of HSBC Brasil as of the third quarter of 2016.

Underwriting/Financial Advisory Services

In the quarterly comparison, the increase of R\$85 million, or 57.8%, refers, mostly, to increased activity on the capital market in the fourth quarter of 2016.

In the annual comparison, the revenues with underwriting / financial advisory services showed an increase of R\$204 million, or 37.7%.

It is important to note that variations recorded in this income derive from the capital market's volatile performance.

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Economic and Financial Analysis**Personnel and Administrative Expenses****Personnel Expenses**

Structural	14,378	11,983	4,257	4,079	178	4.4	2,395	20.0	39
Payroll/Social Charges	10,612	8,834	3,117	3,073	44	1.4	1,778	20.1	28
Benefits	3,766	3,149	1,140	1,006	134	13.3	617	19.6	10
Non-Structural	3,259	2,716	814	851	(37)	(4.3)	543	20.0	8
Management and Employee Profit Sharing	1,846	1,580	486	459	27	5.9	266	16.8	5
Provision for Labor Claims	771	705	152	250	(98)	(39.2)	66	9.4	2
Training	176	145	59	66	(7)	(10.6)	31	21.4	0
Termination Costs	466	286	117	76	41	53.9	180	62.9	1
Total	17,637	14,699	5,071	4,930	141	2.9	2,938	20.0	48

Administrative Expenses

Outsourced Services	4,772	4,124	1,406	1,305	101	7.7	648	15.7	13
Depreciation and Amortization	2,501	2,121	676	679	(3)	(0.4)	380	17.9	6
Data Processing	2,002	1,600	578	593	(15)	(2.5)	402	25.1	5
Communication	1,876	1,653	516	491	25	5.1	223	13.5	5
Advertising and Marketing	1,279	1,064	353	419	(66)	(15.8)	215	20.2	3
Asset Maintenance	1,155	1,033	331	322	9	2.8	122	11.8	3
Rent	1,102	942	316	312	4	1.3	160	17.0	3
Financial System Services	1,022	835	259	315	(56)	(17.8)	187	22.4	2
Security and Surveillance	740	609	203	204	(1)	(0.5)	131	21.5	2
Transportation	727	642	198	194	4	2.1	85	13.2	2
Utilities (Water, Electricity and Gas)	390	345	100	94	6	6.4	45	13.0	1
Materials	335	336	84	98	(14)	(14.3)	(1)	(0.3)	0
Travel	179	168	62	52	10	19.2	11	6.5	0
Other	1,053	867	331	259	72	27.8	186	21.5	2
Total	19,134	16,339	5,411	5,337	74	1.4	2,795	17.1	52
Total Personnel and Administrative Expenses	36,771	31,038	10,482	10,267	215	2.1	5,733	18.5	100

Employees	108,793	92,861	108,793	109,922	(1,129)	(1.0)	15,932	17.2
Service Points ⁽¹⁾	60,610	65,851	60,610	62,535	(1,925)	(3.1)	(5,241)	(8.0)

(1) The reduction, in 2016 and in the quarter, refers to: (i) the migration of “External ATM Network Points – Bradesco” to “Banco24Horas Network”; (ii) the deactivation of ATMs from “Assisted Banco24Horas Network”

Points”; and (iii) the decrease of the Bradesco Espresso correspondents.

Total Personnel and Administrative Expenses amounted to R\$10,482 million in the fourth quarter of 2016, with an increase of 2.1%, or R\$215 million, in comparison with the previous quarter. In the annual comparison, total Personnel and Administrative Expenses showed an increase of 18.5%, or R\$5,733 million, partly impacted by the effect of the consolidation of HSBC Brasil as of the third quarter of 2016.

Personnel Expenses

Total personnel expenses amounted to R\$5,071 million in the fourth quarter of 2016, showing a variation of 2.9%, or R\$141 million, in comparison with the previous quarter, mainly due to: (i) the increase in the "structural" portion, in the amount of R\$178 million, or 4.4%, related to the increase of expenditure with proceeds, social costs and benefits, impacted by the increase in wage levels,

according to the collective convention; partly offset by: (ii) the decrease in the “non-structural” portion, in the amount of R\$37 million, or 4.3%, mainly due to lower expenses with a provision for labor lawsuits, which mitigated the effect of increased expenses with (a) employment termination; and (b) employee and management profit sharing (PLR).

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Economic and Financial Analysis**Personnel and Administrative Expenses**

In the annual comparison, an increase of R\$2,938 million, or 20.0%, in personnel expenses, is justified, mainly, by the variations in: (i) the "structural" portion, in the amount of R\$2,395 million, or 20.0%, related to the increase in expenses relating to payroll, social charges and benefits, that was affected by (a) higher salaries, in accordance with the 2016 and 2015 collectives agreements; and (b) the effect of the consolidation of HSBC Brasil as of the third quarter of 2016; and (ii) the "non-structural" portion, in the amount of R\$543 million, or 20.0%, mainly due to higher expenses of: (a) profits shared between the administrators and employees (PLR), in the amount of R\$266 million; and (b) employment termination, in the amount of R\$180 million.

Administrative Expenses

In the fourth quarter of 2016, administrative expenses totaled R\$5,411 million, showing a variation of 1.4%, or R\$74 million, compared with the previous quarter, mainly due to the increase in the volume of business and services, which resulted in higher expenses with: (i) outsourced services in the amount of R\$101 million, and (ii) communication, in the amount of R\$25 million; partly offset by lower expenses of: (iii) advertising and marketing, in the amount of R\$66 million; and (iv) financial system services, in the amount of R\$56 million.

Operating Coverage Ratio ⁽¹⁾

In the fourth quarter of 2016, the coverage ratio over the last 12 months recorded 76.2%, mainly impacted by the increase in operating expenses due to the effect of the consolidation of HSBC Brasil as of the third quarter of 2016. Nevertheless, it should be noted that the maintenance of this high-level indicator is mainly caused by ongoing cost control efforts, including (a) the Efficiency Committee's initiatives; (b) investments in Information Technology, which totaled R\$6.595 billion in 2016; and (c) measures applied to increase the offer

In the annual comparison, administrative expenses showed an increase of 17.1%, or R\$2,795 million, basically reflecting the increment of the expenses originated by: (i) the growth in business and services volumes in the period, partly impacted by the effect of the consolidation of HSBC Brasil as of the third quarter of 2016; (ii) the contractual adjustments; and (iii) the effect of the actions of advertising and marketing, in the amount of R\$215 million, mainly related to the "Rio 2016 Olympic and Paralympic Games", occurred in the third quarter of 2016.

(1) Fee and Commission Income/Administrative and Personnel Expenses (in the last 12 months).

of products and services available to the entire client base.

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Tax Expenses

Tax expenses totaled R\$1,703 million in the fourth quarter of 2016, showing an increase of R\$102 million, or 6.4%, in relation to the previous quarter, primarily due to the increase in taxable income in the quarter.

In the annual comparison, such expenses increased by R\$408 million, or 7.2%, primarily due to the increase in expenses with ISS/Cofins, derived from the increase in taxable income in the period, mainly of fee and commission income and net interest income.

Equity in the Earnings (Losses) of Affiliates

In the fourth quarter of 2016, equity in the earnings (losses) of affiliates was R\$48 million, a decrease of R\$60 million, or 55.6%, compared with the previous quarter, and an increase of R\$74 million, or 51.4%, in the annual comparison. These variations are primarily due to the equity in the earnings (losses) obtained with the "Tecban – Tecnologia Bancária" affiliate.

Non-Operating Income

In the fourth quarter of 2016, non-operating income recorded a loss of R\$13 million, showing a decrease of R\$11 million, or 45.8%, in comparison with the previous quarter, and a decrease of R\$103 million, or 36.4%, in the annual comparison, essentially due to the variation of non-operating expenses (such as losses on sale of foreclosed assets/other) in each period, and partly offset by the effect of the consolidation of HSBC Brasil as of the third quarter of 2016.

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Economic and Financial Analysis**Additional Information – HSBC Brasil Historical Series****Adjusted Statement of Financial Position****Assets**

Current and Long-Term Assets	159,475	160,488	183,933	184,832	189,626	188,804	198,373	178,54
Funds available	1,774	3,443	2,684	3,927	4,153	3,254	3,250	3,43
Interbank Investments	17,455	29,402	35,934	32,192	34,319	40,483	42,925	43,15
Securities and Derivative Financial Instruments	46,082	29,507	30,361	32,490	37,416	36,149	40,049	26,88
Interbank and Interdepartmental Accounts	17,042	15,584	14,526	13,065	14,302	10,765	13,414	11,18
Loan and Leasing Operations	50,854	54,022	55,941	58,284	59,840	57,647	58,845	56,63
Allowance for Loan Losses (ALL)	(6,404)	(6,039)	(5,860)	(5,563)	(5,297)	(4,986)	(4,624)	(4,398)
Other Receivables and Assets	32,672	34,569	50,347	50,437	44,893	45,492	44,514	41,66
Permanent Assets	1,719	2,595	2,884	3,158	2,457	3,578	3,709	3,79
Investments	44	50	51	51	51	54	55	4
Premises and Equipment and Leased Assets	1,208	1,985	2,111	2,227	1,390	2,384	2,476	2,53
Intangible Assets	467	560	722	880	1,016	1,140	1,178	1,21
Total	161,194	163,083	186,817	187,990	192,083	192,382	202,082	182,34

Liabilities

Current and Long-Term Liabilities	153,392	153,920	177,424	178,511	182,077	181,967	191,775	171,92
Deposits	64,876	57,571	55,121	55,654	53,205	53,924	58,481	57,38
Securities sold under agreements to repurchase	5,009	1,530	1,859	2,247	1,925	2,553	3,217	2,20
Funds from Issuance of Securities	37,571	40,187	42,001	42,251	40,510	43,702	42,155	37,67
Interbank and Interdepartmental Accounts	1,262	1,437	1,425	1,145	2,049	4,224	2,300	1,05
Borrowings and Onlendings	5,702	5,459	10,353	9,207	13,219	11,406	12,765	11,21
Derivative Financial Instruments	2,247	3,788	5,444	8,860	12,963	6,507	11,271	5,12
Technical provisions for insurance, pension plans and capitalization bonds	15,296	14,970	14,720	14,391	14,296	15,017	15,033	14,72
Other liabilities	21,429	28,978	46,501	44,756	43,910	44,634	46,553	42,54
Deferred Income	6	-	-	-	-	-	-	-
Non-controlling Interest in Subsidiaries	20	18	17	17	16	15	17	2
Shareholder's Equity (1)	7,776	9,145	9,376	9,462	9,990	10,400	10,290	10,39
Total	161,194	163,083	186,817	187,990	192,083	192,382	202,082	182,34

(1) In September 2016, the effect of adjustments to the accounting criteria adopted by Bradesco is included.

Statement of Adjusted Income

Net Interest Income	2,454	1,941	2,220	2,156	2,054	2,419	2,442	1,834
ALL Expenses	(1,189)	(1,173)	(1,242)	(812)	(1,122)	(1,153)	(918)	(815)
Gross Income from Financial Intermediation	1,265	768	978	1,344	932	1,266	1,524	1,019
Income from Insurance Premiums, Pension Plans and Capitalization bonds, net of Variation of Technical Provisions, Retained Claims and others (1)	97	171	206	162	121	150	256	237
Fee and Commission Income	703	721	819	886	880	918	773	807
Personnel Expenses	(1,064)	(879)	(978)	(795)	(1,399)	(997)	(995)	(1,213)
Other Administrative Expenses	(762)	(1,087)	(1,111)	(1,619)	(1,332)	(1,154)	(1,145)	(1,284)
Tax Expenses	(243)	(193)	(248)	(179)	(233)	(242)	(199)	(210)
Equity in the Earnings (Losses) of Unconsolidated Companies	30	-	-	-	(3)	-	-	-
Other Operating Income/ (Expenses)	88	(244)	(109)	(351)	371	333	(282)	213
Operating Income	115	(743)	(443)	(552)	(663)	274	(68)	(431)
Non-Operating Income	23	(57)	(6)	(68)	(26)	(32)	(16)	70
Income Tax and Social Contribution	11	363	146	65	453	(65)	(1)	293
Non-controlling interests in subsidiaries	(1)	-	-	-	-	-	-	-
Adjusted Net Profit/Loss	148	(437)	(303)	(555)	(236)	177	(85)	(68)

(1) "Others" includes: Capitalization Bond Draws and Redemptions; and Insurance, Pension Plan and Capitalization Bond Sales Expenses.

Bradesco

Economic and Financial Analysis**Additional Information – Pro Forma Comparison between the 2016 and 2015 Fiscal Years**

From the third quarter of 2016, HSBC Brasil has been consolidated into our financial statements, and in order to provide comparability of assets/liabilities and income compared regarding the 2016 and 2015 fiscal years, below we present pro forma consolidated financial information, i.e., the combined assets/liabilities and income of Bradesco and HSBC Brasil for these periods. This pro forma consolidated financial information includes all income statement and balance sheet items from HSBC Brasil, and the income of HSBC Brasil not computed to Bradesco is included under the heading “non-controlling interests/others”, referring to periods prior to the actual acquisition, given that the proposal is to retroactively demonstrate the effect of a transaction that occurred at a later date, and thus, we stress that the data was provided for mere illustrative purposes.

Adjusted Statement of Financial Position**Assets**

Current and Long-Term Assets	1,262,273	1,227,078	35,195	2.9
Funds available	14,697	21,384	(6,687)	(31.3)
Interbank Investments	177,685	172,649	5,036	2.9
Securities and Derivative Financial Instruments	549,873	422,786	127,087	30.1
Interbank and Interdepartmental Accounts	59,007	68,793	(9,786)	(14.2)
Loan and Leasing Operations	347,489	392,138	(44,649)	(11.4)
Allowance for Loan Losses (ALL)	(37,653)	(35,575)	(2,078)	5.8
Other Receivables and Assets	151,175	184,903	(33,728)	(18.2)
Permanent Assets	31,286	32,351	(1,065)	(3.3)
Investments	1,778	1,638	140	8.5
Premises and Equipment and Leased Assets	7,965	7,999	(34)	(0.4)
Intangible Assets	21,543	22,714	(1,171)	(5.2)
Total	1,293,559	1,259,429	34,130	2.7

Liabilities

Current and Long-Term Liabilities	1,191,094	1,168,490	22,604	1.9
Deposits	234,214	251,414	(17,200)	(6.8)
Securities sold under agreements to repurchase	349,070	281,973	67,097	23.8
Funds from Issuance of Securities	150,807	151,798	(991)	(0.7)
Interbank and Interdepartmental Accounts	7,089	7,529	(440)	(5.8)
Borrowings and Onlendings	58,197	79,545	(21,348)	(26.8)

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Derivative Financial Instruments	12,398	22,645	(10,247)	(45.3)
Technical provisions for insurance, pension plans and capitalization bonds	223,342	192,226	31,116	16.2
Other liabilities	155,977	181,360	(25,383)	(14.0)
Deferred Income	477	529	(52)	(9.8)
Non-controlling Interest in Subsidiaries	1,546	1,503	43	2.9
Shareholders' Equity	100,442	88,907	11,535	13.0
Total	1,293,559	1,259,429	34,130	2.7

Statement of Adjusted Income

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Net Interest Income	66,615	64,458	2,157	3.3
ALL Expenses	(24,154)	(19,179)	(4,975)	25.9
Gross Income from Financial Intermediation	42,461	45,279	(2,818)	(6.2)
Income from Insurance Premiums, Pension Plans and Capitalization bonds, net of Variation of Technical Provisions, Retained Claims and others (1)	6,046	6,115	(69)	(1.1)
Fee and Commission Income	29,564	28,296	1,268	4.5
Personnel Expenses	(19,494)	(18,885)	(609)	3.2
Other Administrative Expenses	(21,332)	(21,589)	257	(1.2)
Tax Expenses	(6,489)	(6,493)	4	(0.1)
Equity in the Earnings (Losses) of Unconsolidated Companies	218	141	77	54.6
Other Operating Income/ (Expenses)	(7,369)	(6,637)	(732)	11.0
Operating Income	23,605	26,227	(2,622)	(10.0)
Non-Operating Income	(243)	(425)	182	(42.8)
Income Tax and Social Contribution	(6,828)	(8,481)	1,653	(19.5)
Non-controlling interests in subsidiaries / Other	587	552	35	6.3
Adjusted Net Income	17,121	17,873	(752)	(4.2)

(1) "Others" includes: Capitalization Bond Draws and Redemptions; and Insurance, Pension Plan and Capitalization Bond Sales Expenses.

Bradesco

[Return to Shareholders](#)

Corporate Governance

Bradesco's Management is made up of the Board of Directors and the Statutory Board of Executive Officers. The Board of Directors is composed of eight members, being seven external members and one internal. These members were elected at the Annual Shareholders' Meeting and are eligible for reelection.

The Board of Directors is advised in its activities, by seven Committees, two of which are Statutory Committees (Audit and Compensation) and five of which are Non-Statutory Committees (Ethical Conduct, Internal Controls and Compliance, Integrated Risk Management and Capital Allocation, Nomination and Sustainability). Several Executive Committees assist in the Board of Executive Officers' activities.

In addition to the stated Audit Committee, Bradesco also makes use of the permanent Fiscal Council, elected by the shareholders, and the Internal Audit, which reports to the Board of Directors, as the main oversight agencies of its administrative/operational structure.

In 2011, Bradesco voluntarily adhered to Level 1 Corporate Governance of BM&FBovespa, as well as to the Code of Self-Regulation and Best Practices for Publicly Held Companies, issued by the Brazilian Association of Publicly Held Companies (ABRASCA), in 2011.

Further information is available on Bradesco's Investor Relations website (bradescori.com.br – Corporate Governance Section).

Investor Relations area – IR

The commitment to transparency, democratization of information, punctuality and the pursuit of the best practices are essential factors and are constantly reinforced by Bradesco's Investor Relations area.

In the fourth quarter of 2016, there were 60 events promoted with national and international investors, through conferences, meetings, conference calls and institutional presentations, assisting 689 investors. Over the year of 2016, there were 377 events and 4,347 investors were assisted.

The schedule of events in Brazil in this fourth quarter also promoted the Bradesco APIMEC Meetings, in the cities of Rio de Janeiro, São Paulo and Belo Horizonte, comprising an audience of over 538 participants in loco. Also, 1,664 internauts took part in APIMEC São Paulo, of which 45 of these hits were in sign language. In 2016, we promoted four Bradesco APIMEC Meetings, totaling 689 participants in loco. At these events, the main figures, strategies and perspectives of Bradesco were presented.

[Economic and Financial Analysis Report - December 2016](#)

Return to Shareholders**Sustainability****Corporate Sustainability Index (ISE)**

For the 12th consecutive year, Bradesco's shares have been listed on the ISE (Corporate Sustainability Index) of BMF&Bovespa.

The selection for the portfolio composition is made from a questionnaire answered by companies that have the 200 shares of highest liquidity on the Stock Exchange. The new portfolio will be composed of 38 shares from 34 companies, which cover the inclusion of Sustainable Development Goals (SDG), in line with the UN's position.

The participation of Bradesco in this index reaffirms its commitment to the principles that govern corporate sustainability, like ethical and transparent conduct in all activities, the effectiveness of the risk management process and the adoption of action that considers the impact of the activities of Bradesco and contributes towards the development of the business and of society.

Bradesco Shares**Number of Shares – Common and Preferred Shares**

Common Shares	2,772,226	2,772,226	2,520,695
Preferred Shares	2,759,659	2,759,659	2,508,781
Subtotal – Outstanding Shares	5,531,885	5,531,885	5,029,476
Treasury Shares	21,717	21,717	19,253
Total	5,553,602	5,553,602	5,048,729

In December 2016, Bradesco's Capital Stock stood at R\$51.1 billion, composed of 5,553,602 thousand shares, made up of 2,776,801 thousand common shares and 2,776,801 thousand preferred shares, as book entries and without par value.

Cidade de Deus Cia. Comercial de Participações is Bradesco's largest shareholder, which directly holds 48.5% of the voting capital and 24.3% of the total capital.

Shareholders of Cidade de Deus Cia. Comercial de Participações belong to the Aguiar Family, Fundação Bradesco and another holding company, Nova Cidade de Deus Participações S.A., a company controlled by Fundação Bradesco and by BBD Participações S.A., whose shareholders constitute the majority of the members of the Board of Directors of the Statutory Board of Executive Officers of Bradesco and more senior officers.

Return to Shareholders**Bradesco Shares****Number of Shareholders – Domiciled in Brazil and Abroad**

Individuals	325,389	89.8	20.1	331,423	90.0	21.7
Companies	35,590	9.9	46.1	35,895	9.7	45.5
Subtotal - Domiciled in Brazil	360,979	99.7	66.2	367,318	99.7	67.2
Domiciled Abroad	1,235	0.3	33.8	1,139	0.3	32.8
Total	362,214	100.0	100.0	368,457	100.0	100.0

In December 2016, Bradesco had 362,214 shareholders, 360,979 residing in Brazil, representing 99.7% of the total number of shareholders with 66.2% of its share capital. The amount of shareholders domiciled abroad was 1,235, representing 0.3% of the number of shareholders with 33.8% of its share capital.

Daily Average Trading Volume of Shares

During 2016, the daily average trading volume of our shares on the New York Stock Exchange (NYSE) and on the BM&F Bovespa reached R\$704 million, which is the highest value presented in the historical series below.

This amount was 8.8% higher than the daily average trading volume in the previous year, mainly due to the 10% increase in the daily average trading volume of Bradesco's shares on the BM&F Bovespa.

(1) BBDC3 "Common Shares" and BBDC4 "Preferred Shares"; and

(2) BBD "Preferred Shares" and BBDO "Common Shares" (as of March 2012).

Economic and Financial Analysis Report - December 2016

Return to Shareholders**Bradesco Shares****Appreciation of Preferred Shares – BBDC4**

The graph shows the change in Bradesco's preferred shares, taking into account the reinvestment of dividends (it includes Interest on the Stockholders' Equity), compared to the Ibovespa.

If, in late December 2006, R\$100 were invested, Bradesco's shares would be worth approximately R\$257 at the end of December 2016, which is an appreciation approximately two times higher compared to that which was presented by the Ibovespa within the same period.

Share and ADR Performance ⁽¹⁾

Adjusted Net Income per Share	0.79	0.81	(1.7)	3.09	3.23	(4.2)
Dividends/Interest on Shareholders' Equity – Common Share (net of tax)	0.26	0.33	(21.3)	1.02	0.90	12.6
Dividends/Interest on Shareholders' Equity – Preferred Share (net of tax)	0.29	0.37	(21.3)	1.13	1.00	12.6
Book Value per Common and Preferred Share	18.16	17.81	1.9	18.16	16.07	13.0
Last Trading Day Price – Common Shares	29.14	28.35	2.8	29.14	18.64	56.3
Last Trading Day Price – Preferred Shares	29.00	29.67	(2.3)	29.00	17.53	65.4
Last Trading Day Price – Common share ADR (US\$)	8.85	8.73	1.4	8.85	4.75	86.3
Last Trading Day Price – Preferred share ADR (US\$)	8.71	9.07	(4.0)	8.71	4.37	99.3
Market Capitalization (R\$ million) ⁽²⁾	160,813	160,472	0.2	160,813	100,044	60.8

(1) Adjusted for corporate events in the periods; and

(2) Number of shares (excluding treasury shares) vs. closing price for common and preferred shares on the last trading day of the period.

Return to Shareholders

Bradesco Shares

Recommendation of Market Analysts – Target Price

Market analysts issue periodical recommendations on Bradesco’s preferred shares (BBDC4). In January 2017, we analyzed ten reports prepared by these analysts. Their recommendations and general consensus on the

target price for December 2017 can be found below:

Buy	60.0	Average	34.90
Hold	40.0	Standard Deviation	2.28
Sell	-	Highest	38.10
Under Analysis	-	Lowest	31.00

For more information on the target price and the recommendations of each market analyst that monitors the performance of Bradesco’s shares,

go to our Investors Relations website at: bradescori.com.br > Information to Shareholders > Analysts’ Consensus.

Market Capitalization

In December 2016, Bradesco’s market capitalization, in view of the closing prices of Common and Preferred shares, was R\$160.8 billion, an increase of 60.8% compared with December 2015. It is worth mentioning that the Ibovespa index increased 38.9% over the same

period, being 1.6 times lower than the increase of Bradesco’s market value.

Return to Shareholders

Main Indicators

Price/Earnings Ratio⁽¹⁾:

Indicates the possible number of years within which the investor would recover the capital invested, based on the closing prices of common and preferred shares.

Price to Book Ratio:

Indicates the multiple by which Bradesco's market capitalization exceeds its book value.

Dividend Yield ⁽¹⁾ ⁽²⁾:

The ratio between share price and dividends and/or interest on shareholders' equity paid to shareholders in the last 12 months, which indicates the return on investment represented by the allocation of net profit.

Bradesco — —

Return to Shareholders

Dividends/Interest on Shareholders' Equity – JCP

In 2016, R\$6.976 million was assigned to shareholders as interest on shareholders' equity (JCP) and the total JCP assigned to shareholders accounted for 48.7% of the net income for the 12-

month period and, considering income tax deduction and JCP assignments, it was equivalent to 41.4% of the net income.

Weight on Main Stock Indexes

Bradesco shares are listed on Brazil's main stock indexes, including IBrX-50 and IBrX-100 (indexes that measure the total return of a theoretical portfolio composed of 50 and 100 shares, respectively, selected from among the most traded shares on BM&FBovespa), IBrA (Broad Brazil Index), IFNC (Financial Index, composed of banks, insurance companies and financial institutions), ISE (Corporate Sustainability Index), IGCX (Special Corporate Governance Stock Index), IGCT (Corporate Governance Trade Index), ITAG (Special Tag-Along Stock Index), ICO2 (index composed of shares of the

companies listed on the IBrX-50 index and that choose to adopt transparent greenhouse gas emission practices in order to take part in this initiative) and the Mid-Large Cap Index – MLCX (which measures the return of a portfolio composed of the highest capitalization companies listed).

Abroad, Bradesco shares are listed on the NYSE's Dow Jones Index, in the Dow Jones Sustainability Emerging Markets portfolio and on the Madrid Stock Exchange's FTSE Latibex Brazil Index.

Ibovespa	9.5
IBrX-50	10.1
IBrX-100	9.0
IBrA	8.8
IFNC	19.8
ISE	5.5
IGCX	6.9
IGCT	11.1
ITAG	12.2
ICO2	15.6
MLCX	9.7

(1) Represents Bradesco shares' weight on Brazil's main stock indexes.

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Additional Information**Market Share of Products and Services**

Market shares held by Bradesco in the Banking and Insurance industries and in the Customer Service Network are presented below:

Banks – Source: Brazilian Central Bank (Bacen)

Demand Deposits	N/A	10.6	7.2	7.1
Savings Deposits	N/A	14.3	13.8	13.7
Time Deposits	N/A	11.1	8.7	9.4
Loan Operations	11.4 ⁽¹⁾	11.5	9.8	9.9
Loan Operations - Private Institutions	25.7 ⁽¹⁾	26.5	22,3	22.3
Loan Operations - Vehicles Individuals (CDC + Leasing)	13.8 ⁽¹⁾	14.0	13,3	13.3
Payroll-Deductible Loans	13.4 ⁽¹⁾	13.3	12,6	12.5
Number of Branches	23.9	23.9	20.0	20.3

Banks – Source: Social Security National Institute (INSS)/Dataprev

Benefit Payment to Retirees and Pensioners	30.1	30.0	27.5	27.2
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Banks – Source: Anbima

Investment Funds and Managed Portfolios	22.7	22.5	19.4	18.5
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Insurance, Pension Plans and Capitalization Bonds – Source: Insurance Superintendence (Susep) and National Agency for Supplementary Healthcare (ANS)

Insurance Premiums, Pension Plan Contributions and Capitalization Bond Income	24.8 ⁽³⁾	24.9	25.5	24.7
Insurance Premiums (including Long-Term Life Insurance - VGBL)	24.2 ⁽³⁾	24.4	25.2	24.2
Life/Personal Accident Insurance Premiums	19.2 ⁽³⁾	19.3	17.7	17.6
Auto/P&C Insurance Premiums	9.2 ⁽³⁾	9.4	9.5	9.7
Auto/Optional Third-Party Liability Insurance Premiums	12.1 ⁽³⁾	12.2	11.8	12.1
Health Insurance Premiums	50.1 ⁽³⁾	49.9	49.3	49.3
Income from Pension Plan Contributions (excluding VGBL)	29.9 ⁽³⁾	30.0	29.5	31.3
Capitalization Bond Income	28.0 ⁽³⁾	28.0	25.6	26.4
Technical provisions for insurance, pension plans and capitalization bonds	27.9 ⁽³⁾	28.1	26.8	26.6
Income from VGBL Premiums	24.6 ⁽³⁾	24.9	28.7	26.3
Income from Unrestricted Benefits Pension Plans (PGBL) Contributions	24.8 ⁽³⁾	24.7	25.5	27.4

Insurance and Pension Plans – Source: National Federation of Life and Pension Plans (Fenaprevi)

Pension Plan Investment Portfolios (including VGBL)	29.7 ⁽³⁾	28.1	29.2	29.6
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Leasing – Source: Brazilian Association of Leasing Companies (ABEL)

Lending Operations	19.8 ⁽²⁾	21.7	17.2	18.1
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Consortia – Source: Bacen

Real Estate	31.1 ⁽³⁾	30.4	28.7	28.4
Auto	31.0 ⁽³⁾	29.8	28.5	28.5
Trucks, Tractors and Agricultural Implements	19.8 ⁽³⁾	19.7	17.3	16.8

International Area – Source: Bacen

Export Market	19.0	20.1	15.3	15.9
Import Market	19.6	20.7	12.2	12.4

(1) SFN data is preliminary;

(2) Reference Date: Oct/16; and

(3) Reference Date: Nov/16.

N/A – Not available.

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Additional Information**Market Share of Products and Services****Branch Network**

North	309	1,155	26.8%	273	1,143	23.9%
Northeast	898	3,571	25.1%	846	3,581	23.6%
Midwest	439	1,796	24.4%	337	1,802	18.7%
Southeast	2,727	11,535	23.6%	2,319	11,738	19.8%
South	941	4,172	22.6%	732	4,255	17.2%
Total	5,314	22,229	23.9%	4,507	22,519	20.0%

Ratings

Viability	Support	International Scale		Foreign Currency		National Scale	
bb+	3	Domestic Currency		Domestic			
		Long-term	Short-term	Long-term	Short-term	Long-term	Short-term
		BB+	B	BB+	B	AAA(bra)	F1+(bra)

Global Scale				National Scale			
Deposits - Domestic currency				Deposits - Foreign currency		Domestic Currency	
Long-term		Short-term		Long-term	Short-term	Long-term	Short-term
Ba2		NP		Ba3	NP	Aa1.br	BR-1

Global Scale - Issuer Credit Rating				National Scale		Corporate Governance	National Scale	
Foreign Currency		Domestic Currency		Issuer Credit Rating			Long-term	Short-term
Long-term	Short-term	Long-term	Short-term	Long-term	Short-term			
BB	B	BB	B	brAA-	brA-1	AA+	brAAA	brA-1

Reserve Requirements

Demand Deposits

Rate ⁽¹⁾	45	45	45	45	45	45	45	45
Reserve Requirements ⁽³⁾	34	34	34	34	34	34	34	34
Reserve Requirements (Microfinance)	2	2	2	2	2	2	2	2
Free	19	19	19	19	19	19	19	19

Savings Deposits

Rate ⁽⁴⁾	24.5	24.5	24.5	24.5	24.5	24.5	24.5	20
Additional ⁽²⁾	5.5	5.5	5.5	5.5	5.5	5.5	5.5	10
Reserve Requirements	65	65	65	65	65	65	65	65
Free	5	5	5	5	5	5	5	5

Time Deposits

Rate ⁽²⁾	25	25	25	25	25	25	20	20
Additional ⁽²⁾	11	11	11	11	11	11	11	11
Free	64	64	64	64	64	64	69	69

(1) Collected in cash and not remunerated;

(2) Collected in cash with the Special Clearance and Custody System (Selic) rate;

(3) At Bradesco, reserve requirements are applied to Rural Loans; and

(4) Collected in cash with the Reference Interest Rate (TR) + interest of 6.17% p.a. for deposits made until May 03, 2012, and TR + 70% of the Selic rate for deposits made as of May 4, 2012, when the Selic rate is equal to or lower than 8.5% p.a.

Bradesco _ _

Additional Information

Investments in Infrastructure, Information Technology and Telecommunications

2016 was a year of great challenges for Bradesco. In addition to maintaining the quality standard of services for our clients, we worked hard to integrate HSBC Brasil, offering new products and services.

Highlights for the period:

- in exactly 100 days of work, after the approval of CADE, we completed the integration of HSBC Brasil with the union and commitment of the teams, a highly complex task that added 5 million clients, 851 Branches, and 728 Service Points to Bradesco, where we highlight:

for the sake of convenience and practicality, activation days were created in digital channels for HSBC Individual and Legal Entity clients. These actions allowed them to activate their accounts, credit and debit cards through their current devices, in addition to creating exclusive service channels, website, and Welcome Center, to answer any questions regarding procedures that involve migration;

the innovative implementation of the interactive “BIA” (Bradesco Inteligência Artificial) tool, helps branch teams to clarify doubts on a daily basis, online, about consortiums, working capital, consigned and personal credit, CDC, rural credit, real estate credit, and another 49 financial products and services, improving customer service. The project’s initial case is the Branch Service Center, the solution is used as an interactive chat, responding to queries about products and services, quickly and reliably, reads standards (manuals on procedures) and, when necessary, transfers the contact to a

specialist in the field. It was created from cognitive intelligence technology, and the more questions it is asked, the more it increases its knowledge and expands its scope of operation;

- in the credit card market, we launched the new Bradesco Cartões app, which offers services such as viewing maturity dates, best date of purchase, statement, purchase and withdrawal limit, bar code for payment, travel notice, unblocking, and expenses graph. The innovation is available to individual clients, holders of Bradesco credit cards and BradesCard, account holders or not, primary or additional, who own a mobile phone with iOS or Android operating systems;
- another important novelty is the possibility of making purchases on ShopFácil.com, through Facebook Messenger – the Facebook social network’s text message exchange system. Simply access the channel through the smartphone App or website, using a computer, to receive recommendations on offers based on your profile, to check your orders, and to make the purchase; and
- we conduct periodic contingency exercises on central computers, aiming at security and business continuity, operating on the alternative Alphaville website in order to ensure the availability of services to clients in the event of emergency situations.

As a necessary condition for its continuous growth, Bradesco invested, in 2016, a total of R\$6,595 million in Infrastructure, Information Technology and Telecommunications.

Infrastructure	1,186	1,268	1,049	501	718
Information Technology and Telecommunications	5,409	4,452	3,949	4,341	3,690

Total	6,595	5,720	4,998	4,842	4,408
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Additional Information

Risk Management

Risk management activity is highly strategic due to the increasing complexity of services and products and the globalization of Bradesco's business. The market's dynamism encourages Bradesco to engage in the continuous improvement of this activity in pursuit of better practices, leading Bradesco to use its internal market risk models, which have been used to calculate regulatory capital since January 2013.

Bradesco controls corporate risk management in an integrated and independent manner, preserving and valuing the Board's decisions, developing and implementing methodologies, models and measurement and control tools. It

also provides training for employees at every level of the Organization, from business areas to the Board of Directors.

The management process results in the proactive identification, measurement, mitigation, monitoring and reporting of risks, which is necessary when taking into account Bradesco's complex financial products and activity profile.

Detailed information on the risk management process, regulatory capital, as well as Bradesco's risk exposure, can be found in the Risk Management Report, available on the Investor Relations website: bradescori.com.br.

Capital Management

The Capital Management structure aims to provide conditions for capital monitoring and control, contributing to the achievement of goals set in the strategic objectives defined by Bradesco, through adequate capital sufficiency planning. This structure is comprised of Executive Committees and one Non-Statutory Committee, which assist the Board of Directors and Board of Executive Officers in the decision-making process.

In addition to the Committee structure, Bradesco has a department responsible for capital management centralization, named Capital Management and Internal Capital Adequacy Assessment Process (ICAAP), subordinated to the Department of Planning, Budget and Control, which acts jointly with the Integrated Risk Control Department, associated companies, business areas and Bradesco's supporting areas.

encompasses a prospective outlook of at least three years. The process of developing this plan considers threats and opportunities, market share and development goals, capital requirement projections based on risks, as well as capital held by Bradesco. Such projections are constantly monitored and controlled by the capital management area.

With the implementation of the capital management structure, an internal process has been established to assess capital adequacy (ICAAP), which provides conditions to assess capital sufficiency in accordance with the base and stress scenarios, in a prospective outlook to identify capital and contingency actions to be taken in the respective scenarios. Capital adequacy and sufficiency information represent essential tools to manage and support the decision-making process.

Additional information on the capital management structure is available in the Risk Management

On an annual basis, the capital plan is devised by Bradesco, which is approved by the Board of Executive Officers and Board of Directors. It is also aligned with the strategic plan and

Report – Pillar 3, and in the Integrated Report, on the Investor Relations website: bradesco.com.br.

Bradesco _ _

Additional Information**Basel Ratio**

In December 2016, the Regulatory Capital of the Prudential Conglomerate reached the amount of R\$101,127 million, compared to assets weighted by the risk of R\$656,189 million

The total Basel ratio reached 15.4% and the Tier I Capital 12.0% presenting an increase of 0.1 p.p. compared with the previous quarter.

Calculation Basis

Regulatory Capital	101,127	100,056	102,548	100,452	102,825	9
Tier I	78,763	77,655	79,377	76,704	77,507	7
Common Equity	73,747	72,655	79,377	76,704	77,507	7
Shareholders' Equity	100,442	98,550	96,358	93,330	88,907	8
Non-controlling/Other	61	17	18	-	-	-
Phase-in arrangements provided for in CMN Resolution 4192/13 ⁽¹⁾	(26,756)	(25,912)	(16,999)	(16,626)	(11,400)	(12)
Additional Capital ⁽²⁾	5,016	5,000	-	-	-	-
Tier II	22,364	22,401	23,171	23,748	25,318	1
Subordinated debt (before CMN Resolution nº 4,192/13)	12,560	13,693	14,796	16,725	19,513	1
Subordinated Debt (according to CMN Resolution No. 4,192/13)	9,804	8,708	8,375	7,023	5,805	-
Risk-Weighted Assets (RWA)	656,189	657,148	580,568	595,757	612,217	64
Credit Risk	589,977	588,914	527,254	543,260	556,441	58
Operational Risk	50,444	50,444	38,502	38,502	37,107	3
Market Risk	15,768	17,791	14,813	13,996	18,670	2
Total Ratio	15.4%	15.3%	17.7%	16.9%	16.8%	1
Tier I Capital	12.0%	11.9%	13.7%	12.9%	12.7%	1
Common Equity	11.2%	11.1%	13.7%	12.9%	12.7%	1
Additional Capital ⁽²⁾	0.8%	0.8%	-	-	-	-
Tier II Capital	3.4%	3.4%	4.0%	4.0%	4.1%	1
Subordinated debt (before CMN Resolution nº 4,192/13)	1.9%	2.1%	2.6%	2.8%	3.2%	-
Subordinated Debt (according to CMN Resolution No. 4,192/13)	1.5%	1.3%	1.4%	1.2%	0.9%	-

(1) Criteria used, as of October 2013 by CMN Resolution No. 4,192/13 (including subsequent amendment); and

(2) In September 2016, considers subordinated debt authorized by Central Bank, in November 2016, to compose Tier I Capital.

Independent Auditors' Report

Independent Reasonable Assurance Report about Supplementary Accounting information included within the Economic and Financial Analysis Report

To

Directors of

Banco Bradesco S.A.

Osasco – SP

We were engaged by Banco Bradesco S.A. ("Bradesco") to report on the supplementary accounting information of Banco Bradesco S.A. for the year ended as at December 31, 2016 in the form of reasonable assurance conclusion that based on our work, described within this report, the supplementary accounting information included within the Economic and Financial Analysis Report is presented, in all material respects, based on the information referred to in the "Criteria for preparing the supplementary accounting information" paragraph.

Responsibilities of the Management of Bradesco

Management of Bradesco is responsible for preparing and adequately presenting the supplementary accounting information included within the Economic and Financial Analysis Report based on the criteria for the preparation of the supplementary accounting information described below, and for other information contained within this report, as well as the design, implementation and maintenance of internal controls that management determines are necessary to allow for such information that is free from material misstatement, whether due to fraud or error.

Independent Auditor's Responsibility

Our responsibility is to examine the supplementary accounting information included within the Economic and Financial Analysis Report prepared by Bradesco and to report thereon in the form of a reasonable assurance conclusion based on the evidence obtained. We conducted our engagement in accordance with the NBC TO 3000 - Assurance Engagement Other than Audit and Review (ISAE 3000). That standard requires that we comply with ethical requirements, including independence requirements, and plan and perform our procedures to obtain a reasonable assurance about whether the supplementary accounting

information included within the Economic and Financial Analysis Report is presented, in all material respects, to the information referred to in the “Criteria for preparing the supplementary accounting information” paragraph.

The procedures selected were based on our judgment, including the assessment of risks of material misstatement in the supplementary accounting information of Banco Bradesco S.A. whether due to fraud or error, however, this does not include the search and identification of fraud or error.

In making those risk assessments, we have considered internal controls relevant to the preparation and presentation of supplementary accounting information in order to design assurance procedures that are appropriate in the circumstances, but not for the purposes of expressing a conclusion as to the effectiveness of Bradesco’s internal control over the preparation and presentation of the supplementary accounting information. Our engagement also includes the assessment of the appropriateness of the reasonableness of the supplementary accounting information within the Economic and Financial Analysis Report in the circumstances of the engagement, evaluating the appropriateness of the procedures used in the preparation of the supplementary accounting information and the reasonableness of estimates made by Bradesco and evaluating the overall presentation of the supplementary accounting information. The reasonable assurance level is less than an audit.

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Independent Auditors' Report

Independent Reasonable Assurance Report about Supplementary Accounting information included within the Economic and Financial Analysis Report

Our conclusion does not contemplate aspects related to any prospective information contained within the Economic and Financial Analysis Report, nor offers any guarantee if the assumptions used by Management provide a reasonable basis for the projections presented. Therefore, our report does not offer any type of assurance on the scope of future information (such as goals, expectations and ambitions) and descriptive information that is subject to subjective assessment.

Criteria for Preparing the Supplementary Accounting Information

The supplementary accounting information disclosed within the Economic and Financial Analysis Report, for the year ended December 31, 2016 has been prepared by the Management of Bradesco, based on the information contained in the consolidated financial statements on December 31, 2016 and the accounting criteria described within the Economic and Financial Analysis Report, in order to facilitate additional analysis, without, however, being part of the consolidated financial statements disclosed on that date.

Conclusion

Our conclusion has been formed on the basis of, and is limited to the matters outlined in this report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion. In our opinion, the supplementary accounting information included within the Economic and Financial Analysis Information Report is presented, in all material respects, in accordance with the information referred to in the "Criteria for preparing the supplementary accounting information" paragraph.

Osasco, February 01, 2017

KPMG Auditores Independentes

CRC 2SP028567/O-1 F SP

Original report in Portuguese signed by

Rodrigo de Mattos Lia

Accountant CRC 1SP252418/O-3

Bradesco _ _

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Message to Shareholders

Dear Shareholders,

2016 was a year full of great events. The conclusion of the acquisition of HSBC Bank Brasil S. A. – Banco Múltiplo, the largest in our history, has allowed us to broaden our base of account holders and expand activities in strategic markets such as the Southeast, Midwest, and South. In a short period of time, we have integrated the platforms, the involvement of the workforce, and replaced the entire brand in total harmony with the outlined objectives.

Sponsoring the Rio 2016 Olympics and Paralympics in Rio de Janeiro was another demonstration of confidence in the Country's ability to perform. The Games gave the Bradesco brand global exposure and made the Organization's commitment to constructive attitudes that motivate and move people forward, a nation's greatest asset.

Faced with the challenges imposed by the current economic scenario, we reacted with increasing investments and encouraged business. The strategic and budgetary planning has been completed successfully; we have improved processes aiming at greater efficiency, and have innovated on all fronts, supported by a Service Network present throughout the country. Our employees are committed and determined to always work harder and better, in line with current demands.

Committed to the Goals of Sustainable Development, we celebrated the 60th anniversary of

Brazil has the credentials to move forward and resume growth. Confident that, in 2017, we will write another chapter of achievements in our history, we reaffirm the willingness to overcome obstacles with constructive attitudes and investments, providing the best products and services to our clients, shareholders, and investors.

We wish to thank everyone for their support, preference, and above all, the confidence placed in Bradesco. We also thank our employees and other staff for their effort, dedication, and full commitment, which was decisive in overcoming obstacles and obtaining results.

Fundação Bradesco, the Organization's principal social activity. With 40 schools, located primarily in disadvantaged regions, aimed at teaching children and teenagers, the Foundation has become a reference of education in the Country, and shines a light on the paths of social inclusion, providing public welfare.

Cidade de Deus, February 1st, 2017

Bradesco's good performance over the year is expressed through numbers. Net Income was R\$15.084 billion, of which R\$6.976 billion was reserved for shareholders in the form of Interest in Shareholder's Equity, corresponding to 48.7% (net of withheld Income Tax 41.4%) of adjusted income. Grupo Bradesco Seguros' share of 36.8% was expressive in this result. Total Assets amounted to R\$1.180 trillion, a 15.8% increase over the previous year. Equity totaled R\$100.442 billion, and the Operational Efficiency Index reached 39.5%. The significance of the figures demonstrates solidity and renews the vision of the future of the Organization, which adopts the most efficient practices of corporate sustainability, strengthening its long-term prospects.

Lázaro de Mello Brandão

Chairman of the Board of Directors

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We hereby present the Consolidated Financial Statements of Banco Bradesco S.A related to the period ended on December 31, 2016, in accordance with the accounting practices used in Brazil and applicable to institutions authorized to operate by the Brazilian Central Bank.

As of July 2016, with the completion of the acquisition operation of HSBC Bank Brasil S.A. – Banco Múltiplo, Bradesco started to consolidate HSBC Brasil's results in its Financial Statements.

In the Bradesco Organization, among the important events of the period, it is the conclusion, in July, of the acquisition of 100% of the capital stock of HSBC Bank Brasil S.A. – Banco Múltiplo and HSBC Serviços e Participações Ltda., with the due approval of the relevant authorities. The approval, in the General Meeting, of the division of HSBC Brasil, enabled the integration of people and operating and technological platforms, resulting in the replacement of the brand in its service network and providing greater synergy in its operations. Thus, since October 8, HSBC Brasil clients have gained access to their accounts and other services as Bradesco clients. This is the largest acquisition ever made by the Bank, cementing its position in the domestic financial scene.

The Rio 2016 Olympic Games consolidated a cycle of building a legacy based on the transforming power of sports. Bradesco believed since the beginning and became the first official sponsor of the Olympic Games, in the Bank and Insurance categories. Reinforcing this commitment, the bank was also sponsor of the Olympic Torch and

reaffirms Bradesco's commitment to the adoption of good business practices; and

- **the achievement, once again, of winning the ABRASCA Award – Best Annual Report**, in the “Public Company Group 1” category, awarded by the Brazilian Association of Public Companies – ABRASCA, which recognizes a company's commitment to transparency in its relationship with shareholders, clients, and stakeholders.

Economic Commentary

In 2016, the domestic scene was marked by major adjustments. Inflation began a path of convergence towards targets and the Central Bank managed to produce an important anchorage of inflation expectations for the coming years. In approving important measures, the fiscal adjustment proposed by the Government should be noted in the medium and long-term and the desired fiscal balance materialized by the stabilization of the Debt/GDP ratio. Even though the Country's greatest challenge continues to be economic strengthening, quarterly growth is expected to increase throughout 2017.

In the external scene, there was an increase in market interest rates in major economies, which contributed to decreased global liquidity. However, the prospects for world growth have improved and driven the rise in commodity prices, which is favorable to emerging economies that export these goods.

Paralympic Torch Relay, which took the emotion and Olympic spirit to several corners of Brazil, spreading the global spirit of the event. The results were perceived on many fronts, always leveraging the brand, the generation of business and the engagement of employees. Studies have demonstrated the growth of the attractiveness index of Bradesco, besides being one of the most remembered brands among all the sponsors.

We also highlight the following:

- **once again chosen to be a part of the Dow Jones Sustainability Index – DJSI** of the New York Stock Exchange, in the Dow Jones Sustainability Emerging Markets category. There was an increase in overall performance with emphasis on the issues of “Crime Prevention Policies and Measures”, “Financial Stability”, and “Systemic Risk and Financial Inclusion”;

- **for the twelfth year in a row, it was recognized among the companies listed in the Corporate Sustainability Index – ISE** of BM&FBOVESPA S.A. – Securities, Commodities and Futures Exchange. The portfolio is reviewed annually, through analysis of economic-financial, social, environmental, and corporate governance aspects. Integrating the index

1. Result for the Year

The good results achieved by Bradesco in 2016 and the remuneration of shareholders confirm that the strategic planning laid out for the period was conducted as expected. The detailed analysis of these figures is available online at bradescori.com.br, in the Economic and Financial Analysis Report.

R\$15.084 billion was the taxable Net Income in the financial year, equivalent to R\$2.73 per share and profitability of 15.5% over the average Shareholders' Equity(*). The annualized return on Average Total Assets was 1.4%.

R\$6.976 billion was allocated to shareholders, as Interest on Own Capital, intermediate, extraordinary and supplementary, computed in the calculation of mandatory dividends. Thus, R\$1.33 (R\$1.13 net of Income Tax withheld at the source), which includes an additional 10.0% was attributed to every preferred share, and R\$1.21 (R\$1.03 net of Income Tax withheld at the source) for every common share. Distributed interest represents 48.7% (net of Income Tax withheld at the source 41.4%) of the year's adjusted income.

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Taxes and Contributions

A significant portion of Bradesco's income for the year ended up in public coffers, in direct proportion to the volume of activities it develops.

R\$18.420 billion totaled the own taxes and contributions, including pensions, paid or provisioned.

R\$13.782 billion totaled the withheld taxes and those collected from third parties equivalent to financial intermediation.

Funds in the expressive amount of R\$32.202 billion have originated in or transited through the Organization.

2. Corporate Strategy

Bradesco, always committed to the interests of its clients and shareholders, and with the economic and social growth of the Country, develops its activities at the highest levels of efficiency, seeking to provide quality banking services, apply the best Corporate Governance practices, and achieve even more consistent results.

capitalization markets, equally relevant, will remain active in the Organization.

Abroad, Bradesco maintains a presence in strategic markets, providing support to Brazilian companies, clients residing abroad, as well as foreign companies and investors with interests in Brazil. Bradesco Securities in New York, London, and Hong Kong are essential to securing funds and distributing securities in these financial centers, as well as to Banco Bradesco Europe in Luxembourg and London, with financing services to corporate and private banking clients.

The continuous search for growth implies substantial investments in Infrastructure, Information Technology, and in Human Resources, indispensable pillars for the banking market. R\$6.595 billion were invested to innovate, update, and maintain the IT environment, which is a highlight in the market, with the best practices and existing technologies, and R\$143.614 million were invested in staff training programs through the Bradesco Corporate University - UniBrad, in order to ensure motivation, innovation, and focus on the client.

Respect for the consumer, socio-environmental responsibility, security, and credibility are part of Bradesco's corporate culture. Three vectors of greater magnitude underpin strategic planning:

a) to grow organically without losing sight of potential acquisitions, associations, and partnerships, provided they are committed to the

As a vision of the future, it aims to expand the prominent position it occupies among private financial institutions. The acquisition of HSBC Bank Brasil S.A. – Banco Múltiplo led to a significant growth of its client base and further consolidated its presence throughout the country.

Grounded in ethical values, respect, and transparency, Bradesco faces today's challenges with determination, demonstrating strength and its abilities as a financial broker, fostering investments, democratizing credit, expanding the supply of products, services, and solutions and promoting, as a priority, banking inclusion and social mobility, through its extensive Service Network, which includes Branches, Banking Stations, Bradesco Espresso Correspondents, self-service machines and, also, through Digital Channels, such as Internet Banking, Bradesco Celular, Fone Fácil and Social Media.

Within the financial sphere, under the perspective of a strict monetary policy, the Bank will continue to seek the growth of its loan portfolio in 2017, with emphasis on consumer credit, payroll loans, and real estate credit, as well as a strong presence in open-ended supplemental pension plans. To this end, it will continue to adopt effective security procedures, which includes a rigorous evaluation of the processes of concession and efficient daily collection of overdue amounts, through Debt Recovery Programs. The strategic focus on secure dissemination and in the results of the business it conducts, such as, for example, investment banking, corporate, private banking, and the management of third-party funds, in addition to investments in the credit card, consortium, insurance, private pension, and

quality of service, to security of the products, solutions, and services, and with the effective improvement of financial and operational efficiency indexes;

b) to maintain strict controls in order to identify, assess, and mitigate risks intrinsic to the activities, as well as to define acceptable levels in each operation; and

c) to conduct business with full transparency, ethics, and adequate compensation to investors.

3. Capital, Reserves and Subordinated Debt

At the end of the year, with reference to Banco Bradesco:

R\$51.100 billion totaled the Capital Stock subscribed and paid in;

R\$49.342 billion totaled the Equity Reserves; and

R\$100.442 billion was the Shareholders' Equity with a growth of 13.0% in the year. In relation to Consolidated Assets, that amount to R\$1.180 trillion, the Managed Shareholders' Equity was equivalent to 8.6%. The Net Asset Value per share was of R\$18.16.

At the Extraordinary Shareholders' Meeting held on October 7, 2016, a resolution was made to absorb part

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of the equity of HSBC Bank Brasil S.A. – Banco Múltiplo, without any effect on Shareholders' Equity of Bradesco, as HSBC Brasil was its wholly-owned subsidiary.

The solvency index was 15.4%, higher than the minimum of 10.5% regulated by Resolution No. 4,193/13 of the National Monetary Council, according to the Basel Committee. Regarding the Reference Equity, the immobilization index reached 44.8% in the Prudential Consolidation, falling under the maximum limit of 50% stipulated by the Brazilian Central Bank.

Subordinated Loans amounted to R\$52.611 billion (Abroad, R\$11.455 billion and in Brazil, R\$41.156 billion) at the end of the financial year, of which R\$27.380 billion were considered eligible as capital and included the Reference Equity, and included in the calculation of indexes recognized in the previous paragraph.

Securities classified in the Held to Maturity Category

In compliance with Article 8 of the Brazilian Central Bank Circular Letter No. 3,068/01, Bradesco declares that it has the financial capacity and the intention of holding to maturity the securities classified under “held to maturity securities”. It also states that the operations of Banco Bradescard S.A., its subsidiary, are adjusted to the strategic objectives defined in the Business Plan, in accordance with Article 11 of the Regulation,

Accounts and Securities Sold Under Agreements to Repurchase.

R\$756.488 billion in assets under management, comprising Investment Funds, Managed Portfolios and Third-Party Fund Quotas, a 37.5% increase.

R\$301.458 billion in the Exchange Portfolio, Borrowings and On-lendings in Brazil, Working Capital, Tax Payments and Collection and Related Charges, Funds From Issuance of Securities in Brazil, and Subordinated Debt in Brazil.

R\$223.342 billion in Technical Reserves for Insurance, Pension Plans and Capitalization Bonds, up by 25.6%.

R\$39.428 billion in Foreign Funding, through public and private issues, Subordinated Debt Overseas, Securitization of Future Financial Flows and Borrowings and On-lendings Overseas, equivalent to US\$12.098 billion.

4.2. Loan Operations

Bradesco, attentive to the challenging scene of the credit market, constantly monitors its loan portfolios in order to keep its policy up to date and in line with the current economic situation, preserving the expansion and diversification of the supply in

Appendix I to Resolution No. 4,122/12, of the National Monetary Council.

Capital Management

The sufficiency assessment of capital is conducted in order to ensure that the Organization maintains adequate levels of capital to support and assist the development of its activities and to address the risks incurred, taking into account the strategic defined objectives. It adopts a forward-looking vision, which aims to anticipate possible changes in market conditions. The structure of capital management is composed of Committees that advise the Board of Directors and the Board of Executive Officers in making decisions.

4. Operational Performance

4.1. Fundraising and Resource Management

The resources funded and managed amounted to R\$1.797 trillion in the end of the period, 23.6% higher than the previous year. Overall, the Bank manages 26,802 million account holders, 62,107 million savings accounts with a balance of R\$97.089 billion, representing 18.7% of the SBPE – Brazilian Savings and Loan System.

R\$476.215 billion in Demand Deposits, Time Deposits, Interbank Deposits, Savings

various channels of distribution, which cover the Network of Branches, Banking Correspondents, and Digital Channels. These differentials have contributed to the achievement of loans and direct financing or in strategic partnerships with the various business chains.

R\$514.411 billion was the balance at the end of the year, of consolidated credit operations, in the expanded concept, which includes Sureties and Guarantees, Letters of Credit, Anticipation of Credit Card Receivables, Debentures, Promissory Notes, Investment Funds in Credit Rights, Certificates of Real Estate Receivables and Rural Credit, with an evolution of 8.6% in the period.

R\$40.614 billion was the consolidated balance of provision for doubtful debtors, considering an additional provision of R\$7.490 billion, which includes provision for guarantees provided, above what's required by Resolution No. 2,682/99, of the National Monetary Council.

Consumer Credit

It contributes to the growth of small, medium, and large businesses, financing the purchase of goods produced and supplied by the various production chains, through its diversified portfolio for Consumer Credit. Among the Lines of Credit that exist to meet this demand, the Personal Credit and Vehicles, Goods, and Service lines stand out.

R\$112.344 billion was the balance of operations designated to the consumer credit.

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Payroll-deductible Loans

In the group of Consumer Credit modes, Consigned Credit continues to be one of the most representative portfolios in the individual credit portfolio. At Bradesco, the distribution of the product is carried out by the Network of Branches, Bradesco Espresso, Bradesco Promotora, and its partner Correspondents, in addition to digital channels: Self-Service Machines and Internet Banking.

The target audiences for the offer of consigned credit are retirees and pensioners of the INSS, public servants and employees of companies who have their accredited payroll with Bradesco.

R\$38.249 billion was the balance of the Portfolio at the closing of 2016, with 9,687,061 active contracts.

Real Estate Credit

Bradesco maintains, given the funding to the construction sector and acquisitions of the final borrowers, a strong commitment to meeting the demands of the real estate sector. It is constantly improving its channels of origination with real estate developers, through refinement in the processes of onlending to the end buyers and also in the secondary market, with the consolidation of the operating model with its various Real Estate Partnerships.

Transfer Operations

Bradesco maintained its position as one of the main onlenders of BNDES funds by reaching a total disbursement of R\$7.157 billion, equivalent to 16.3% of the Market Share, maintaining a focus on releases to micro, small, and medium companies, which absorbed R\$3.181 billion, or 13.5% of the total amount disbursed. We further highlight the excellent performance of the BNDES Exim line, focused on funding exports, which reached the amount of R\$2.703 billion, corresponding to 31.8% of the total disbursement of the modality.

R\$29.183 billion amounted to the balance of transfer portfolios, with 289,886 contracts registered.

Credit Policy

The Credit Policy aims at guiding the rapid implementation of diversified and pulverized businesses, sustained by appropriate guarantees and intended for people and legitimate companies and of proven solvency. Carried out quickly and securely, these operations seek to ensure the adequate profitability and liquidity of invested assets.

Specialized systems for Credit Scoring allow the speediness and backing of the decision-making process with specific standards of safety and assertiveness in the environment of the Branches.

R\$51.802 billion was the balance of the Real Estate Credit Portfolio, whereby R\$30.763 billion was intended for Individuals and R\$21.039 billion for Legal Entities, and a total of 162,551 units financed.

On the banco.bradesco website the products available, partnerships firmed with real estate companies, among other information, can be consulted.

Agribusiness

Bradesco is the largest private bank in Assets in Agribusiness, with a strong presence in the productive chain, offering solutions for the development of production, processing and marketing of agricultural products. Maintains agreements with the main manufacturers of machinery and equipment in the Country, contributing to the expansion of business and growth in productivity.

R\$21.670 billion was the balance of investments at the end of the financial year.

More information relating to the agribusiness, credit products and services can be retrieved on the agronegocio.bradesco website.

The Credit Department and the Executive Committee of Credit, installed in the Head Office, are responsible for the decisions about loans that exceed the levels of authority of the Branches.

Loan Portfolio Quality

The quality of the loan portfolio showed a slight decrease as a result of the severe economic crisis in Brazil, which caused an increase in unemployment and a decrease in the income generation of companies. However, at the end of 2016, in comparison to the previous year, the maintenance of the credit quality of new borrowers was observed, especially because of the constant improvement of the models and policies of concession and monitoring, as well as the option for more secure credit modalities, such as consigned credit and housing credit.

4.3. Collection and Loan Recovery

Debt collection and recovery are promoted with the involvement of all Segments, Management and Legal Departments, aiming to reduce default and maintain the relationship with clients. To this end, Bradesco uses its own statistical models, updated periodically, which separate debtors according to levels of risk and propensity to pay, making collection strategies more assertive and efficient.

Collection occurs sequentially through the Network of Branches, Call Centers, and Friendly and Judicial

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Collection Offices, also counting on regional teams specialized in debt recovery, that tailor their operations on the most significant cases.

R\$5.508 billion in loans were recovered, 32.9% higher than in the previous year.

5. International Area

Abroad, the Bradesco Organization offers an extensive line of products and services by means of units of Banco Bradesco in New York and Grand Cayman; Bradesco Securities in London, Hong Kong and New York; Banco Bradesco Europa in Luxembourg and London; Banco Bradesco Argentina in Buenos Aires; and Bradescard in Mexico, in addition to 30 specialized units in Brazil and an extensive network of international correspondents.

This structure enables a position of leadership among private banks in the foreign exchange market and in the financing of foreign trade in Brazil, with the following highlights:

R\$9.226 billion in Advances on Exchange Contracts, for an Export Financing portfolio of US\$14.062 billion;

million common shares and 2.981 billion preferred shares.

US\$25.688 billion were negotiated as ADRs, in the North American market (New York Stock Exchange - NYSE), equivalent to 921 thousand common shares and 3.396 billion preferred shares.

EUR5.580 million were negotiated as DRs, on the European market (Latibex – Madrid), equivalent to 1.064 million preferred shares.

7. Segmentation of the Market

The strategy of segmentation in Bradesco gathers groups of clients with the same profile, with differentiated service and increasing gains of productivity at a faster pace. In addition to improving the quality of the relationship with the client and giving the Bank greater flexibility and competitiveness in running the business, it adjusts and scales the operations, to individuals or legal entities, based on the particular needs of each customer.

7.1. Bradesco Corporate

Offers specialized services to large economic groups, with an annual revenue of more than R\$250 million. The principle of long-term relationship is an

US\$2.282 billion in Import Finance in Foreign Currencies;

important differential, because it creates the best solutions for clients and the best results for the Organization, by means of business units in the main Brazilian cities.

US\$29.219 billion in Export Purchases, with a market share of 16.6%.

R\$524.383 billion were the total resources administered by the area, comprising 2,375 economic groups;

US\$18.186 billion in Imports contracted, with a market share of 14.5%; and

7.2. Bradesco Empresas

US\$1.887 billion in public and private placements, of medium and long-term, in the international market.

It manages, with a high degree of specialization, the relationship of economic groups with annual revenues between R\$30 million and R\$250 million, offering structured operations and a broad portfolio of products and services.

6. Bradesco Shares

With a high level of liquidity, Bradesco's Shares remained present in all the trading sessions of BM&FBOVESPA S.A. - Stock Exchange, Commodities and Futures. They represented 9.5% of the Ibovespa index at the end of 2016. They are also traded abroad, on the New York Stock Exchange, by means of ADR –American Depositary Receipts – Tier 2, and on the Stock Exchange of Madrid, Spain, through DRs, which integrate the Latibex Index.

R\$102.694 billion were the total resources administered by the area, of companies in all sectors of the economy.

7.3. Bradesco Private Banking

To shareholders, as minimum mandatory dividend, is guaranteed 30% of the adjusted net profit, in addition to the Tag Along of 100% for the common shares and 80% for the preferred shares. Also, granted to the preferred shares are dividends 10% higher than those given to the common shares.

Private Bank is structured to address individuals, family holdings and enterprises of shareholdings that possess net availability for investments from R\$5 million. It offers clients an exclusive line of products and services within the Tailor-Made concept and open architecture, including advice, in Brazil and Abroad, in the allocation of financial and non-financial assets, as well as advising on wills, foreign exchange and structured operations.

R\$87.541 billion was the amount negotiated in Bradesco Shares during the year, on BM&FBOVESPA, composed of 381.833

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7.4. Bradesco Prime

The Prime Segment – with a concept of a personalized relationship between Bank/Customer – offers financial advice, as well as differentiated products and services to Individuals, with proven monthly individual income from R\$10 thousand or availability of investment from R\$100 thousand. The exclusive Service Network for Bradesco Prime Clients comprised, at the end of the year, 308 Branches throughout the Country and 905 Bradesco Prime Spaces in Retail Branches, especially designed to provide comfort and privacy in conducting business.

7.5. Bradesco Varejo (Retail)

The Retail Segment, present in the whole national territory, seeks to meet, with quality and commitment, all classes of the population, favoring the process of financial inclusion and providing banking services to Brazilians, as well as social mobility. Bradesco, with a view of achieving the greatest number of clients, maintains its vocation as an open-door bank, democratizing the access to banking products and services. The focus of Bradesco Varejo are Individuals with a monthly income of up to R\$10 thousand and Legal Entities with annual revenues of up to R\$30 million. For Individual Clients, with a monthly income between R\$4 thousand and R\$10 thousand, denominated as Exclusive Clients, the Segment provides personalized service, customized solutions, exclusive spaces in Branches and preferential service at the cashiers. For Legal Entity Clients, called Empresas (companies) and Negócios

R\$159.173 billion was the volume of transactions by Credit Cards.

R\$6.252 billion in Revenue from Provision of Services, with a growth, mainly in revenue from commissions on purchases made with Credit/Debit Cards and miscellaneous charges.

8.2. Cash Management Solutions

Bradesco offers customized solutions to Companies, Government Agencies and Utilities Companies, in the administration of Accounts Receivable and Payable, as well as in the collection of fees and taxes.

According to the respective profiles and needs, clients from specific market niches, such as Franchising, Education, Condominiums, among others, count on the support of a qualified team to structure solutions that add value to their business.

The Global Cash Management area aims to structure solutions for international companies operating in the Brazilian market and domestic companies operating abroad, through partnerships with 45 international banks and access to the Swift network. Among the services provided, we highlight the opening of accounts of companies indicated by partner banks and the preparation and structuring of RFPs (Request for Proposal) for the centralization of the company's cash.

(business), it offers a team of specialized Managers and appropriate financial solutions to meet the needs of these clients. At the close of the financial year, the segment served more than 24.2 million current account holders.

133.338 million documents collected during the year in federal, state, municipal taxes and other contributions.

7.6. Bradesco Expresso

Consistently expanding its share in the correspondent segment, Bradesco Expresso, through a partnership with various commercial establishments, such as Supermarkets, Pharmacies, Department Stores, Bakeries and other retail chains, delivers to customers and the community in general the convenience of services near their residence or workplace, in extended hours, including weekends. On December 31, 2016, 38,430 establishments had been accredited.

320.609 million documents received from electric, water, gas and telephone bills, of which 83.570 million of them settled by Direct Debit from Current Account and Savings Accounts, a system that provides comprehensive convenience to the client.

994.422 million receipts processed by means of Cobrança Bradesco (Collection), Custody of Checks, Identified Deposit and OCT – Ordem de Crédito por Teleprocessamento (Tele-processed Credit Order).

8. Products and Services

8.1. Cartões Bradesco (Cards)

Bradesco Clients have at their disposal the most complete line of credit cards in the country, like Elo, American Express, Visa, MasterCard and various Private Labels.

861.886 million transactions carried out by the Multipag system, which include the payments of the main commitments of the company's accounts payable (suppliers, wages, taxes, and utility bills).

119.970 million payments to more than 10.159 million beneficiaries of the INSS (Social Security).

85.222 million in Payroll Processing from the public and private sectors.

Bradesco also counts on a cards business unit Abroad, Bradescard Mexico, which has a partnership with the C&A chain of retail clothing stores, with Suburbia stores of the Grupo Walmex and LOB and Bodega Aurrera chains of stores, in that country.

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8.3. Solutions of Products and Services to the Public Authorities

Bradesco provides, through its Bradesco Government Authority Department and its exclusive Public Sector service platforms, located throughout the country, Business Managers capable of providing products, services, and solutions with quality and security to Public Entities and Agencies of the Executive, Legislative and Judicial Authorities, in the Federal, State and Municipal spheres, in addition to the Local Authorities, Public Foundations, Public and Mixed Economy Companies, the Armed Forces (Army, Navy and Air Force), and Auxiliary Troops (Federal, Military and Civil Police).

Monthly, more than 10.128 million retirees and pensioners of the INSS receive their benefits from Bradesco, which gives it the position of highest payer among all the banks in the country.

With exclusive space for public servants and the military, the site bradescopoderpublico.com.br presents Corporate Solutions of Payments, Receipts, HR and Treasury.

8.4. Solutions for the Capital Market

Bradesco, with modern infrastructure and specialized professionals, is at the forefront of the capital markets, offering a broad range of solutions and services. Among the main ones, are the

681 Investment Funds integrate the Bradesco System of Book Entry Quotas, with the restated value of R\$71.708 billion; and

36 Registered BDR (Brazilian Depositary Receipts) programs, with a fair value of R\$2.122 billion.

Depository (Escrow Account – Trustee)

10,882 contracts, with a financial volume of R\$15.183 billion.

9. Organizational Structure – Bradesco Service Network

The Service Network of the Bradesco Organization is present, with an extensive and modern structure, throughout the national territory and in some localities abroad, offering excellence in services in all the segments in which it has operations.

At the end of the financial year, with 60,610 points of service, the Service Branches were distributed as:

9,135 Branches and PAs (Service Branches) in Brazil (Branches: 5,308 Bradesco, one Banco Bradesco Cartões, two Banco Bradesco

following:

Financiamentos, one Banco Bradesco BBI, one Banco Bradesco BERJ, one Banco Alvorada; and PAs: 3,821);

Qualified Custody of Securities for Investors and Issuers

R\$1.331 trillion in custodied assets of clients;

3 Branches abroad, with one Bradesco in New York, one Bradesco in Grand Cayman and one subsidiary Banco Bradesco Europa in London;

R\$1.873 trillion in the Equity of Investment Funds and Managed Portfolios that use the Controllership Services; and

11 Overseas Subsidiaries (Banco Bradesco Argentina S.A. in Buenos Aires; Banco Bradesco Europa S.A. in Luxembourg; Bradesco North America LLC, Bradesco Securities, Inc., and BRAM US LLC in New York; Bradesco Securities UK Limited in London; Bradesco Securities Hong Kong Limited; Bradesco Trade Services Limited in Hong Kong; and Bradesco Services Co., Ltd., in Tokyo; Cidade Capital Markets Ltd. in Grand Cayman; and Bradescard Mexico, Sociedad de Responsabilidad Limitada in Mexico);

27 DRs (Depositary Receipts) registered programs, with a fair value of R\$83.437 billion.

Fiduciary Management for Third Party Funds

R\$298.292 billion in shareholder's equity of third-party investment funds managed by BEM – Distribuidora de Títulos e Valores Mobiliários, a company of Grupo Bradesco.

797 Correspondents of Bradesco Promotora, in the consigned credit section;

38,430 Bradesco Expresso service points;

Bookkeeping of Securities

242 companies integrate the Bradesco System of Book Entry Shares, covering 4.308 million shareholders;

1,013 PAEs – in-company electronic service branches;

63 Losango service points;

327 companies with 441 releases integrate the Bradesco System of Book Entry Debentures, with the restated value of R\$310.656 billion;

186 External Terminals in the Bradesco Network; and

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10,972 ATMs in the Banco24Horas Network, with 96 terminals shared by both networks.

The Bradesco Self-service Network comprises 36,119 machines, 35,626 of them in operation including weekends and public holidays, strategically distributed throughout the country, providing quick and convenient access to various products and services, in addition to the 19,991 Banco24Horas machines. It is based on this channel that Bradesco unites the physical and the digital, materializing the money from withdrawals and adopting applications to optimize, accelerate and evolve the accesses of customers to banking services. Biometrics, for example, makes it possible to perform various actions without the need of the physical card.

In an innovative way, Bradesco offers various free accessibility solutions in banking products and services that contribute to the autonomy and independence of its clients with hearing, physical, visual and intellectual impairment.

On the banco.bradesco website, clients, both individuals and legal entities, can make queries and various banking transactions in a practical and secure manner, offering a broad portfolio of products and services, including the modern and intuitive *homebroker*. In this environment it is also possible to understand the navigation of each client monitoring their behaviors to build and enhance a smoother and more genuine relationship with people.

In the universe of Mobility, Bradesco has the largest and most comprehensive set of solutions in the

possible to carry out, queries and banking services electronically, quickly and efficiently.

In addition to its Service Network, Bradesco currently has two major Digital Platforms, serving clients from the Segments Exclusive and Prime invited by the Bank and those who request the migration to the units as a result of their profile of relationship being primarily digital, offering services provided by highly qualified managers, via chat, SMS, telephone or video conference, in addition to financial advisory services, extend from 7:00 to midnight, and the digital clients also count on an exclusive call center, 24 hours a day, every day of the week. It also offers the Digital Branch Bradesco Private Bank, in São Paulo, SP, directed to the Private public, enabling clients from all regions of the country to centralize their relationship, both of their investments and the checking account, in a single segment.

10. Bradesco Companies

10.1. Insurance, Pension and Capitalization

Grupo Bradesco Seguros, with a path associated to financial soundness and innovation in various products in the areas of Insurance, Supplementary Open Pensions and Capitalization, remains in the lead among the conglomerates that operate in the sector in Brazil.

market, including, in partnership with telephone companies as pioneers in the financial market, providing free access to the account using a cell phone, contributing towards financial inclusion and social mobility. Also, in order to facilitate the user experience, it has launched several features, including the pdf reader, which, with a touch in the screen, passes the information of bills received by email to the Bank application, making it practical for the payment of bills. This is where in fact Bradesco is present in the day-to-day reality of people, offering, to all clients, banking transactions at any time and place.

Bradesco is also present in major social platforms, seeking, in network language, to establish and strengthen ongoing relationships with customers and the general public, through relevant content and partnership with creators of digital content. Using Social Networks, it brings the DNA of the brand closer to people through conversations that reflect the mission, values and belief that the Bank has in the Brazilian way of doing things, in democracy and in capillarity as pillars of the brand.

Available day and night, Fone Fácil Bradesco is the telephone banking service, focused on business and the implementation of financial transactions. In addition to the personalized service through voice command, which already has more than one million calls per day, it is

R\$5.551 billion was the Net Profit of the Insurance segment, Supplementary Pensions and Capitalization in the year, with a profitability of 23.0% on the average Shareholders' Equity.

R\$27.269 billion in Shareholders' Equity.

R\$260.295 billion in Total Assets.

R\$242.063 billion in free investments and the cover of Technical Provisions.

R\$71.419 billion represented the Revenue from Insurance Premiums, Pension Contributions and Revenue from Capitalization.

R\$52.261 billion in indemnities, draws and redemptions paid by Grupo Bradesco Seguros in the financial year.

10.2. BEM – Distribuidora de Títulos e Valores Mobiliários (Securities Dealer)

It operates in the capital market by providing Fiduciary Management services for investment funds.

R\$188.584 billion, on December 31, 2016, distributed into 1,613 Investment Funds, totaling 39,914 investors.

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10.3. Bradesco Leasing – Commercial Lease

Working together with the Branch Network and in partnership with major manufacturers in the automotive, aircraft, naval and machinery and equipment industries, Bradesco Leasing is among the leaders of the commercial lease business, with 19.8% of the market. This result has come from the diversification strategy of businesses in several segments of the market.

R\$2.783 billion was the balance invested on December 31, 2016, with 1,543 operations contracted during the year.

20,094 lease agreements in force at the end of the year, which characterizes the high level of pulverization of the business.

10.4. Bradesco Administradora de Consórcios (Administrator of Consortium)

Bradesco Consórcios manages groups of current account holders, to which it offers the most comprehensive portfolio of products and services. It remains the leader in the segments of real estate, cars and trucks, tractors, machinery and equipment, the result of adequate planning and synergy with the Branch Network of the Bank and with the Sales Organization of the Insurance Group.

10.6. Banco Bradesco BBI

BBI, an Investment Bank of the Organization, advises clients in primary and secondary issuing of shares, merger transactions, purchase and sale of assets, structuring and distributing debt instruments, such as debentures, promissory notes, CRIs, CRAs, real estate funds, FIDCs and bonds, among others, besides structured corporate finance operations and the financing of projects under the modality of Project Finance.

R\$193.719 billion was the total from 146 investment banking transactions advised during the financial year.

10.7. BRAM – Bradesco Asset Management

BRAM, the largest private holding of investment funds in the country, offers solutions of differentiated and appropriate investments to all profiles of customers, ensuring the highest standard of quality in services. BRAM has among its biggest clients all the main segments of Bradesco, like Prime, Corporate, Private, Varejo (Retail), Bradesco Empresas and Grupo Bradesco Seguros, in addition to Institutional Investors in Brazil and Abroad, and various family offices.

R\$609.667 billion under BRAM's management on December 31, 2016, distributed into 1,235 Investment Funds and 210 Managed Portfolios,

1,334,286 active quotas at year-end, with 484,967 new quotas sold. reaching 3,006,009 investors.

R\$63.305 billion in accrued revenue.

10.5. Banco Bradesco Financiamentos (Financing)

Acting as the Financing Institution of the Bradesco Organization, Bradesco Financiamentos offers lines of credit in the CDC – Consumer Credit and Leasing modes for the acquisition of light and heavy vehicles and motorcycles, in addition to automobile and financial protection. Through Bradesco Promotora, it offers consigned credit to retirees and INSS pensioners and civil servants – Federal, State, and Municipal –, as well as aggregate products such as insurance, credit cards, and others.

R\$870.249 million in Net Profit in the year.

R\$45.741 billion in Consolidated Assets.

R\$29.406 billion represented the balance of credit operations.

11,669 active commercial partners in the country, in an extensive Accredited Network formed by vehicle resellers and dealers.

857 correspondents act in the consigned loan segment, in all the Brazilian states, in the capture of clients.

10.8. Bradesco Corretora de Títulos e Valores Mobiliários (Securities Broker)

With significant participation in variable income and fixed income markets, and futures, it stands out among the most active in the sector in operational support it offers to clients, by means of its Espaços Bradesco Corretora (Brokerage Spaces), distributed in various cities of the country, Trading Desks and by Electronic Operations Systems: Home Broker and the Trading application of Bradesco on iPhone and iPad.

With wide coverage of companies and sectors, it offers investment analysis and economic analysis services. Also represents non-resident investors in the country in operations carried out on the financial and capital markets, in the management of investment clubs and in the custody for non-institutional individuals and legal entities.

R\$171.009 billion is the total negotiated by the Broker on the trading sessions of variable income markets of BM&FBOVESPA, corresponding to 13,311,220 orders for the purchase and sale of shares transacted, catering to the needs in the year of 143,481 investors.

25.421 million contracts traded on derivative markets of BM&FBOVESPA, representing a financial volume of R\$2.213 trillion.

339,126 clients were registered on December 31, 2016 in the Fungible Custody Portfolio.

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10.9. Ágora Corretora de Títulos e Valores Mobiliários (Securities Broker)

Ágora, present in all modalities of operations of BM&FBOVESPA, ensures to investors access to a full range of products on the market of fixed income and variable income, such as Shares, Investment Funds, Tesouro Direto (Treasury Bonds), Corporate Securities and Debentures. The Broker still counts on modern negotiating tools of high-performance: Home Broker, Home Broker 2.0, AE Broadcast and Ágora Mobile.

10.10. Brokerage Firms Abroad (Bradesco Securities, Inc., Bradesco Securities UK Limited and Bradesco Securities Hong Kong Limited)

Bradesco Securities, Inc. operates in the North American market, in New York, Bradesco Securities UK Limited, in the European market, in London, and Bradesco Securities Hong Kong Limited, in the Chinese market, in Hong Kong, mediating shares, through ADRs as well as shares listed on the local Stock exchanges. As broker-dealers, these brokers operate in the distribution of public and private securities for international investors.

11. Corporate Governance

Since its foundation, in 1943, corporate governance practices are present in the management of Banco Bradesco S.A.

Sustainability), while various executive committees assist the activities of the Board of Executive Officers. As a Supervisory Body, there is the Fiscal Council, permanent since 2015, and comprising 5 members and 4 alternates.

In accordance with Instruction No. 381/03 of the Brazilian Securities and Exchange Commission, the Bradesco Organization states that, in 2016, contracted services provided by KPMG Auditores Independentes that were not related to the external audit, at a level greater than 5% of the total fees related to external audit services. Other services provided by the external auditors were: i) the issue of due diligence reports; ii) services related to the actuarial audit of the Insurance Group; iii) Assurance Report; and iv) reports on previously agreed procedures. The contracted amount totaled, approximately, R\$3.2 million, which represents around 9% of the total audit fees for the 2016 financial statements of the Bradesco Organization. The Bank's policy is in line with the principles of preserving the auditors' independence, which is based on generally accepted international criteria, i.e. the auditors should not audit their own work, perform managerial duties for their clients or promote their customers' interests. It is noteworthy that any eventual services not related to the external audit are submitted prior to the authorization of the Audit Committee.

In the period, we disclosed Notes to the Market on May 31, June 8, July 28 and September 20, related to the "Zealots" and "Greenfield" operations and their developments. Further information can be found in Note 18 "d", of the Consolidated Financial Statements.

Since 1946, its shares have been traded on Brazilian Stock Exchange, operating in the US capital market from 1997, negotiating initially Tier I ADRs backed by preferred shares and, from 2001 to 2012, Tier II ADRs backed, respectively, by preferred and common shares. Since 2001, also negotiating DRs (Depositary Receipts) on the European market.

We highlight, among the practices adopted, the listing of the Bank, since 2001, at Tier I of Corporate Governance of the BM&FBOVESPA and, since 2011, adhering to the Code of Self-regulation and Best Practices of Open Capital Companies of Abrasca. Ethics is another issue present in Bradesco's day-to-day since its foundation, when the Bank's Rules of Procedure were established in 1944, from which the Bradesco Organization Code of Conduct originated in 2003.

With regard to its governance structure, Bradesco's Management is made up of the Board of Directors and the Statutory Board of Executive Officers. The Board is composed of 8 members, of whom 7 are external and 1 is internal, elected at the Annual General Meeting, and re-election is permitted.

Seven committees advise the Board of Directors, whereby two are statutory (Audit and Remuneration) and five non-statutory (Ethical Conduct, Internal Controls and Compliance, Integrated Management of Risks and Allocation of Capital, Appointment and

11.1. Internal Audit

The General Inspectorate, area of Internal Audit of Bradesco, with direct subordination to the Board of Directors, has as objective the independent evaluation of Business processes and Information Technology, contributing to the mitigation of risks, suitability and effectiveness of internal controls and compliance with the Policies, Norms, Standards, Procedures and Internal and External Regulations.

Methodology and Execution of Works certified by the Institute of Internal Auditors of Brazil, which considers in its premises the technical recommendations of The Institute of Internal Auditors (IIA).

11.2. Policies of Transparency and Disclosure of Information

Bradesco's Financial Information is available on the bradescori.com.br website, and can be accessed in the Economic and Financial Analysis Report and in the Supplementary Information, and the Bradesco Integrated Report, which presents institutional, business, and financial information, in addition to sustainability practices and initiatives in a single document.

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The Bank also offers to the market, physically and electronically, a series of periodic publications. Every six months 'Revista Bradesco' (magazine) is distributed; quarterly the bulletins "Cliente Sempre em Dia" and "Quarterly Report" – print-outs prepared by the Investor Relations area that present the main financial highlights of the period, all geared to the external public; and bimonthly the PrimeLine.

11.3. Investor Relations – RI

The commitment to transparency, democratization of information, punctuality and the pursuit of the best practices are essential factors that are constantly reinforced by Bradesco's Investor Relations area.

Throughout the year, the Bank held 4 APIMEC Meetings, and the event held in São Paulo was broadcast live on the Internet, with simultaneous translation to English and Libras – the Brazilian Sign Language, totaling 1,664 hits. Altogether, more than 689 people participated in the events. There were also 377 events promoted with national and international investors, through conferences, meetings, conference calls and institutional presentations, assisting over 4,347 investors.

Further information can be accessed at the Investor Relations website – bradescori.com.br.

11.4. Ouvidoria Bradesco (Ombudsman)

The activity of management of risks is highly strategic because of the growing complexity of services and products and the globalization of the business of the Organization.

The Organization exercises corporate control of the risks in an integrated and independent manner, preserving and valuing the environment of group decisions, developing and implementing methodologies, models and tools for measurement and control. It also offers refresher training to employees at all hierarchical levels, from the business areas up to the Board of Directors.

In face of the complexity and the range of products and services offered to its clients in all segments of the market, the Organization is exposed to various types of risks, either due to internal or external factors. Therefore, it is crucial to adopt continuous monitoring of all the risks in order to give security and comfort to all the interested parties. Among the main types of risks, we highlight: Credit, Counterpart Credit, Market, Operational, Subscription, Liquidity, Concentration, Socio-environmental, Strategy, Legal or Compliance, Legal Unpredictability (Regulatory), Reputation, Model and Contagion.

12.2. Internal Controls

The effectiveness of the internal controls of the Organization is sustained by qualified professionals, well defined and implemented processes and technology compatible with the business needs.

Having as its premise to ensure the quality of service and client and user satisfaction, Bradesco's Ombudsman's Department was created in 2005, two years before the Central Bank made it mandatory. Always at the forefront of innovations that benefit the consumer, Alô Bradesco, the first channel of communication between the financial market and the public, was created in 1985, before the creation of the Consumer Defense Code.

The creation of the Ombudsman's Department ratifies the commitment to transparency in relations with clients and users, stating its mission to represent the client impartially, turning a complaint into an experience that strengthens their relationship with the Organization and encourages improvements that generate mutual benefits. It acts preventively in releasing products and services and uses feedback from clients as opportunities to foster improvements.

In this sense, its performance evidences the purpose of being recognized as an indispensable and proactive partner in decisions that affect clients and as a reference in quality and efficiency in handling complaints.

12. Integrated Risk Control

12.1. Risk Management

In Bradesco, the methodology of internal controls applied in the Organization is in line with the guidelines of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) – version 2013, which has the purpose of supplying a model for internal controls, management of corporate risks and fraud, in order to improve the performance and organizational supervision.

The existence, implementation and effectiveness of the controls that ensure acceptable levels of risk in the processes of the Organization are certified by the responsible area, and the results are reported to the Audit Committee and Internal Controls and Compliance Committee, as well as to the Board of Directors, with the purpose of providing security for the proper running of the business and to reach the objectives established in accordance with applicable laws and regulations, external policies, internal standards and procedures, in addition to codes of conduct and of self-regulation applicable.

Prevention against Illicit Acts

At Bradesco, business and relationships are conducted with ethics, integrity and transparency, concepts that permeate the organizational culture, whose values and principles are ratified in the Codes of Conduct and supported by Senior Management.

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Prevention and combat against illicit acts are exercised continuously. These risks are mitigated through policies, standards, procedures, training programs for professionals and controls that seek to promptly detect any operations and situations with indications of links to illegal activities, aimed at the adoption of appropriate measures and actions.

This system of control mechanisms is subject to constant evaluation and improvement in accordance with current and applicable laws and regulations, as well as with the best market practices, in Brazil and in countries where the Organization has business units. In this regard, we emphasize training activities on ethical conduct and money laundering prevention, financing of terrorism, corruption and bribery, in addition to the development and review of procedures and strengthening of controls related to public agents and politically exposed persons.

Independent Validation of Models of Management and Measurement of Risks and Capital

Bradesco uses internal models, developed from statistical, economic, financial, and mathematical theories, and the knowledge of experts, whose purpose is to support and facilitate the structuring of subjects, to standardize and speed up decisions, and to manage risks and capital.

In order to detect, mitigate and control risks inherent in our internal models, which are associated with potential adverse consequences arising from

Integrated Management System

Bradesco adopts one of the most modern concepts of integration of organizational processes: the Integrated Management System – ERP. The system provides the standardization of processes, greater agility in decision making, security in operations, minimization of operating costs, and increased productivity.

The processes provided for were Human Resources, Training, Purchases of Materials and Services, Accounts Payable, Physical and Tax Receipt, Fixed Asset, Bank Accounting, Control of Availability, Management of Works, Maintenance, Real Estate, Audit and Commissioning on Loans. The continuous training of the tool's users is guided by means of classroom training and e-learning.

12.3. Risk factors and Critical Accounting Policies

The risk factors of the company and of the industry in which it operates, and Bradesco's critical accounting policies, can be found in the 20-F Form, which features significant qualitative and quantitative information on the Bank, including consolidated and audited annual financial statements, in accordance with IFRS (International Financial Reporting Standards) issued by the IASB (International Accounting Standards Board).

decisions based on incorrect or obsolete parameters, inadequate calibration of models, failures in the development stage, or inappropriate use, there is the process of independent validation that stringently evaluates these aspects, challenging the methodology, the assumptions adopted, the data used, the use of the models, as well as the robustness of the environment in which they are implemented, reporting their results to managers, internal audit, and Internal Controls and Compliance Committees – CCIC and Integrated Risk and Capital Allocation Management – COGIRAC.

Information Security

The Information Security in the Organization is composed of a set of controls, represented by procedures, processes, organizational structures, policies, standards and information technology solutions. It intends to meet the basic principles of information security related to confidentiality, integrity and availability.

The Management Bodies of the Organization are involved in decisions on Information Security, by means of a Security Commission and the Executive Committee of Corporate Security.

Form 20-F is filed annually with the SEC (U.S. Securities and Exchange Commission) and can be accessed in English and Portuguese online at bradescom.com.br (Reports and Spreadsheets – SEC Reports).

13. Intangible Assets

On December 31, 2016, based on the price of its shares on the stock exchange, the Fair Value of Bradesco reached R\$160.813 billion, equivalent to 1.6 times the Accounting Shareholders' Equity that was of R\$100.442 billion. This is a difference without doubt induced by the magnitude of intangibles, which, although not reflected in the statement of financial position accounts, are perceived and evaluated by investors.

Through realistic goals, the entire strategic planning developed in the Organization relies on factors of varied nature, inseparable from Sustainability, such as: (i) the value of the Bradesco Brand; (ii) the best practices of corporate governance and corporate culture; (iii) the scale to be achieved in the business; (iv) the large number of existing relationship channels with different publics; (v) a policy of innovative Information Technology; (vi) broad diversification of products, services and solutions offered and the capillarity of the Service Network, present in the entire national territory and in some locations Abroad; (vii) a policy of dynamic and responsible socio-environmental responsibility; (viii) a robust policy of Human Resources that: a) provides the most solid relationship between all employees and, consequently, a higher level of confidence among them; b) signals opportunities of valuation and professional development; c) reduces, substantially, the index of staff

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turnover and the costs associated with it; and d) fomenting, at all levels, a long-term vision.

13.1. Bradesco Brand

In terms of Brand, Bradesco has obtained significant recognitions:

- **Bradesco is the most valuable brand in Brazil in the last 10 years**, according to the ranking published by IstoÉ Dinheiro magazine in partnership with consultancy firm Kantar Vermeer, linked to the British group WPP; and
- **The Bank is in the ranking of the 25 Most Valuable Brazilian Brands of 2016**, according to a study developed by Interbrand, a consultancy specialized in brands.

13.2. Human Resources

People are a key asset in the value creation process of the Bradesco Organization which, at the end of the financial year, counted on 108,793 employees, of whom 94,941 in Banco Bradesco and 13,852 in Affiliated Companies.

Guided by a solid internal culture, characterized by respect and transparency in all relations, the Organization's Human Resources Management

- Hospital and Medical Assistance Health Insurance;
- Dental Health Insurance;
- Supplementary Pension Plan of Retirement and Pensions;
- Group Life Insurance Policies and Collective Personal Accidents;
- Collective Policy of Motor Insurance; and
- VIVA BEM Program, a set of actions that aims to contribute towards improving the Quality of Life of employees – Healthy Management, Cigarette Abandonment, Physical Activity, Health in Shape, Nutritional Guidance and LIG VIVA BEM.

As reputable and independent evaluation of its Human Capital management, in 2016, Bradesco was among the best companies to work in according to the various rankings of renowned magazines, like Época, Você S/A and Valor Carreira, and has counted on the support of reputable specialized consultancies, highlighting the Great Place to Work Institute, Aon Hewitt and Fundação Instituto de Administração – FIA.

ensures the equality of conditions for the full development of its professionals.

R\$165.940 million invested in the year in Corporate Education Programs, with 888,041 participations.

In this sense, UniBrad – Bradesco's Corporate University is highlighted, created in 2013 as part of a broader strategy to evidence the individual skills of their employees, encouraging self-development and offering learning solutions.

R\$1.403 billion invested in Food Program, with the supply of 99,572 daily snacks, besides the meal vouchers and food vouchers.

In addition, UniBrad undertakes constant improvement in educational practices, means, and resources, monitoring technological innovations and access to digital media, stimulating the collaborative construction of knowledge.

7.281 million medical cares under the Hospital and Medical Assistance Health Insurance Plan.

In the Organization, the internal communication also deserves special attention, that edits the magazine "Interação" and the "Sempre em Dia" daily bulletin, available electronically on the IntraNet. By means of announcements and provisions, employees receive information about the policies, guidelines and operational procedures that should be adopted. The Organization also counts on the Presidency's Blog, an internal and interactive channel for information and opinions, between the staff and the Bank's Presidency. TV Bradesco reinforces and extends communications actions, uniting it to the other media to make the content even more visible and dynamic.

528,990 medical cares under the Dental Health Insurance Plan during the year.

13.3. Information Technology

In an constantly changing and increasingly connected world, Bradesco demonstrates its pioneering spirit in innovation and technologies, and also strengthens its strategic vision towards the digital world, investing heavily in modernization and IT infrastructure, aiming to expand the digital inclusion and contribution, creating digital experiences inspired by the demands of customers.

The assistance benefits, which contribute towards the quality of life, well-being and safety of employees and their dependents, at the end of the quarter, comprised 244,599 people. Among them, we highlight:

With this, it offers novelties such as the Digital Check Deposit, now additionally offered to the PJ public, and access to credit card information through Net Empresa Celular. Gradually, Bradesco is updating the self-service machines, with touch screen, immediate deposits with no envelope and online compensation and withdrawals with the innovative NFC (Near Field Communication) technology, which allows the customer to program the withdrawal on the Bank app and make a withdrawal in the machine by simply bringing the cell phone closer.

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Bradesco, as pioneer in the world, brought Watson, the cognitive intelligence of IBM, to Brazil. Nicknamed the BIA (acronym in Portuguese) - Bradesco Artificial Intelligence - is a system that relates to the user, answering questions about the Bank's products and services in natural language, using a chat for desktop and mobile. The whole Branch network has the tool available, in Portuguese, resulting in more agile daily services, convenience for employees and greater autonomy for managers.

In 2016, the integration of HSBC Brasil required the strong presence of the Technology and Business teams, given the renovation of the technology park involving equipment, software, and data communication the service channels of Branches, ATMs, PAs and updating all of the HSBC self-service terminals to touch screen machines.

R\$6.595 billion were the investments made in Infrastructure, Information Technology and Telecommunications, in 2016, as a necessary condition for its continuous growth.

13.4. Research, innovation and new technologies

Bradesco, attentive to changes in the market, actively conducts researches and tests with the Blockchain, Distributed Ledger and Bitcoin technologies built under the logic of network and sharing that have the potential to expand in the coming years. For such accomplishments, it counts

merger or public listing in the future. The proposed investments are focused on the search for startups related to Algorithms and Intelligent Machines, Digital Platforms and Infrastructure, to minimize costs, improve services to clients and obtain an agile and modern infrastructure to support the speed of technological changes.

14. Marketing

Marked by major challenges, 2016 also records important achievements and results. Unprecedented in South America, it was the year of the Olympic and Paralympic Games, to which the Bank became, years earlier, the first official Brazilian sponsor with exclusivity in the financial services and insurance categories, in addition to sponsoring the Relay of the Olympic and Paralympic Torches, and Team Brazil.

In July, Bradesco launched a campaign with the song "Se ligaê", which became the most performed song during the period. During the Rio 2016 Games, Casa BRA was one of the great highlights of the Olympic Park in Barra. The location had a venue dedicated to the Tom and Vinícius mascots, in addition to a space for the emblematic exhibition of all Olympic Torches since Berlin in 1936. Through differentiated platforms, Bradesco launched several campaigns, covering the most varied media and public, strengthening the "BRA" position, with emphasis on Olympic and Paralympic values. One of the most impactful events was the Gabriel film, which portrays the resilience and willpower of the para-athlete Gabriel Neris, becoming one of the most watched videos in the history of YouTube Brazil, with more than 36 million views.

on an interdepartmental workgroup to understand the possible technologies, ecosystem, opportunities, risks, applications and business models and makes ratings of solutions and Bitcoin cases, and studies the main platforms available on the market, such as R3 Corda, IBM Hyperledger Fabric and Ethereum.

Since June 2016, it has been a member of the global consortium R3, which includes the largest financial institutions in the world, and, in October, it was one of the organizers of the international event on the theme. It is also part of the Blockchain Workgroup of Febraban – the Brazilian Bank Federation.

The inovaBra Startups, program of open innovation of Bradesco, was created with the purpose of establishing strategic partnerships with startups, which act as the technological arm in the materialization of the Bank's innovations. The results of the program, already with three editions, are the strengthening of the brand as innovative and the organizational acculturation to intrapreneurship. It also accelerates the process of delivery of resources built with state of the art technology, generating highly innovative solutions that meet the needs of clients.

Bradesco also created the Investment fund inovaBra Ventures, in the corporate venture model, with R\$ 100 million of capital to invest in startups, with the goal of helping them grow and perform a sale transaction,

The return of this integrated communication strategy, developed over the previous years, was crowned with highly satisfactory results, proven by research and the recognition of the market. The Bradesco brand was the one most remembered among the sponsors of the Torch Relay and the Games. It also had the largest share of voice on Twitter.

In parallel to the sports sponsorship activities, the Bank continued to communicate products and services. The "Bradesco. Digital ao seu gosto" ("Bradesco. Digital according to your taste") campaign, launched in April, highlighted the convenience and ease of digital services. In November, it celebrated the 60th anniversary of the Fundação Bradesco with a campaign that highlighted the power of education to transform people's lives.

As it does traditionally, it maintained its support for the diverse Brazilian cultural manifestations Brazilian. Events such as the carnival in Rio de Janeiro, Salvador, and Recife; Círio de Nazaré, in Belém; Farroupilha Week, in Porto Alegre; Natal Luz, in Gramado; Sonho de Natal, in Canela; and Natal Bradesco, in Curitiba, a traditional event at Palácio Avenida.

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398 regional, sector-based and/or professional events throughout the country, including business fairs, seminars, congresses, cultural and community events, counted on the participation of Bradesco in 2016.

15. Sustainability in the Bradesco Organization

Sustainability has always been present in the Bradesco Organization's way of doing business. Committed to the Country's development, it seeks to grow continuous sustainably, respecting the public with which it relates, communities, and the environment.

Business guidelines and strategies are oriented in such a way as to promote the incorporation of the best practices of corporate sustainability in the Organization, taking into account each region's characteristics and potential, contributing to the concept of shared value. We highlight its participation in initiatives such as the Global Compact and, more recently, the Sustainable Development Goals (SDG), the Equator Principles, CDP, Principles for Responsible Investment (PRI), GHG Protocol Program and Empresas pelo Clima (EPC - Business for the Climate Platform).

The extensive work in business management is recognized and Bradesco is once again present in the DJSI (Dow Jones Sustainability Indices) of the New York Stock Exchange and in other important Sustainability indices such as the ISE (Corporate Sustainability Index) and the ICO2 (Carbon Efficient

In the modality of distance learning (EaD), through its e-Learning portal "Escol@ Virtual" (Virtual School), it benefited 657,384 students who concluded at least one of the courses offered in its schedule, besides another 31,756 in projects and actions in partnership with the CDIs (Centers of Digital Inclusion), the Program Educa+Ação and in courses of Technology (Educar e Aprender – Educating and Learning).

The Computer Program for the Visually Impaired, first introduced in 1998, has met and trained since then 12,525 students, promoting the social inclusion of thousands of people.

The Foundation has a positive influence on improving the quality of life of the communities in which it operates, which characterizes it as a "socially responsible investment", in the best sense of the term.

R\$595.553 million was the total of the investment budget of Fundação Bradesco applied in 2016, of which R\$85.035 million were for investments in Infrastructure and Educational Technology, already budgeting for 2017 the amount of R\$625.944 million to defray the educational benefits for: a) 104.228 students in its own Schools, in Basic Education (Kindergarten to High School); Youth and Adult Education; and Preliminary and Continuing Vocational Training; b) 630 thousand students who will complete at least one of the distance-learning courses on offer (EaD); and c) 15,040 people who will benefit through partnership projects and initiatives, including the Digital Inclusion Centers (CIDs), the *Educa+Ação* program and Technology courses.

Index), both part of BM& F BOVESPA.

For more information about Bradesco's initiatives, visit bradescosustentabilidade.com.br and bradesco.com.br/ri.

Fundação Bradesco

In 2016, the Fundação Bradesco, the Organization's main pillar of social action, turned 60. It has provided quality education and investment in the educational training of children, teen, and adults for six decades. Its activities are based on the principle that education is part of the source of equal opportunities, personal and collective achievement, as well as contributing to the construction of a transformative, productive, and dignified society.

With 40 own Schools, installed in high-priority regions of socio-economic deprivation, it is present in all the Brazilian states and Federal District. From January to December, 2016, the Foundation propitiated free and formal quality education to 108,533 students enrolled in its schools at the following levels: Basic Education (Kindergarten to High School) and Vocational Training (High School level); Youth and Adult Education; and Preliminary and Continuing Vocational Training, focused on creating jobs and income. More than 41,000 Basic Education students were provided with free uniforms, school supplies, meals, and medical and dental assistance.

R\$5.853 billion, in restated values, was the amount of resources invested by Fundação Bradesco to defray the cost of its activities, in the last ten years.

R\$316.869 million were the remaining investments made in 2016 by Bradesco Organization in social projects for the communities, focused on education, arts, culture, sports, health, sanitation, combating hunger and food security.

Bradesco Sports and Education Program (*Programa Bradesco Esportes e Educação*)

With 29 years of existence, the Bradesco Sports and Education Program has supported the development of children and teenagers from the age of 8 through sports such as women's basketball and volleyball.

The activities are developed in their own Sports Development Center, in Fundação Bradesco's schools,

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in Municipal and State Sports Centers, in private schools and in a leisure club. Annually, two thousand girls take part, reaffirming the Organization's social commitment and displaying how it values talent, citizenship, as well as education, sport and health.

16. Recognitions

Ratings – To Bradesco, in the period, among the assessment indexes assigned to Banks in the country by Branches and national and international Entities, we recognized that:

- the credit rating agency Moody's Investors Service, due to the downgrading of the sovereign rating, changed the rating of: (i) long-term deposit rating in foreign currency – global scale, from “Baa3” to “Ba3”; (ii) long-term deposit rating in local currency – global scale, from “Baa3” to “Ba2”; (iii) short-term deposit rating in foreign and local currency – global scale, from “P-3” to “NP”; and (iv) long-term deposit rating in local currency – global scale, from “Aaa.br” to “Aa2.br”. Afterwards, as a result of updating the ratings methodology of banks, the long-term local currency rating – domestic scale, increased from “Aa2.br” to “Aa1.br”;
- the credit rating agency Standard & Poor's, due to the downgrading of the sovereign rating, changed the credit rating of issuer of: (i) long-term in foreign currency and in local currency – global scale, from “BB+” to “BB”; and (ii) long-term – national scale, from “brAA+” to “brAA-”;
- **Bradesco is the largest private-sector business group in Brazil**, according to the *Grandes Grupos* annual of the *Valor Econômico* newspaper, whose classification criteria is business income. It further occupies the overall first place in the Finance sector;
- **Bradesco leads the valuation on the Stock Exchange and dividend yield**. According to a survey of *Economática*, Bradesco offered the best profitability of the banking sector to shareholders in Latin America and in the United States. It also figured as the best in the sector in payment of dividends and interest on own capital;
- **For the 17th time, Bradesco integrates the annual list of 150 Best Companies to Work for in Brazil**, according to a research conducted by the *Época* magazine, in partnership with the Great Place to Work Institute;
- **Prominent in the survey *As Melhores na Gestão de Pessoas (The Best in People Management)***, published in the special edition of *Valor Carreira*, edited by the newspaper *Valor Econômico* with the technical support of international consultancy firm Aon;
- **Private bank leader of the research *Folha Top of Mind in the category Top Finanças (Finance)***, prominent as one of the most remembered brands in savings, health plans, insurance and credit card, according to a study based on research of the Datafolha.
- **The most recalled brand by consumers as sponsor of the Rio 2016 Olympic Games**, according to a survey carried out by *Millward Brown*;

- the credit rating agency Fitch Ratings, due to the downgrading of the sovereign rating, has changed the feasibility rating, from “bbb-” to “bb+”, changing the long-term IDRs in foreign currency and in local currency – global scale, from “BBB-” to “BB+”; and the short-term IDRs in foreign currency and in local currency – global scale, from “F3” to “B”. Fitch highlighted that it continues believing that the credit profiles of Bradesco meet the criteria for classification above the sovereign rating; and

- the credit rating agency Austin Rating affirmed all the ratings of the Organization.

Rankings – In 2016, in addition to those mentioned in item 13.1. Bradesco Branding, of this report, renowned national and international publications have highlighted Bradesco many times, among which:

- **According to a study conducted by the Ecomatica consultancy**, published on the Exame.com web portal, Bradesco was the financial institution with the largest growth in fair value in 2016 out of all those listed on the Stock Exchange. **It is also the Bank that had the largest growth in assets in Latin America**, in the period of October 2015 to September 2016;

- **For the 5th consecutive year, the Ombudsman Services of Bradesco and Bradesco Seguros were among the top 10 Best Ombudsman Services in Brazil.** The recognition is granted on the basis of a survey of the ABO – *Associação Brasileira de Ouvidores* (Brazilian Association of Ombudsmen) and Abrarec – *Associação Brasileira das Relações Empresa-Cliente* (Brazilian Association of Business to Client Relations), with the support of the magazine *Consumidor Moderno*;

- **Best manager in short-term funds and shares**, according to the research carried out by Fundação Getúlio Vargas. The bank also featured in the ranking prepared by the Investidor Institucional (Institutional Investor) magazine based on the study by the Luz Soluções Financeira consultancy firm, which features the best managers of institutional funds in 2015;

- **Bradesco, Bradesco Cartões, and Bradesco Seguros, lead the ranking of Best Companies for the Consumer**, in the Banks, Banks and Financial

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Services, and Insurance categories, conducted by *Época* Magazine, in partnership with ReclameAQUI, the country's largest customer-business interaction website;

- **Bradesco BBI was considered Brazil's Best Investment Bank in 2016**, in the 17th edition of Global Finance magazine's World's Best Investment Banks;

- **BRAM – Bradesco Asset Management received from Standard & Poor's**, the biggest credit rating agency in the world, **the level AMP-1 (very strong)**, which is the highest in the scale of quality management of S&P Global Ratings; and

- **Bradesco Corretora leads the ranking with the recommended portfolio Top 10**, which ensured greater profitability to investors in the period from January to September 2016. **The Broker's stock index portfolio achieved**, also, the best return in 2016 in the Value Portfolio of the *Valor Econômico* newspaper.

Awards – From independent opinions, the Organization has won 28 awards in 2016, emphasizing the quality of its products and services, highlighting:

- **Voted Best Bank in Brazil, for the 5th consecutive time, in the category of Best Bank in Brazil**, for the Awards for Excellence 2016, granted by England's Euromoney magazine. Bradesco BBI, was also recognized at the awards, for the second time, as the Best Investment Bank in Brazil.

integrated with a Ford connected car; and Mobile Cash category, with the following cases: Check Deposit via Bradesco Celular for Legal Entities and the Use of Apple Touch ID in Bradesco Apps for Access to Security Keys;

- **Bradesco, through the Viva Bem Program, received a Gold certification in the National Quality of Life Award**, granted by the ABQV – Brazilian Quality of Life Association, which evaluates management and maintenance of the work environment, aimed at the health, safety, and well-being of employees;

- **The Grupo Bradesco Seguros won five trophies at the XVI edition of the Insurance Market Award** (Golden Seagull), promoted by *Seguro Total* magazine. Among the acknowledgments are the Excellence in Sports Incentives, Official Sponsor of the Rio 2016 Olympics, and Global Merit – Best Domestic Performance in Overall Awards; and

- **BRAM – Bradesco Asset Management achieved first place in the Leadership in Responsible Investments category of the ALAS award 20**. It also obtained a prominent position in the Leadership in Corporate Governance and Leadership in Sustainability Research categories.

Certifications – The Management System is the inter-relationship of the parties, of the elements or the units that provide the operation and management of an organized structure, contributing

- **Best Bank of the Year in efinance 2016**, *Executivos Financeiros* magazine, with 14 awards, among them the Bank of the Year; Accessibility; Biometric Innovation, in Means of Payment and in Branches; Education & Training; Datacenter; and Digital Signature;

- **Global Finance Award 2016, with two awards:** Receba Fácil, in the Trade Finance category, such as product and innovative process, and Novo Net Empresa for cell phones, in the Transaction Services category, as an innovative product;

- **ShopFácil.com, best e-commerce in 2016**, the Braspag eAwards award, granted by eWorld company, editor of eShow Magazine, a professional e-commerce and online marketing magazine.

- **Awarded for the 1st time in the 3rd edition of Premios Latinoamérica Verde**, in the Sustainable Finance category, with a case of Financial Inclusion and Sustainable Development in the Amazon. The prize, promoted by CAF – Development Bank of Latin America;

- **Winner of the 15th edition of the Oi Tela Viva Móvel Prize**, in the Internet of Things category, with the *App Bradesco Exclusive* for Android case,

towards achieving operational excellence and the desired results.

Thus, Bradesco Organization counts on the following certifications to its Management System: Corporate Social Responsibility, new internal normative standard, audited by an independent certification body; Occupational Health and Safety Management System – OHSAS 18001; Environmental Management – ISO 14001; GoodPriv@cy – Data Protection and Privacy; Service Organization Control Reports (international standard) – ISAE 3402; Quality Management – ISO 9001 – Standardization Rules; Information Security Management – ISO 27001; and Management of IT services - ISO 20000.

17. Acknowledgments

The achievements and accomplishments are incentives to overcome expectations and to consistently advance more and more. We believe that 2017 will be another challenging year, but with a favorable environment. We must continue the ongoing search for efficiency and quality of operations, products, and services, always aimed at serving the greatest amount of clients and users with security and practicality. For the results achieved, the support and trust of shareholders and clients was decisive, as was the dedicated and tireless work of our employees and other staff. We would like to thank you all.

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Management Report

Cidade de Deus, February 1st, 2017

**Board of Directors
and Board of Executive Officers**

(*) Excluding fair value effect of Available-for-sale Securities recognized under Shareholders' Equity.

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Consolidated Statements of Financial Position on December 31 -In thousands of Reais

Assets	2016	2015
Current assets	749,250,364	673,227,713
Cash and due from banks (Note 6)	14,518,120	17,299,879
Interbank investments (Notes 3d and 7)	176,855,235	140,129,117
Securities purchased under agreements to resell	169,906,737	130,511,423
Interbank investments	6,948,498	9,652,529
Allowance for losses	-	(34,835)
Securities and derivative financial instruments (Notes 3e, 3f, 8 and 32b)	269,012,437	248,484,991
Own portfolio	223,403,755	209,724,106
Subject to repurchase agreements	14,899,855	8,452,170
Derivative financial instruments (Notes 3f, 8d II and 32b)	16,848,033	18,895,657
Given in guarantee to the Brazilian Central Bank	174,207	22,065
Given in guarantee	11,802,783	6,925,291
Securities under resale agreements with free movement	1,883,804	4,465,702
Interbank accounts	58,071,469	54,799,277
Unsettled payments and receipts	12,773	-
Reserve requirement (Note 9):		
- Reserve requirement - Brazilian Central Bank	58,036,531	54,791,894
- SFH	14,388	5,357
Correspondent banks	7,777	2,026
Interdepartmental accounts	157,089	248,466
Internal transfer of funds	157,089	248,466
Loans (Notes 3g, 10 and 32b)	145,315,534	140,927,488
Loans:		
- Public sector	424,233	2,426,506
- Private sector	167,136,576	157,089,468
Loans transferred under an assignment with recourse	806,649	120,130
Allowance for loan losses (Notes 3g, 10f, 10g and 10h)	(23,051,924)	(18,708,616)
Leasing (Notes 2, 3g, 10 and 32b)	1,345,404	1,513,602
Leasing receivables:		
- Private sector	2,708,379	2,962,460
Unearned income from leasing	(1,245,088)	(1,333,300)
Allowance for leasing losses (Notes 3g, 10f, 10g and 10h)	(117,887)	(115,558)
Other receivables	80,091,668	65,611,114
Receivables on sureties and guarantees honored (Note 10a-3)	1,377,161	104,099
Foreign exchange portfolio (Note 11a)	17,620,910	14,369,499
Receivables	1,494,478	1,229,330
Securities trading	1,476,194	1,798,999
Specific receivables	13,339	7,251

Insurance and reinsurance receivables and reinsurance assets – technical provisions	5,145,653	4,480,009
Sundry (Note 11b)	56,100,996	44,761,180
Allowance for other loan losses (Notes 3g, 10f, 10g and 10h)	(3,137,063)	(1,139,253)
Other assets (Note 12)	3,883,408	4,213,779
Other assets	2,868,138	2,172,491
Provision for losses	(1,256,681)	(871,132)
Prepaid expenses (Notes 3i and 12b)	2,271,951	2,912,420
Long-term receivables	399,256,934	327,287,569
Interbank investments (Notes 3d and 7)	780,394	515,131
Interbank investments	780,394	515,131

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Consolidated Statements of Financial Position on December 31 -In thousands of Reais

Assets	2016	2015
Securities and derivative financial instruments (Notes 3e, 3f, 8 and 32b)	170,997,668	105,851,069
Own portfolio	110,936,200	82,248,381
Subject to repurchase agreements	48,044,597	19,969,068
Derivative financial instruments (Notes 3f, 8d II and 32b)	112,912	137,324
Privatization rights	48,706	52,472
Given in guarantee	6,125,523	2,865,797
Securities under resale agreements with free movement	5,729,730	578,027
Interbank accounts	778,254	680,860
Reserve requirement (Note 9):		
- SFH	778,254	680,860
Loans (Notes 3g, 10 and 32b)	164,730,056	162,128,903
Loans:		
- Public sector	3,000,000	3,000,000
- Private sector	164,934,373	160,397,321
Loans transferred under an assignment with recourse	7,955,849	7,390,609
Allowance for loan losses (Notes 3g, 10f, 10g and 10h)	(11,160,166)	(8,659,027)
Leasing (Notes 2, 3g, 10 and 32b)	1,251,358	1,372,827
Leasing receivables:		
- Private sector	2,686,460	2,896,845
Unearned income from leasing	(1,366,395)	(1,453,228)
Allowance for leasing losses (Notes 3g, 10f, 10g and 10h)	(68,707)	(70,790)
Other receivables	59,326,025	55,464,913
Receivables	64,763	10,798
Securities trading	478,290	1,067,781
Sundry (Note 11b)	58,800,589	54,415,506
Allowance for other loan losses (Notes 3g, 10f, 10g and 10h)	(17,617)	(29,172)
Other assets (Note 12)	1,393,179	1,273,866
Prepaid expenses (Notes 3i and 12b)	1,393,179	1,273,866
Permanent assets	31,099,817	18,392,629
Investments (Notes 3j, 13 and 32b)	7,038,394	5,824,255
Equity in the earnings (losses) of unconsolidated and jointly controlled companies:		
- In Brazil	6,885,706	5,682,274
- Overseas	3,347	2,308
Other investments	403,571	390,557
Allowance for losses	(254,230)	(250,884)
Premises and equipment (Notes 3k and 14)	7,722,638	5,495,852
Premises	2,619,176	1,534,405
Other premises and equipment	12,316,106	10,716,605
Accumulated depreciation	(7,212,644)	(6,755,158)

Intangible assets (Notes 3I and 15)	16,338,785	7,072,522
Intangible Assets	28,563,084	16,744,768
Accumulated amortization	(12,224,299)	(9,672,246)
Total	1,179,607,115	1,018,907,911

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

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Consolidated Statements of Financial Position on December 31 -In thousands of Reais

Liabilities	2016	2015
Current liabilities	794,781,421	672,246,388
Deposits (Notes 3n and 16a)	163,468,262	153,414,979
Demand deposits	33,420,111	23,819,720
Savings deposits	97,088,828	91,878,816
Interbank deposits	527,715	419,590
Time deposits (Notes 16a and 32b)	32,431,608	37,296,853
Securities sold under agreements to repurchase (Notes 3n and 16b)	213,799,155	197,859,259
Own portfolio	118,740,171	83,099,701
Third-party portfolio	86,117,804	109,877,186
Unrestricted portfolio	8,941,180	4,882,372
Funds from issuance of securities (Notes 16c and 32b)	92,432,728	53,138,708
Mortgage and real estate notes, letters of credit and others	88,688,899	48,794,240
Securities issued overseas	3,331,680	3,981,183
Structured Operations Certificates	412,149	363,285
Interbank accounts	1,258,040	1,222,426
Cash Receipts of Payments Pending Settlement	-	77,696
Correspondent banks	1,258,040	1,144,730
Interdepartmental accounts	5,830,963	5,161,659
Third-party funds in transit	5,830,963	5,161,659
Borrowing (Notes 17a and 32b)	19,808,555	25,075,833
Borrowing in Brazil - other institutions	4,624	9,544
Borrowing overseas	19,803,931	25,066,289
On-lending in Brazil - official institutions (Notes 17b and 32b)	11,211,567	12,044,476
National treasury	166,565	133,028
BNDES	3,800,239	3,801,626
FINAME	7,243,182	8,099,475
Other institutions	1,581	10,347
On-lending overseas (Notes 17b and 32b)	-	2,502
On-lending overseas	-	2,502
Derivative financial instruments (Notes 3f, 8d II and 32b)	13,242,787	19,246,841
Derivative financial instruments	13,242,787	19,246,841
Technical provisions for insurance, pension plans and capitalization bonds (Notes 3o and 21)	194,886,201	152,331,354
Other liabilities	78,843,163	52,748,351
Payment of taxes and other contributions	731,281	600,820
Foreign exchange portfolio (Note 11a)	8,749,458	5,617,070
Social and statutory	4,631,237	3,770,177
Tax and social security (Note 20a)	3,741,990	4,274,769
Securities trading	2,569,881	2,716,074

Financial and development funds	3,672	5,417
Subordinated debts (Notes 19 and 32b)	11,399,544	467,861
Sundry (Note 20b)	47,016,100	35,296,163
Long-term liabilities	283,457,287	256,836,256
Deposits (Notes 3n and 16a)	70,767,416	42,369,272
Interbank deposits	61,157	46,858
Time deposits (Notes 16a and 32b)	70,706,259	42,322,414
Securities sold under agreements to repurchase (Notes 3n and 16b)	28,179,776	24,418,517
Own portfolio	28,179,776	24,418,517

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Consolidated Statements of Financial Position on December 31 -In thousands of Reais

Liabilities	2016	2015
Funds from issuance of securities (Notes 16c and 32b)	58,374,630	56,407,840
Mortgage and real estate notes, letters of credit and others	55,858,173	50,762,793
Securities issued overseas	2,483,438	5,495,989
Structured Operations Certificates	33,019	149,058
Borrowing (Notes 17a and 32b)	2,356,860	7,056,386
Borrowing in Brazil - other institutions	2,831	6,440
Borrowing overseas	2,354,029	7,049,946
On-lending in Brazil - official institutions (Notes 17b and 32b)	24,819,020	26,158,687
BNDES	10,914,430	8,607,769
FINAME	13,904,590	17,550,918
Derivative financial instruments (Notes 3f, 8d II and 32b)	192,892	98,888
Derivative financial instruments	192,892	98,888
Technical provisions for insurance, pension plans and capitalization bonds (Notes 3o and 21)	28,455,956	25,503,069
Other liabilities	70,310,737	74,823,597
Tax and social security (Note 20a)	11,381,564	10,837,881
Subordinated debts (Notes 19 and 32b)	26,251,948	38,370,136
Eligible Debt Capital Instruments (Notes 19 and 32b)	14,959,571	11,444,939
Sundry (Note 20b)	17,717,654	14,170,641
Deferred income	477,185	523,545
Deferred income	477,185	523,545
Non-controlling interests in subsidiaries (Note 22)	448,809	395,078
Shareholders' equity (Note 23)	100,442,413	88,906,644
Capital:		
- Domiciled in Brazil	50,461,644	45,521,283
- Domiciled overseas	638,356	578,717
Capital increase	-	(3,000,000)
Capital reserves	11,441	11,441
Profit reserves	50,448,602	50,340,806
Asset valuation adjustments	(677,116)	(4,114,555)
Treasury shares (Notes 23d and 32b)	(440,514)	(431,048)
Attributable to equity holders of the Parent Company	100,891,222	89,301,722
Total	1,179,607,115	1,018,907,911

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

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Consolidated Statements of Income for the years ended December 31 -in thousands of Reais

	2016	2015
Revenue from financial intermediation	162,203,853	133,188,251
Loans (Note 10j)	75,345,464	67,045,235
Leasing (Note 10j)	379,628	505,182
Operations with securities (Note 8h)	43,833,650	39,545,820
Financial income from insurance, pension plans and capitalization bonds (Note 8h)	33,140,993	16,262,707
Derivative financial instruments (Note 8h)	7,019,958	285,892
Foreign exchange operations (Note 11a)	(2,996,375)	5,334,154
Reserve requirement (Note 9b)	5,717,559	4,603,995
Sale or transfer of financial assets	(237,024)	(394,734)
Financial intermediation expenses	108,866,146	106,044,116
Retail and professional market funding (Note 16d)	65,871,529	53,297,538
Adjustment for inflation and interest on technical provisions for insurance, pension plans and capitalization bonds (Note 16d)	21,395,550	16,038,504
Borrowing and on-lending (Note 17c)	(2,567,297)	16,096,583
Allowance for loan losses (Notes 3g, 10g and 10h)	24,166,364	20,611,491
Gross income from financial intermediation	53,337,707	27,144,135
Other operating income (expenses)	(25,356,934)	(17,518,708)
Fee and commission income (Note 24)	21,577,407	19,300,970
Other fee and commission income	14,660,337	13,582,292
Income from banking fees	6,917,070	5,718,678
Retained premium from insurance, pension plans and capitalization bonds (Notes 3o and 21c)	70,890,331	64,267,749
Net premiums written	71,196,596	64,611,948
Reinsurance premiums paid	(306,265)	(344,199)
Variation in technical provisions for insurance, pension plans and capitalization bonds (Note 3o)	(32,788,545)	(28,278,672)
Retained claims (Note 3o)	(24,541,957)	(21,724,044)
Capitalization bond prize draws and redemptions (Note 3o)	(5,372,329)	(5,007,233)
Selling expenses from insurance, pension plans and capitalization bonds (Note 3o)	(3,594,724)	(3,307,128)
Payroll and related benefits (Note 25)	(17,271,076)	(14,328,559)
Other administrative expenses (Note 26)	(18,344,649)	(15,641,694)
Tax expenses (Note 27)	(6,331,651)	(4,791,745)
Equity in the earnings (losses) of unconsolidated and jointly controlled companies (Note 13b)	1,665,170	1,485,880

Other operating income (Note 28)	5,726,760	3,546,707
Other operating expenses (Note 29)	(16,971,671)	(13,040,939)
Operating income	27,980,773	9,625,427
Non-operating income (loss) (Note 30)	(821,095)	(512,262)
Income before income tax and social contribution and non-controlling interests	27,159,678	9,113,165
Income tax and social contribution (Notes 34a and 34b)	(11,974,739)	8,182,733
Current income tax	(5,837,434)	(5,394,367)
Current Social Contribution	(3,611,104)	(2,368,460)
Deferred Tax Asset	(2,526,201)	15,945,560
Non-controlling interests in subsidiaries	(101,361)	(106,263)
Net income	15,083,578	17,189,635

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

Bradesco

Consolidated Financial Statements, Independent Auditors' Report, Audit Committee Report Summary and Fiscal

Statements of Changes in Shareholders' Equity for the years ended December 31 -in thousands of Reais

	Capital		Capital reserves	Profit reserves		Asset valuation adjustment		Treasu
	Paid in Capital	Unpaid Capital	Share premium	Legal	Statutory	Bradesco	Subsidiaries	share
Balance on December 31, 2014	38,100,000	-	11,441	5,193,467	38,992,668	(405,477)	(85,834)	(298,01
Capital Increase by Subscription of Shares	3,000,000	(3,000,000)	-	-	-	-	-	-
Capital increase with reserves	5,000,000	-	-	-	(5,000,000)	-	-	-
Acquisition of treasury shares	-	-	-	-	-	-	-	-(133,03
Asset valuation adjustments	-	-	-	-	-	(826,126)	(2,797,118)	-
Net income	-	-	-	-	-	-	-	-
Allocations:- Reserves	-	-	-	859,482	10,295,189	-	-	-
- Interest on Shareholders' Equity Paid	-	-	-	-	-	-	-	-
- Interim Dividends Paid	-	-	-	-	-	-	-	-
Balance on December 31, 2015	46,100,000	(3,000,000)	11,441	6,052,949	44,287,857	(1,231,603)	(2,882,952)	(431,04
Cancellation of Capital Increase by Subscription of Shares	(3,000,000)	3,000,000	-	-	-	-	-	-
Capital increase with reserves	8,000,000	-	-	-	(8,000,000)	-	-	-
Acquisition of treasury shares	-	-	-	-	-	-	-	(9,46
Asset valuation adjustments	-	-	-	-	-	828,443	2,608,996	-
Net income	-	-	-	-	-	-	-	-
Allocations:- Reserves	-	-	-	754,179	7,353,617	-	-	-
- Interest on Shareholders' Equity Paid and/or	-	-	-	-	-	-	-	-

provisioned
Balance on December
31, 2016 **51,100,000** - **11,441,680,128** **43,641,474** **(403,160)** **(273,956)** **(440,51**

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

Economic and Financial Analysis Report – December 2016

Consolidated Financial Statements, Independent Auditors' Report, Audit Committee Report Summary and Fiscal C

Consolidated Statements of Added Value for the years ended December 31 -in thousands of Reais

Description	2016	%	2015
1 – Revenue	153,990,275	297.2	128,844,300
1.1) Financial intermediation	162,203,853	313.1	133,188,200
1.2) Fees and commissions	21,577,407	41.7	19,300,900
1.3) Allowance for loan losses	(24,166,364)	(46.7)	(20,611,490)
1.4) Other	(5,624,621)	(10.9)	(3,033,420)
2 – Financial intermediation expenses	(84,699,782)	(163.5)	(85,432,620)
3 – Inputs acquired from third-parties	(14,917,783)	(28.7)	(12,640,770)
Outsourced services	(5,034,120)	(9.7)	(4,302,270)
Communication	(1,653,055)	(3.2)	(1,427,680)
Data processing	(1,612,454)	(3.1)	(1,219,700)
Advertising and marketing	(1,124,659)	(2.2)	(966,620)
Asset maintenance	(1,060,856)	(2.0)	(925,930)
Financial system services	(1,047,654)	(2.0)	(873,660)
Security and surveillance	(736,547)	(1.4)	(606,290)
Transport	(719,842)	(1.4)	(631,080)
Material, water, electricity and gas	(705,578)	(1.4)	(654,400)
Travel	(174,772)	(0.3)	(157,720)
Other	(1,048,246)	(2.0)	(875,390)
4 – Gross value added (1-2-3)	54,372,710	105.0	30,770,800
5 – Depreciation and amortization	(4,236,273)	(8.2)	(3,114,400)
6 – Net value added produced by the entity (4-5)	50,136,437	96.8	27,656,400
7 – Value added received through transfer	1,665,170	3.2	1,485,800
Equity in the earnings (losses) of unconsolidated and jointly controlled companies	1,665,170	3.2	1,485,800
8 – Value added to distribute (6+7)	51,801,607	100.0	29,142,300
9 – Value added distributed	51,801,607	100.0	29,142,300
9.1) Personnel	15,177,419	29.3	12,497,300
Salaries	8,322,222	16.1	6,448,500
Benefits	3,660,775	7.1	3,028,100
Government Severance Indemnity Fund for Employees (FGTS)	797,810	1.5	602,100
Other	2,396,612	4.6	2,418,400
9.2) Tax, fees and contributions	20,400,047	39.3	(1,559,760)
Federal	19,593,727	37.8	(2,289,130)
State	11,716	-	46,400
Municipal	794,604	1.5	682,900
9.3) Remuneration for providers of capital	1,039,202	2.0	908,900
Rental	1,027,561	2.0	887,300
Asset leasing	11,641	-	21,500
9.4) Value distributed to shareholders	15,184,939	29.4	17,295,800
Interest on Shareholders' Equity/Dividends paid and/or provisioned	6,975,782	13.5	6,034,900
Retained earnings	8,107,796	15.7	11,154,600
Non-controlling interests in retained earnings	101,361	0.2	106,200

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

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Consolidated Financial Statements, Independent Auditors' Report, Audit Committee Report Summary and Fiscal

Consolidated Statement of Cash Flows for the years ended December 31 – In thousands of Reais

	2016	2015
Cash flows from operating activities:		
Income before income tax and social contribution and non-controlling interests	27,159,678	9,113,165
Adjustments to net income before income tax and social contribution	60,937,472	34,170,779
Effect of Changes in Exchange Rates in Cash and Cash equivalents	5,617,747	(2,911,155)
Allowance for loan losses	24,166,364	20,611,491
Depreciation and amortization	4,236,273	3,114,403
Write-offs through Impairment	1,654,961	650,588
Expenses related to civil, labor and tax provisions	2,518,761	3,510,917
Expenses related to adjustment for inflation and interest on technical provisions for insurance, pension plans and capitalization bonds	21,395,550	16,038,504
Equity in the (earnings)/losses of unconsolidated and jointly controlled companies	(1,665,170)	(1,485,880)
(Gain)/loss on sale of investments	(201,485)	110,020
(Gain)/loss on sale of fixed assets	24,791	96,630
(Gain)/loss on sale of foreclosed assets	442,251	180,602
Foreign exchange variation of assets and liabilities overseas/Other	2,747,429	(5,745,341)
Adjusted net income before taxes	88,097,150	43,283,944
(Increase)/Decrease in interbank investments	6,613,272	1,660,584
(Increase)/Decrease in trading securities and derivative financial instruments	(47,228,658)	(64,844,955)
(Increase)/Decrease in interbank and interdepartmental accounts	14,817,209	569,027
(Increase)/Decrease in loans and leasing	17,348,434	(31,082,413)
(Increase)/Decrease in insurance and reinsurance receivables and reinsurance assets	(665,644)	(424,618)
(Increase)/Decrease in other receivables and other assets	13,072,460	(10,879,077)
(Increase)/Decrease in reserve requirement - Central Bank	(2,582,533)	(3,866,988)
Increase/(Decrease) in deposits	(19,133,693)	(15,852,165)
Increase/(Decrease) in securities sold under agreements to repurchase	18,171,400	2,924,746
Increase/(Decrease) in funds from issuance of securities	1,073,705	24,721,115
Increase/(Decrease) in borrowings and on-lending	(17,602,395)	11,339,748
Increase/(Decrease) in technical provisions for insurance, pension plans and capitalization bonds	9,118,117	8,528,836
Increase/(Decrease) in other liabilities	(8,629,960)	5,836,800
Increase/(Decrease) in deferred income	(46,360)	234,815
Income tax and social contribution paid	(9,771,075)	(7,419,802)
Net cash provided by/(used in) by operating activities	62,651,429	(35,270,403)
Cash flow from investing activities:		
(Increase)/Decrease in held-to-maturity securities	(2,969,154)	(2,500,061)
Sale of/maturity of and interest on available-for-sale securities	124,080,962	49,983,751
Proceeds from sale of foreclosed assets	629,768	737,054

Sale of investments	67,323	656,263
Sale of premises and equipment	543,122	561,706
Acquisition of Subsidiaries, Net of Cash and Cash Equivalents Paid	(7,188,659)	-
Purchases of available-for-sale securities	(124,810,463)	(78,933,080)
Investment acquisitions	(10,548)	(1,439,038)
Purchase of premises and equipment	(3,015,682)	(2,256,226)
Intangible asset acquisitions	(2,129,067)	(2,057,876)
Dividends and interest on shareholders' equity received	510,285	847,369
Net cash provided by/(used in) investing activities	(14,292,113)	(34,400,138)
Cash flow from financing activities:		
Increase/(decrease) in subordinated debts	(3,136,353)	14,461,269
Dividends and interest on shareholders' equity paid	(5,561,036)	(4,875,422)
Non-controlling interest	(65,721)	(103,741)
Acquisition of own shares	(9,466)	(133,033)
Net cash provided by/(used in) financing activities	(8,772,576)	9,349,073
Net increase/(decrease) in cash and cash equivalents	39,586,740	(60,321,468)
Cash and cash equivalents - at the beginning of the period	147,261,434	204,671,747
Effect of Changes in Exchange Rates in Cash and Cash equivalents	(5,617,747)	2,911,155
Cash and cash equivalents - at the end of the period	181,230,427	147,261,434
Net increase/(decrease) in cash and cash equivalents	39,586,740	(60,321,468)

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

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Notes to the Consolidated Financial Statements

1) OPERATIONS

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

2) PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Bradesco's consolidated financial statements include the financial statements for Banco Bradesco, its foreign branches and subsidiaries, in Brazil and overseas and SPEs (Special Purpose Entities) and investment funds of which the Organization's companies are the main beneficiaries or holders of the principal obligations, as established by Technical Pronouncement CPC 36 (R3), "Consolidation". These statements were prepared using accounting practices in compliance with Laws No. 4,595/64 (Brazilian Financial System Law) and No. 6,404/76 (Brazilian Corporate Law), including amendments introduced by Laws No. 11,638/07 and No. 11,941/09, as they relate to the accounting for operations, complemented by the rules and instructions of the National Monetary Council (CMN), the Brazilian Central Bank (Bacen), Brazilian Securities and Exchange Commission (CVM), where applicable, National Private Insurance Council (CNSP), Insurance Superintendence (Susep) and National Supplementary Healthcare Agency (ANS). The financial statements of the leasing companies included in the consolidated financial statements were prepared using the finance lease method, under which the carrying amount of leased fixed assets less the residual value paid in advance are reclassified.

For the preparation of these consolidated financial statements, the intercompany transactions, balances of equity accounts, revenue, expenses and unrealized profits were eliminated and net income and shareholders' equity attributable to the non-controlling interests were accounted for in a separate line. Goodwill on the acquisition of investments in subsidiary/associate companies or jointly controlled companies is presented in the investments and intangible assets lines (Note 15a). The foreign exchange variation from foreign branches and investments is presented in the statement of income accounts used for changes in the value of the derivative financial instrument and borrowing and on-lending operations in order to offset these results with the hedges of these investments.

The financial statements include estimates and assumptions, such as: the calculation of estimated loan losses; fair value estimates of certain financial instruments; civil, tax and labor provisions; impairment losses of securities classified as available-for-sale and held-to-maturity securities and non-financial assets;

the calculation of technical provisions for insurance, pension plans and capitalization bonds; and the determination of the useful life of specific assets. Actual results may differ from those based on estimates and assumptions.

Bradesco's consolidated financial statements were approved by the Board of Directors on February 1, 2017.

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

	Activity	On December 31	
		2016	2015
Financial Sector – Brazil			
Ágora Corretora de Títulos e Valores Mobiliários S.A.	Brokerage	100.00%	100.00%
Banco Alvorada S.A.	Banking	99.99%	99.99%
Banco Boavista Interatlântico S.A.	Banking	100.00%	100.00%
Banco Bradescard S.A.	Cards	100.00%	100.00%
Banco Bradesco BBI S.A. (1)	Investment bank	99.81%	99.80%
Banco Bradesco BERJ S.A.	Banking	100.00%	100.00%
Banco Bradesco Cartões S.A.	Cards	100.00%	100.00%
Banco Bradesco Financiamentos S.A.	Banking	100.00%	100.00%
Banco Losango S.A. (5)	Banking	99.99%	-
Bradesco Administradora de Consórcios Ltda.	Consortium management	100.00%	100.00%
Bradesco Leasing S.A. Arrendamento Mercantil	Leasing	100.00%	100.00%
Bradesco S.A. Corretora de Títulos e Valores Mobiliários	Brokerage	100.00%	100.00%
BRAM - Bradesco Asset Management S.A. DTVM	Asset management	100.00%	100.00%
Kirton Administradora de Consórcios Ltda. (5)	Consortium management	100.00%	-
Kirton Bank Brasil S.A. (5) (6)	Banking	100.00%	-
Kirton Corretora de Títulos e Valores Mobiliários S.A. (5)	Brokerage	99.97%	-
Tempo Serviços Ltda.	Services	100.00%	100.00%
Financial Sector – Overseas			
Banco Bradesco Argentina S.A.	Banking	99.99%	99.99%
Banco Bradesco Europa S.A.	Banking	100.00%	100.00%
Banco Bradesco S.A. Grand Cayman Branch (2)	Banking	100.00%	100.00%
Banco Bradesco S.A. New York Branch	Banking	100.00%	100.00%
Bradesco Securities, Inc.	Brokerage	100.00%	100.00%
Bradesco Securities, UK.	Brokerage	100.00%	100.00%
Insurance, Pension Plan and Capitalization Bond Sector			
Atlântica Companhia de Seguros	Insurance	100.00%	100.00%
Bradesco Argentina de Seguros S.A.	Insurance	99.92%	99.92%
Bradesco Auto/RE Companhia de Seguros	Insurance	100.00%	100.00%
Bradesco Capitalização S.A.	Capitalization bonds	100.00%	100.00%
Bradesco Saúde S.A.	Insurance/health	100.00%	100.00%
Bradesco Seguros S.A.	Insurance	100.00%	100.00%

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Bradesco Vida e Previdência S.A.	Pension plan/insurance	100.00%	100.00%
Kirton Capitalização S.A. (5)	Capitalization bonds	99.97%	-
Kirton Seguros S.A. (5)	Insurance	98.08%	-
Kirton Vida e Previdência S.A. (5)	Pension plan/insurance	100.00%	-
Odontoprev S.A.	Dental care	50.01%	50.01%
Other Activities			
Andorra Holdings S.A.	Holding	100.00%	100.00%
Bradseg Participações S.A.	Holding	100.00%	100.00%
Bradescor Corretora de Seguros Ltda.	Insurance brokerage	100.00%	100.00%
Bradesplan Participações Ltda.	Holding	100.00%	100.00%
BSP Empreendimentos Imobiliários S.A.	Real Estate	100.00%	100.00%
Cia. Securitizadora de Créditos Financeiros Rubi	Credit acquisition	100.00%	100.00%
Columbus Holdings S.A.	Holding	100.00%	100.00%
Kirton Participações e Investimentos Ltda. (5)	Holding	100.00%	-
Nova Paiol Participações Ltda.	Holding	100.00%	100.00%
União Participações Ltda.	Holding	100.00%	100.00%

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Notes to the Consolidated Financial Statements

	Activity	On December 31	
		Equity interest	
		2016	2015
Investment Funds (3)			
Bradesco FI RF Master Previdência	Investment Fund	100.00%	100.00%
Bradesco FI RF Master II Previdência	Investment Fund	100.00%	100.00%
Bradesco FI RF Master IV Previdência (4)	Investment Fund	100.00%	-
Bradesco FI Referenciado DI União	Investment Fund	99.94%	99.80%
Bradesco FI Referenciado DI Performance	Investment Fund	100.00%	100.00%
Bradesco FI RF Crédito Privado Master	Investment Fund	100.00%	100.00%
Bradesco Private FIC FI RF PGBL/VGBL Ativo	Investment Fund	100.00%	100.00%
Bradesco F.I.C.F.I. R.F. VGBL F10	Investment Fund	100.00%	100.00%
Bradesco F.I.C.F.I. R.F. VGBL F15	Investment Fund	100.00%	100.00%
Bradesco F.I.C.F.I. R.F. VGBL Fix	Investment Fund	100.00%	100.00%

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

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

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

(4) Consolidation of the fund from April 2016;

(5) Companies originating from the acquisition, in July 2016, of HSBC Brasil (Note 35f); and

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

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

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

b) Income and expense recognition

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

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

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

Insurance and coinsurance premiums, net of premiums paid for coinsurance and related commissions, are recognized upon the issue of the related policies/certificates/endorsements and invoices, or upon the beginning of the exposure to risk in cases in which the risk begins before the policy issuance, and is recognized on a straight-line basis over the policies' effective period through the upfront recognition and subsequent reversal through the statement of income of the unearned premium reserve and the deferred acquisition costs. Revenues from premiums and the corresponding deferred acquisition costs, relating to existing risk for which no policy has been issued, are recognized in the statement of income at the beginning of the risk exposure, based on estimated figures.

The health insurance premiums are recognized in the premiums (results) account or provision for unearned premiums/considerations (PPCNG), according to the period of coverage of contracts in force on the reporting date.

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Notes to the Consolidated Financial Statements

Income and expenses arising from Mandatory Insurance For Personal Injury Caused by Motor Vehicles (DPVAT) insurance operations are recognized based on information provided by Seguradora Líder dos Consórcios do Seguro DPVAT S.A.

Accepted coinsurance and retrocession operations are recognized based on the information received from other insurers and IRB - Brasil Resseguros S.A. (IRB), respectively.

Reinsurance operations are recognized based on the premium and claims information provided, which is subject to the analysis of the re-insurers. The deductions of reinsurance premiums granted are consistent with the recognition of the corresponding insurance premium and/or terms of the reinsurance contract.

Contributions and agency fees are deferred and recognized in the statement of income on a straight-line basis over a period of 24 months for health insurance operations, and 12 months for other operations.

Pension plan contributions and life insurance premiums with survival coverage are recognized in the statement of income as they are received.

The revenue of the capitalization bonds are recognized in the month in which they are issued, according to the types of collection, which may be in monthly payments or in a single payment. Each security has a nominal value, which is restated monetarily by the Reference Rate (TR) + 0.5% interest per month. Technical provisions are recognized when the respective revenues are recognized.

The revenues arising from unclaimed and expired capitalization bonds (securities and non-redeemed draws) are recognized after the prescription period, that is, until November 2003, up to 20 years and five years after this date as established by law. The expenses related to commercialization of capitalization bonds are classified as "Acquisition Costs" and are recognized in the statement of income as incurred.

c) Cash and cash equivalents

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

Cash and cash equivalents detailed balances are presented in Note 6.

d) Interbank investments

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

The breakdown, terms and proceeds relating to interbank investments are presented in Note 7.

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Notes to the Consolidated Financial Statements

e) Securities – Classification

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

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

Classification, breakdown and segmentation of securities are presented in Note 8 (a to c).

f) Derivative financial instruments (assets and liabilities)

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

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

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

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

A breakdown of amounts included as derivative financial instruments, in the statement of financial position and off-balance-sheet accounts, is disclosed in Note 8 (d to g).

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

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

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

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

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

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

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

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

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

Type, values, terms, levels of risk, concentration, economic sector of client's activity, renegotiation and income from loans, as well as the breakdown of expenses and statement of financial position accounts for the allowance for loan losses are presented in Note 10.

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

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

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

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

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

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

The breakdown of income tax and social contribution, showing the calculations, the origin and expected use of deferred tax assets, as well as unrecognized deferred tax assets, is presented in Note 34.

i) Prepaid expenses

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

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

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

Prepaid expenses are shown in detail in Note 12b.

j) Investments

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

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

Subsidiaries are consolidated – the composition of the main companies are disclosed in Note 2. The composition of unconsolidated and jointly controlled companies, as well as other investments, are disclosed in Note 13.

k) Premises and equipment

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

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

The breakdown of asset costs and their corresponding depreciation, as well as the unrecognized surplus value for real estate and the fixed asset ratios, are disclosed in Note 14.

l) Intangible assets

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

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Intangible assets comprise:

- Future profitability/acquired client portfolio and acquisition of right to provide banking services: they are recognized and amortized over the period in which the asset will directly and indirectly contribute to future cash flows and adjusted for impairment, where applicable; and
- Software: stated at cost less amortization calculated on a straight-line basis over the estimated useful life (20% p.a.), from the date it is available for use and adjusted for impairment, where applicable. Internal software development costs are recognized as an intangible asset when it is possible to show the intent and ability to complete and use the software, as well as to reliably measure costs directly attributable to the intangible asset. These costs are amortized during the software's estimated useful life, considering the expected future economic benefits.

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

m) Impairment

Financial and non-financial assets are tested for impairment.

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

An impairment loss of a financial or non-financial asset is recognized in the profit or loss for the period if the carrying amount of an asset or cash-generating unit exceeds its recoverable value. Impairment losses are presented in Note 8c(6), 8h, 13a, 14 and 15c.

n) Securities sold under agreements to repurchase

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

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

o) Technical provisions relating to insurance, pension plans and capitalization bonds

- Damage, health and group insurance lines, except life insurance with survival coverage:
 - The unearned premium reserve (PPNG) is calculated on a daily pro-rata basis, using premiums net of coinsurance, including amounts ceded through reinsurance, and is comprised of the portion corresponding to the remaining period of coverage less initial contracting costs, except for health and personal insurance. The portion of these reserves corresponding to the estimate for risks in effect but not yet contracted is designated 'PPNG-RVNE';
 - The unearned premium or contribution reserve (PPCNG) is calculated on a daily pro-rata basis based on the portion of health insurance premiums corresponding to the remaining period of coverage, of the currently effective contracts;
 - The mathematical reserve for unvested benefits (PMBaC) is calculated as the difference between the current value of future benefits and the current value of future contributions, on obligations already assumed by Bradesco;
 - The mathematical reserve for unvested benefits (PMBaC) relates to the individual health care plan portfolio and covers the risk related to the cover for the holder's dependents for five years following the death of the holder. It is calculated using a 5.1% annual discount rate, the time holders are expected to remain in the plan up to their death, and the projected costs of the five-year-period cover, excluding payment of premiums;

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- For health insurance, the mathematical reserve of benefits granted (PMBC) is constituted by the obligations arising from the contractual clauses of remittance of installments, regarding the coverage of health assistance and by the premiums paid by insured participating in the Bradesco Saúde Insurance Plan - "GBS Plan" considering a discount rate of 5.1% per annum;

- For health insurance, the reserve for claims incurred but not reported (IBNR) is calculated from the final estimate of claims already incurred and still not reported, based on the run-off triangles, monthly that consider the historical development of claims advised in the last 12 months to establish a future projection per period of occurrence;

- For non-life insurance, the reserve for 'incurred but not reported' (IBNR) claims is calculated based on incurred but not paid' (IBNP) claims less the balance of the reserve for 'unsettled' claims (PSL) on the calculation date. A final estimate of IBNP is calculated using semi-annual run-off triangles. The run-off triangles consider the historical development of claims paid in the previous 10 semesters to determine a future projection per occurrence period, and considers the estimated claims 'incurred but not sufficient' reported (IBNER), reflecting the changing expectation of the amount provisioned along the regulatory process;

- For other life insurance, the reserve for 'incurred but not reported' (IBNR) claims is calculated based on incurred but not paid (IBNP) claims less the reserve for unsettled claims (PSL) on the calculation date. A final estimate of IBNP claims is calculated using semi-annual run-off triangles. The run-off triangles consider the historical development of claims paid in the previous 16 semesters to determine a future projection per occurrence period;

- For the acquired insurance of persons portfolio, the reserve for 'incurred but not reported' (IBNR) claims is constituted to cover the expected values to be settled based on incurred but not reported claims until the base date of calculation. It is calculated by the Bornhuetter-Ferguson method, using as a mathematical model run-off triangles of claims incurred from 2001;

- The reserve for unsettled claims (PSL), for life and health insurance, considers all claim notifications received up to the end of the reporting period, including the legal claims and monetarily restated related costs;

- With respect to the insurance portfolios acquired, the reserve for unsettled claims (PSL) is made based on estimates of indemnities, for events incurred and appropriately reported by the insured and/or beneficiaries until the statement of financial position date. It includes lawsuits related to claims, which are constituted based on the analysis of legal advisers for the assessment of risks related to the sum insured. It also includes an estimate of adjustments of incurred but not sufficiently reported (IBNER) for the aggregate development of claims reported but not yet paid, whose values may be changed throughout the process until their final settlement;

- For non-life insurance, the reserve for unsettled claims (PSL) is determined based on the indemnity payment estimates, considering all administrative and judicial claims existing at the reporting date, restated monetarily, net of the expected payments to be received;

- The reserve for related expenses (PDR) for insurance of persons is recognized to cover expenses related to estimated claims and benefits. For products structured in self-funding and partial regimes, the reserve covers claims incurred. For plans structured under a capitalization regime, the reserve is made to cover the expected expenses related to incurred claims and also claims expected to be incurred in the future;

- For damage insurance, the reserve for related expenses is calculated on a monthly basis to cover the expenses related to indemnity payment, and it covers the expenses allocated individually to each claim, as well as expenses related to claims that have not been itemized, that is, those at the level of the portfolio;

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- The reserve for redemptions and other amounts to be settled (PVR) comprises figures related to redemptions to settle, premium refunds owed and portability (transfer-outs) requested but not yet transferred to the recipient insurer;

- The complementary reserve for coverage (PCC) refers to the amount necessary to complement technical provisions, as calculated in the Liability Adequacy Test (LAT), which is prepared using statistical and actuarial methods based on realistic assumptions, taking into account the biometric table BR-EMS of both genders, improvement and forward interest rate curves (ETTJ) free from risk as authorized by SUSEP. The improvement rate is calculated from automatic updates of the biometric table, considering the expected increase in future life expectancy; and

- Other reserves are recognized for the individual health portfolio to address the differences between the expected present value of future premiums and the expected present value of indemnities and related expenses, using an annual discount rate of 5.1%.

- Pension plans and life insurance with survival coverage:
 - The unearned premium reserve (PPNG) is calculated on a daily prorated basis using net contributions, and is comprised of the portion corresponding to the remaining period of coverage and includes an estimate for risks covered but not yet issued (RVNE);

 - The mathematical reserve for unvested benefits (PMBaC) is recognized for participants who have not yet received any benefit. In defined benefit pension plans, the reserve represents the difference between the present value of future benefits and the present value of future contributions, corresponding to obligations in the form of retirement, disability, pension and annuity plans. The reserve is calculated using methodologies and assumptions set forth in the actuarial technical notes;

 - The mathematical reserve for unvested benefits (PMBaC) related to life insurance and unrestricted benefit pension plans (VGBl and PGBl), as well as the defined contribution plans, shows the value of participant contributions, net of costs and other contractual charges, plus income from investment in

pecially constituted investment funds (FIEs);

- The reserve for redemptions and other amounts to be settled (PVR) comprises figures related to redemptions to settle, premium refunds owed and portability requested but not yet transferred to the recipient insurer;

- The mathematical reserve for vested benefits (PMBC) is recognized for participants already receiving benefits and corresponds to the present value of future obligations related to the payment of those on-going benefits;

- The complementary reserve for coverage (PCC) refers to the amount necessary to complement technical provisions, as calculated in the Liability Adequacy Test (LAT), which is prepared semi-annually using statistical and actuarial methods based on realistic assumptions, taking into account the biometric table BR-EMS of both genders, improvement and forward interest rate curves (ETTJ) free from risk as authorized by SUSEP. The improvement rate is calculated from automatic updates of the biometric table, considering the expected increase in future life expectancy;

- The reserve for related expenses (PDR) is recognized to cover expenses related to estimated claims and benefits. For products structured in self-funding and partially regimes, the reserve covers claims incurred. For plans structured under a capitalization regime, the reserve is made to cover the expected expenses related to incurred claims and also claims expected to be incurred in the future;

- The reserve for financial surplus (PEF) corresponds to the portion of income from investment of reserves that exceeds the minimum returns due to policyholders of pension plans that have a profit share clause;

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- The reserve for incurred and not reported (IBNR) events is constituted for claims incurred but not reported and is based on run-off triangles, which consider the loss development of claims in the previous 96 months to set forth a future projection by occurrence period; and

- With respect to the insurance portfolios acquired, the provision of incurred but not reported claims (IBNR) is made to cover the expected values to settle for incurred but not reported claims until the base date of calculation. It is calculated in accordance with the criteria defined in SUSEP Circular No. 517/15 (amended by SUSEP Circular No. 521/15);

- The reserve for unsettled claims (PSL) considers all loss notices received up to the end of the reporting period. The provision is updated for inflation and includes all claims in litigation; and

- With respect to the insurance portfolios acquired, the reserve for unsettled claims (PSL) is made based on estimates of indemnities, for the events incurred and appropriately reported by the insured and/or beneficiaries until the reporting date. It includes lawsuits related to claims, which are constituted based on the analysis of legal advisers for the assessment of risks related to the sum insured. It also comprises values relating to accrued unpaid rent contained in the PMBC, which are written off and included in the PSL.

- Capitalization bonds:
 - The mathematical reserve for capitalization bond (PMC) is recognized for each active or suspended capitalization bond over the term set forth in the general conditions of the plan, and is calculated using the capitalization percentage, applicable to each of the payments made, plus the monthly accrual calculated using the inflation index and the interest rate established in the plan until the bond is redeemed or canceled;

 - The reserve for redemption (PR) comprises the values of matured and early-terminated capitalization bonds and is calculated by updating the balance of bonds whose terms have expired or canceled using the inflation index until the holder receives the redemption payment;

- Reserve for 'draws to be held' (PSR) is recognized to cover premiums for future prize draws, and the balance represents the present value of the draws that have already been funded but have not yet been held. The calculation methodology consists of the accumulation of the prize draw percentage applicable to each payment, as established in the plan, less the amounts related to prize draws that have already occurred. The percentages of payments designated for the prize draws is defined in advance in the actuarial technical note, and is not modified during the term of the bond;

- Reserve for draws payable (PSP) consists of the value of unpaid prize draw amounts, adjusted for inflation for the period between the date of the drawing and its effective settlement; and

- Reserve for administrative expense (PDA) is recognized to cover the cost of maintaining the single payment (PU) capitalization bonds.

Technical provisions shown by account, product and segment, as well as amounts and details of plan assets covering these technical provisions, are shown in Note 21.

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

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

- **Contingent Assets:** these are not recognized in the financial statements, except to the extent that there are real guarantees or favorable judicial decisions, to which no further appeals are applicable, and it is considered virtually certain that cash inflows will flow to Bradesco. Contingent assets with a chance of probable success are disclosed in the notes to the financial statements;

- **Provisions:** these are recognized taking into consideration the opinion of legal counsel, the nature of the lawsuits, similarity with previous lawsuits, complexity and positioning of the courts, whenever

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an entity has a present obligation (legal or constructive) as a result of a past even, it is probable that an outflow of resources will be required to settle the obligation and when the amount can be reliably measured;

- **Contingent Liabilities:** according to CPC 25, the term “contingent” is used for liabilities that are not recognized because their existence will only be confirmed by the occurrence of one or more uncertain future events beyond Management’s control. Contingent liabilities do not meet the criteria for recognition because they are considered as possible losses should only be disclosed in the notes when relevant. Obligations deemed remote are not recognized as a provision nor disclosed; and
- **Legal Obligations – Provision for Tax Risks:** results from judicial proceedings, which contest the applicability of tax laws on the grounds of legality or constitutionality, which, regardless of the assessment of the probability of success, are fully provided for in the financial statements.

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

q) Funding expenses

Expenses related to funding transactions involving the issuance of securities reduce the corresponding liability and are recognized in the profit or loss over the term of the transaction. They are presented in Notes 16c and 19.

r) Other assets and liabilities

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

variations (on a daily prorated basis).

s) Subsequent events

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

They comprise the following:

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

Subsequent events, if any, are described in Note 35.

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From July 2016, Bradesco began consolidating the consolidated financial statements of HSBC Bank Brasil S.A. and its subsidiaries (Note 35f). We presented the main balances of the statement of financial position as of September 30, 2016 and statements of income for the period from July 1, 2016 to September 30, 2016:

	R\$ thousand HSBC Brasil
Assets	
Current and long-term assets	159,557,794
Funds available	1,773,609
Interbank investments	17,455,233
Securities and derivative financial instruments	46,082,476
Interbank and interdepartmental accounts	17,041,653
Loan and leasing	45,196,643
Other receivables	31,687,126
Other assets	321,054
Permanent	1,718,679
- Investments	44,244
- Premises and equipment	1,208,058
- Intangible assets	466,377
Total	161,276,473
Liabilities	
Current and long-term liabilities	153,474,429
Demand, term and other deposits	64,876,504
Securities sold under agreements to repurchase	5,008,704
Funds from Acceptances and Issue of Securities	37,570,595
Interbank and interdepartmental accounts	1,261,678
Borrowing and on-lending	5,701,777
Derivative financial instruments	2,246,825
Provisions for insurance, pension plans and capitalization bonds	15,296,887
Other liabilities	21,511,459
Deferred income	6,010
Non-controlling interests in associated and controlled companies	19,633
Shareholders' equity	7,776,401
Total	161,276,473

	R\$ thousand
	HSBC Brasil
Income from financial intermediation	6,026,518
Expenses from financial intermediation	(3,819,971)
Financial margin	2,206,547
Allowance for Loan Losses (ALL)	(1,187,495)
Gross Income from financial intermediation	1,019,052
Income from insurance, pension plans and capitalization bonds	96,930
Fee and commission income	702,731
Personnel expenses	(1,136,594)
Other administrative expenses	(767,014)
Tax expenses	(242,233)
Equity in associated and jointly controlled companies	30,215
Other operating income / expenses	393,999
Operating income	97,086
Non-operating expense	(67,388)
IT/SC (Income Tax/Soc. Contrib.) and non-controlling interests	60,124
Net income	89,822

In October 2016, approval was granted in an Extraordinary General Meeting for the partial spin-off of HSBC Brasil, through the absorption of portions of its equity by companies of the Organization, enabling

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progress with the integration of operational and technological platforms, resulting in the replacement of the HSBC brand in its service network, becoming Bradesco. Thus, Bradesco began to operate with a unified platform (branches, ATMs, and systems), to which all clients have access to. From now on, Bradesco will add to the products and services already offered to HSBC Brasil clients, a nationwide service network, a state-of-the-art technology platform, and an even more extensive portfolio of products and services.

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Management uses a variety of information, including those from financial statements, prepared in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank, prepared by consolidation criteria that differ in part from the criteria of CPC 36, as described in Note 2.

The main differences of consolidation criteria are shown below, through the Reconciliation of the Statements of financial position and the Statements of Income – Accounting vs. Managerial:

	Accounting Statement of Financial Position	Proportional Companies (1)	2016 Adjustments of Consolidation (2)	Managerial Statement of Financial Position	Accounting Statement of Financial Position
Assets					
Current and long-term assets	1,148,507,298	8,654,972	105,111,756	1,262,274,026	1,000,511,000
Funds available	14,518,120	178,510	-	14,696,630	17,299,640
Interbank investments	177,635,629	566,852	(517,134)	177,685,347	140,640,000
Securities and derivative financial instruments	440,010,105	3,980,138	105,882,672	549,872,915	354,330,000
Interbank and interdepartmental accounts	59,006,812	-	-	59,006,812	55,720,000
Loan and leasing	347,041,036	447,516	-	347,488,552	333,490,000
Allowance for Loan Losses (ALL)	(37,553,364)	(99,583)	-	(37,652,947)	(28,722,000)
Other receivables and assets	147,848,960	3,581,539	(253,782)	151,176,717	127,730,000
Permanent Assets	31,099,817	185,097	-	31,284,914	18,390,000
Investments	7,038,394	(5,260,652)	-	1,777,742	5,820,000
Premises and equipment	7,722,638	242,316	-	7,964,954	5,490,000
Intangible assets	16,338,785	5,203,433	-	21,542,218	7,070,000
Total	1,179,607,115	8,840,069	105,111,756	1,293,558,940	1,018,900,000

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	Accounting Statement of Financial Position	2016 Proportionately consolidated Companies (1)	2016 Adjustments of Consolidation (2)	I S
Liabilities				
Current and long-term liabilities	1,078,238,708	7,742,386	105,111,7561	
Deposits	234,235,678	(22,647)	-	
Securities sold under agreements to repurchase	241,978,931	-	107,091,192	
Funds from Issuance of Securities	150,807,358	-	-	
Interbank and interdepartmental accounts	7,089,003	-	-	
Borrowing and on-lending	58,196,002	-	-	
Derivative financial instruments	13,435,679	-	(1,037,927)	
Provisions for insurance, pension plans and capitalization bonds	223,342,157	-	-	
Other liabilities	149,153,900	7,765,033	(941,509)	
Deferred income	477,185	-	-	
Non-controlling interests in subsidiaries	448,809	1,097,683	-	
Shareholders' equity	100,442,413	-	-	
Total	1,179,607,115	8,840,069	105,111,7561	

	Accounting Statement of Income	2016 Proportionately consolidated Companies (1)	2016 Adjus Conso (I S
Revenue from financial intermediation	162,203,853	539,432	5	
Financial intermediation expenses	(84,699,782)	-	(7,	
Net Interest Income	77,504,071	539,432	(2,	
Allowance for loan losses	(24,166,364)	(209,879)	-	
Gross Income from financial intermediation	53,337,707	329,553	(2,	
Income from Insurance, Pension Plans and Capitalization Bonds	4,592,776	-	-	
Fee and Commission Income	21,577,407	4,498,393	2	
Personnel Expenses	(17,271,076)	(707,134)	-	
Other administrative expenses	(18,344,649)	(1,475,973)	-	
Tax expenses	(6,331,651)	(492,768)	-	
Equity in the Earnings (Losses) of Affiliates and jointly controlled companies	1,665,170	(1,447,603)	-	
Other Operating Income / Expenses	(11,244,911)	(88,299)	-	
Operating Income	27,980,773	616,169	(
Non-Operating Income	(821,095)	(15,223)	-	

IT/SC (Income Tax/Soc. Contrib.) and Non-controlling interests	(12,076,100)	(600,946)
Net Income	15,083,578	-

(1) Refers to the effects of the consolidation adjustments arising from the undertakings consolidated proportionally (Grupo Cielo, Grupo Alelo, Crediare, etc.); and

(2) Refers basically to the effects of the consolidation adjustments arising from the "non-consolidation" of the exclusive funds.

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Notes to the Consolidated Financial Statements**b) Statements of Financial Position and statements of income by segment – Managerial**

In line with CPC 22, the managerial information, hereinafter, was prepared based on reports available to the Management to evaluate the performance and make decisions regarding the allocation of resources for investments and other purposes.

	Financial (1) (2)		Insurance
	Brazil	Overseas	Brazil
Assets			
Current and long-term assets	960,329,197	117,428,452	255,302,6
Funds available	22,876,722	1,308,974	107,1
Interbank investments	175,487,143	2,198,204	
Securities and derivative financial instruments	292,474,064	16,429,776	241,861,0
Interbank and interdepartmental accounts	59,006,812	-	
Loan and leasing	309,322,478	97,365,223	
Allowance for Loan Losses (ALL)	(36,461,222)	(1,191,725)	
Other receivables and assets	137,623,200	1,318,000	13,334,4
Permanent assets	103,258,671	39,958	11,413,7
Investments	77,753,353	-	8,199,6
Premises and equipment	6,385,292	25,820	1,526,2
Intangible assets	19,120,026	14,138	1,687,9
Total in 2016	1,063,587,868	117,468,410	266,716,4
Total in 2015	904,956,084	158,292,692	209,746,9
Liabilities			
Current and long-term liabilities	960,766,550	70,613,784	232,110,5
Deposits	216,886,621	27,323,423	
Securities sold under agreements to repurchase	341,916,195	7,252,884	
Funds from issuance of securities	147,443,481	5,815,118	
Interbank and interdepartmental accounts	7,089,003	-	
Borrowing and on-lending	99,777,466	17,706,929	
Derivative financial instruments	12,185,702	212,050	
Technical provisions from insurance, pension plans and capitalization bonds	-	-	-223,341,5
Other liabilities	135,468,082	12,303,380	8,769,0

Deferred income	452,085	-	22,1
Non-controlling interests in subsidiaries	1,926,820	46,854,626	34,583,7
Shareholders' equity	100,442,413	-	
Total in 2016	1,063,587,868	117,468,410	266,716,4
Total in 2015	904,956,084	158,292,692	209,746,9

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	Financial (1) (2)		Insurance (3)
	Brazil	Overseas	Brazil
Revenue from financial intermediation	138,177,378	3,711,649	27,546,27
Financial intermediation expenses	(70,727,879)	(1,621,409)	(21,395,551)
Net Interest Income	67,449,499	2,090,240	6,150,72
Allowance for loan losses	(22,342,763)	(2,005,159)	
Gross Income from financial intermediation	45,106,736	85,081	6,150,72
Income from Insurance, Pension Plans and Capitalization Bonds	-	-	4,592,75
Fee and Commission Income	26,023,606	262,207	1,788,67
Personnel Expenses	(16,176,004)	(149,391)	(1,384,443)
Other administrative expenses	(17,869,926)	(368,078)	(1,639,896)
Tax expenses	(5,786,570)	(17,621)	(939,220)
Equity in the Earnings (Losses) of Affiliates and jointly controlled companies	(5,830)	-	157,07
Other Operating Income / Expenses	(12,225,303)	(108,633)	800,63
Operating Income	19,066,709	(296,435)	9,526,30
Non-Operating Income	(881,703)	13,434	31,87
IT/SC (Income Tax/Soc. Contrib.) and Non-controlling interests	(8,416,954)	(191,280)	(4,007,513)
Net Income in 2016	9,768,052	(474,281)	5,550,66
Net Income in 2015	10,439,209	1,314,464	5,289,65

(1) The financial segment is comprised of financial institutions, holding companies which are mainly responsible for managing financial resources, and credit card, consortium and asset management companies;

(2) The asset, liability, income and expense balances among companies from the same segment are eliminated;

(3) The Insurance Group segment comprises insurance, pension plan and capitalization bond companies; and

(4) Refers to amounts eliminated among companies from different segments, as well as among operations carried out in Brazil and overseas.

6) CASH AND CASH EQUIVALENTS

	On December 31 - R\$ thousand	
	2016	2015
Cash and due from banks in domestic currency	12,432,290	9,215,083
Cash and due from banks in foreign currency	2,085,650	8,084,654

Investments in gold	180	142
Total cash and due from banks	14,518,120	17,299,879
Interbank investments (1)	166,712,307	129,961,555
Total cash and cash equivalents	181,230,427	147,261,434

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

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Notes to the Consolidated Financial Statements**7) INTERBANK INVESTMENTS****a) Breakdown and maturity**

	On December 31 - R\$ thousand				2016	2015
	1 to 30 days	31 to 180 days	181 to 360 days	More than 360 days		
Securities purchased under agreements to resell:						
Own portfolio position	84,074,852	-	-	-	84,074,852	19,100,000
National treasury notes	42,584,901	-	-	-	42,584,901	10,200,000
Financial treasury bills	28,000,311	-	-	-	28,000,311	1,000,000
National treasury bills	13,211,900	-	-	-	13,211,900	8,200,000
Debentures	271,279	-	-	-	271,279	300,000
Other	6,461	-	-	-	6,461	-
Funded position	83,647,092	1,081,498	-	-	84,728,590	111,000,000
National treasury notes	36,771,099	1,031,173	-	-	37,802,272	67,600,000
National treasury bills	29,552,172	50,325	-	-	29,602,497	43,300,000
Financial treasury bills	17,323,821	-	-	-	17,323,821	-
Short position	978,509	124,786	-	-	1,103,295	300,000
National treasury bills	978,509	124,786	-	-	1,103,295	300,000
Subtotal	168,700,453	1,206,284	-	-	-169,906,737	130,500,000
Interest-earning deposits in other banks:						
Interest-earning deposits in other banks:	3,586,512	1,613,652	1,748,334	780,394	7,728,892	10,100,000
Provision for losses	-	-	-	-	-	(300,000)
Subtotal	3,586,512	1,613,652	1,748,334	780,394	7,728,892	10,100,000
Total in 2016	172,286,965	2,819,936	1,748,334	780,394	177,635,629	140,600,000
%	97.0	1.6	1.0	0.4	100.0	
Total in 2015	134,689,717	4,196,518	1,242,882	515,131		140,600,000
%	95.8	3.0	0.9	0.3		

b) Income from interbank investments

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

	Years ended December 31 - R\$ thousand	
	2016	2015
Income from investments in purchase and sale commitments:		
•Own portfolio position	1,104,879	302,249
•Funded position	20,720,128	19,708,089
•Short position	283,547	382,362
Subtotal	22,108,554	20,392,700
Income from interest-earning deposits in other banks	678,105	529,716
Total (Note 8h)	22,786,659	20,922,416

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Notes to the Consolidated Financial Statements**8) SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS**

Information on securities and derivative financial instruments is as follows:

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

	On December 31 - R\$ thousand							
	Financial	Insurance and Capitalization bonds	Pension plans	Other Activities	2016	%	2015	%
Trading securities	47,593,479	15,329,487	156,878,238	13,233	219,814,437	50.0	163,803,009	46.3
- Government securities	20,656,173	11,592,725	137,588,919	13,233	169,851,050	38.7	96,025,195	27.1
- Corporate securities	9,996,788	3,721,414	19,284,240	-	33,002,442	7.5	48,744,833	13.8
- Derivative financial instruments (1) (5)	16,940,518	15,348	5,079	-	16,960,945	3.8	19,032,981	5.4
Available-for-sale securities (2)	153,122,175	13,371,538	10,683,347	37,941	177,215,001	40.3	150,529,491	42.5
- Government securities	93,506,974	11,846,936	8,863,180	33,265	114,250,355	26.0	95,509,800	27.0
- Corporate securities	59,615,201	1,524,602	1,820,167	4,676	62,964,646	14.3	55,019,691	15.5
Held-to-maturity securities (2)	12,772,270	5,158,754	25,049,643	-	42,980,667	9.7	40,003,560	11.2
- Government securities	33,084	5,158,754	25,049,643	-	30,241,481	6.9	27,446,114	7.7
- Corporate securities	12,739,186	-	-	-	12,739,186	2.8	12,557,446	3.5
Total	213,487,924	33,859,779	192,611,228	51,174	440,010,105	100.0	354,336,060	100.0
- Government securities	114,196,231	28,598,415	171,501,742	46,498	314,342,886	71.6	218,981,109	61.8
- Corporate securities	99,291,693	5,261,364	21,109,486	4,676	125,667,219	28.4	135,354,951	38.2
Total	213,487,924	33,859,779	192,611,228	51,174	440,010,105	100.0	354,336,060	100.0

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

Securities	2016				Fair value/ carrying amount	A
	1 to 30 days	31 to 180 days	181 to 360 days	More than 360 days		
- Financial	20,621,348	3,007,530	2,905,899	21,058,702	47,593,479	5
Financial treasury bills	48,689	2,146	267,714	10,316,750	10,635,299	1
National treasury notes	63,523	200,947	14,452	5,946,429	6,225,351	
Financial bills	222,584	1,308,336	2,056,795	263,705	3,851,420	
Debentures	39,488	16,499	189,039	1,583,753	1,828,779	
National treasury bills	224,866	40,605	241,829	1,561,226	2,068,526	
Brazilian foreign debt notes	1,307,266	-	-	50,759	1,358,025	
Derivative financial instruments (1) (5)	15,733,757	973,846	120,004	112,912	16,940,519	2
Other	2,981,175	465,151	16,066	1,223,168	4,685,560	
- Insurance companies and capitalization bonds	4,113,817	156,763	272,742	10,786,165	15,329,487	1
Financial treasury bills	551,489	-	24,237	10,419,078	10,994,804	1
Financial bills	-	118,683	190,136	140,791	449,610	
Bank deposit certificates	7,441	848	2,056	21,191	31,536	
Debentures	-	-	56,313	25,749	82,062	
Other	3,554,887	37,232	-	179,356	3,771,475	
- Pension plans	2,752,181	3,108,333	5,952,779	145,064,945	156,878,238	15
Financial treasury bills	204,909	-	168,974	53,712,240	54,086,123	5
National treasury notes	32,528	49,849	28,466	46,987,085	47,097,928	4
National treasury bills	95,273	-	99,122	36,210,471	36,404,866	3
Financial bills	691,674	2,947,352	5,321,593	4,719,711	13,680,330	1
Debentures	-	69,849	227,950	3,291,140	3,588,939	
Other	1,727,797	41,283	106,674	144,298	2,020,052	
- Other activities	-	-	-	13,233	13,233	
Financial treasury bills	-	-	-	13,233	13,233	
Total	27,487,346	6,272,626	9,131,420	176,923,045	219,814,437	22
Derivative financial instruments (liabilities) (5)	(12,428,600)	(534,525)	(279,662)	(192,892)	(13,435,679)	(11)

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Notes to the Consolidated Financial Statements**II) Available-for-sale securities**

Securities (6)	2016				Fair value/ carrying amount
	1 to 30 days	31 to 180 days	181 to 360 days	More than 360 days	
					(3) (4)
- Financial	11,375,087	4,216,131	5,123,942	132,407,015	153,122,175
National treasury bills	732,946	-	-4,363,795	52,049,807	57,146,548
Debentures	407,659	1,162,184	496,636	36,667,559	38,734,038
National treasury notes	2,729,317	2,085,986	-	28,650,163	33,465,466
Foreign corporate securities	1,657	37,211	50,188	10,995,554	11,084,610
Shares	6,233,775	-	-	-	6,233,775
Financial treasury bills	129,989	42,210	11,498	2,145,604	2,329,301
Promissory Notes	97,300	512,489	201,825	297,669	1,109,283
Certificates of real estate receivables	21,468	-	-	918,575	940,043
Other	1,020,976	376,051	-	682,084	2,079,111
- Insurance companies and capitalization bonds	3,190,045	-	95,245	10,086,248	13,371,538
National treasury notes	776,603	-	-	9,161,933	9,938,536
National treasury bills	899,543	-	94,367	756,499	1,750,409
Shares	1,473,738	-	-	-	1,473,738
Other	40,161	-	878	167,816	208,855
- Pension plans	1,728,856	22,165	109,331	8,822,995	10,683,347
National treasury notes	-	22,165	108,867	8,706,967	8,837,999
Shares	1,728,856	-	-	-	1,728,856
Debentures	-	-	-	91,311	91,311
Other	-	-	464	24,717	25,181
- Other activities	4,676	-	-	33,265	37,941
Other	4,676	-	-	33,265	37,941
Subtotal	16,298,664	4,238,296	5,328,518	151,349,523	177,215,001
Hedge - cash flow (Note 8f)	-	-	-	-	-
Securities reclassified to "Held-to-maturity securities" (2)	-	-	-	-	-
Total	16,298,664	4,238,296	5,328,518	151,349,523	177,215,001

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III) Held-to-maturity securities

Securities (2)	2016				Fair Value (4)	Gain (loss) not accounted for
	1 to 30 days	31 to 180 days	181 to 360 days	More than 360 days		
- Financial	-	-	-	-12,772,270	12,772,270	11,443,461 (1,328,809)
Certificates of real estate receivables	-	-	-	-12,739,187	12,739,187	11,379,323 (1,359,864)
Others	-	-	-	33,083	33,083	64,138 31,055
- Insurance companies and capitalization bonds	-	-	-	5,158,754	5,158,754	5,620,790 462,036
National treasury notes	-	-	-	5,158,754	5,158,754	5,620,790 462,036
- Pension plans	-	-	-	25,049,643	25,049,643	27,169,137 2,119,494
National treasury notes	-	-	-	25,049,643	25,049,643	27,169,137 2,119,494
Total	-	-	-	42,980,667	42,980,667	44,233,388 1,252,721

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

Securities	On Decem					To
	1 to 30	31 to 180	181 to 360	More than		
	days	days	days	360 days		(
Own portfolio	27,546,587	7,165,310	12,288,461	287,339,597	334,	
Fixed income securities	14,718,380	7,165,310	12,288,461	287,339,597	321,	
National treasury notes	3,748,730	72,014	108,867	100,385,960	104,	
Financial treasury bills	852,170	127	387,606	70,735,376	71,	
National treasury bills	2,310,945	-	2,876,718	50,997,485	56,	
Debentures	447,147	1,248,532	969,937	41,705,148	44,	
Certificates of real estate receivables	21,468	-	-	13,900,480	13,	
Financial bills	940,141	4,750,423	7,568,524	5,124,207	18,	
Foreign corporate securities	187,024	179,281	66,180	2,611,497	3,	
Foreign government bonds	42,777	-	-	325,455		
Brazilian foreign debt securities	1,307,266	-	-	472,868	1,	
Promissory Notes	195,403	512,489	201,825	358,690	1,	
Bank deposit certificates	29,230	401,628	2,056	21,191		
Other	4,636,079	816	106,748	701,240	5,	
Equity securities	12,828,207	-	-	-	12,	
Shares of listed companies (technical provision)	1,731,181	-	-	-	1,	
Shares of other companies	11,097,026	-	-	-	11,	
Restricted securities	485,240	2,371,766	1,856,450	76,382,215	81,	
Subject to repurchase agreements	-	2,312,436	1,710,561	58,921,455	62,	
National treasury bills	-	-	1,688,182	28,636,818	30,	
Foreign corporate securities	-	-	-	8,642,151	8,	
National treasury notes	-	2,286,932	810	19,352,380	21,	
Financial treasury bills	-	25,504	21,569	2,187,265	2,	
Other	-	-	-	102,841		
Brazilian Central Bank	120,363	-	461	53,383		
National treasury bills	-	-	461	53,383		
Financial treasury bills	120,363	-	-	-		
Privatization rights	-	-	-	48,706		
Guarantees provided	364,877	59,330	145,428	17,358,671	17,	
National treasury notes	-	-	42,109	9,094,299	9,	
National treasury bills	-	40,605	38,729	5,157,724	5,	
Financial treasury bills	2,709	18,725	64,590	3,106,648	3,	
Other	362,168	-	-	-		

Derivative financial instruments (1) (5)	15,754,183	973,846	120,004	112,912	16,000
Securities subject to unrestricted repurchase agreements	-	-	195,023	7,418,511	7,418,511
National treasury bills	-	-	195,023	5,739,971	5,739,971
National treasury notes	-	-	-	926,099	926,099
Financial treasury bills	-	-	-	752,441	752,441
Total	43,786,010	10,510,922	14,459,938	371,253,235	440,000,000
%	10.0	2.4	3.3	84.3	

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Securities	On December 31 - R\$ thousand					
	1 to 30	31 to 180	181 to 360	More than 360 days	Total in 2016	Total in 2015
	days	days	days	360 days	(3) (4)	(3) (4)
Privatization rights	-	-	-	48,706	48,706	52,472
Guarantees provided	364,877	59,330	145,428	17,358,671	17,928,306	9,791,088
National treasury notes	-	-	42,109	9,094,299	9,136,408	5,207,012
National treasury bills	-	40,605	38,729	5,157,724	5,237,058	2,697,150
Financial treasury bills	2,709	18,725	64,590	3,106,648	3,192,672	1,877,455
Other	362,168	-	-	-	362,168	9,471
Derivative financial instruments (1) (5)	15,754,183	973,846	120,004	112,912	16,960,945	19,032,981
Securities subject to unrestricted repurchase agreements	-	-	195,023	7,418,511	7,613,534	5,043,729
National treasury bills	-	-	195,023	5,739,971	5,934,994	4,888,270
National treasury notes	-	-	-	926,099	926,099	155,459
Financial treasury bills	-	-	-	752,441	752,441	-
Total	43,786,010	10,510,922	14,459,938	371,253,235	440,010,105	354,336,060
%	10.0	2.4	3.3	84.3	100.0	100.0

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

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

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

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

(5) Includes hedge for protection of assets and liabilities, denominated in or indexed to foreign currency, primarily, arising from foreign investments, eliminating the effects of exchange variation of these assets and liabilities. For a better analysis of these items, consider the net exposure (Note 8d II); and

(6) In the year ended December 31, 2016, there were impairment losses in the amount of R\$1,372,488 thousand, related to securities classified in the category "Available-for-Sale Securities" (R\$424,522 thousand in 2015).

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d) Derivative financial instruments

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

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

Quoted market prices are used to determine the fair value of derivative financial instruments. The fair value of swaps is determined by using discounted cash flow modeling techniques that use yield curves, reflecting adequate risk factors. The information to build yield curves is mainly obtained from the Securities, Commodities and Futures Exchange (BM&FBOVESPA) and the domestic and international secondary market. These yield curves are used to determine the fair value of currency swaps, interest rate and other risk factor swaps. The fair value of forward and futures contracts is also determined based on market price quotations for derivatives traded on an exchange or using methodologies similar to those outlined for swaps. The fair values of credit derivative instruments are determined based on market price quotation or from specialized entities. The fair value of options is determined based on mathematical models, such as Black & Scholes, using yield curves, implied volatilities and the fair value of corresponding assets. Current market prices are used to calculate volatility.

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

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

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

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	Years ended December 31 - R\$ thousand			
	2016		2015	
	Reference value	Net amount	Reference value	Net amount
Futures contracts				
Purchase commitments:	138,474,592	-	154,697,805	-
- Interbank market	111,026,397	16,348,810	120,562,790	70,073,264
- Foreign currency (1)	27,399,904	-	34,101,616	-
- Other	48,291	47,324	33,399	-
Sale commitments:	153,368,572	-	91,914,641	-
- Interbank market (2)	94,677,587	-	50,489,526	-
- Foreign currency (3)	58,690,018	31,290,114	41,360,434	7,258,818
- Other	967	-	64,681	31,282
Option contracts				
Purchase commitments:	13,062,057	-	4,427,686	-
- Interbank market	5,467,042	711,254	3,840,166	201,976
- Foreign currency	7,567,515	4,731,221	559,071	-
- Other	27,500	27,500	28,449	-
Sale commitments:	7,592,082	-	9,901,395	-
- Interbank market	4,755,788	-	3,638,190	-
- Foreign currency	2,836,294	-	6,233,860	5,674,789
- Other	-	-	29,345	896
Forward contracts				
Purchase commitments:	16,681,944	-	15,132,203	-
- Foreign currency	16,633,033	-	15,014,083	-
- Other	48,911	-	118,120	-
Sale commitments:	19,624,952	-	16,206,711	-
- Foreign currency	18,036,707	1,403,674	16,056,742	1,042,659
- Other	1,588,245	1,539,334	149,969	31,849
Swap contracts				
Assets (long position):	79,574,142	-	125,698,733	-
- Interbank market	20,405,389	11,593,816	45,695,726	-
- Fixed rate	50,100,855	25,274,411	43,858,054	40,363,110
- Foreign currency	7,276,143	-	33,543,125	22,011,883
- IGPM	768,950	-	1,336,950	1,141,950
- Other	1,022,805	-	1,264,878	-

Liabilities (short position):	50,948,335	-	72,328,360	-
- Interbank market	8,811,573	-	53,980,094	8,284,368
- Fixed rate	24,826,444	-	3,494,944	-
- Foreign currency	14,201,872	6,925,729	11,531,242	-
- IGPM	1,010,500	241,550	195,000	-
- Other	2,097,946	1,075,141	3,127,080	1,862,202

Derivatives include operations maturing in D+1.

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

(2) Includes, on December 31, 2016, cash flow hedges to protect IDI-related investments, totaling R\$21,502,218 thousand (Note 8f) (R\$28,251,095 thousand in 2015); and

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

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

	2016			On December 31 - R\$ thousand		
	Original amortized cost	Mark-to-market adjustment	Fair value	Original amortized cost	Mark-to-market adjustment	Fair value
Adjustment receivable - swaps (1)	22,759,626	(9,313,969)	13,445,657	23,592,073	(7,028,285)	16,563,788
Adjustment receivable - future	9,021	-	9,021	75,217	-	75,217
Receivable forward purchases	150,086	-	150,086	1,863,780	-	1,863,780
Receivable forward sales	3,035,377	-	3,035,377	322,215	-	322,215
Premiums on exercisable options	354,953	(34,149)	320,804	225,765	(17,784)	207,981
Total assets (A)	26,309,063	(9,348,118)	16,960,945	26,079,050	(7,046,069)	19,032,981
Adjustment payables - swaps	(8,749,335)	(1,735,313)	(10,484,648)	(10,112,722)	(5,863,369)	(15,976,091)
Adjustment payables - future	(19,164)	-	(19,164)	(20,614)	-	(20,614)
Payable forward purchases	(1,084,258)	-	(1,084,258)	(47,195)	-	(47,195)
Payable forward sales/other	(1,584,951)	-	(1,584,951)	(3,180,895)	-	(3,180,895)
Premiums on written options	(262,585)	(73)	(262,658)	(140,269)	19,335	(120,934)
Total liabilities (B)	(11,700,293)	(1,735,386)	(13,435,679)	(13,501,695)	(5,844,034)	(19,345,729)
Net Effect (A-B)	14,608,770	(11,083,504)	3,525,266	12,577,355	(12,890,103)	(311,747)

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

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

	On December 31 - R\$ thousand				2016	2015
	1 to 90 days	91 to 180 days	181 to 360 days	More than 360 days		
Futures contracts (1)	159,796,841	9,530,011	9,844,936	112,671,376	291,843,164	246,612,446
Option contracts	16,550,098	587,986	2,988,624	527,431	20,654,139	14,329,081

Forward contracts	20,894,960	7,554,290	4,453,133	3,404,513	36,306,896	31,338,914
Swap contracts (1)	18,606,093	11,307,608	8,824,006	91,784,770	130,522,477	198,027,093
Total in 2016	215,847,992	28,979,895	26,110,699	208,388,090	479,326,676	
Total in 2015	257,751,834	55,752,780	39,247,229	137,555,691		490,307,534

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

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Notes to the Consolidated Financial Statements**IV) Types of margin offered in guarantee of derivative financial instruments, mainly futures contracts**

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

V) Revenues and expenses, net

	Years ended December 31 - R\$ thousand	
	2016	2015
Swap contracts (1)	2,794,186	(178,784)
Forward contracts	386,374	9,086
Option contracts	(216,376)	132,730
Futures contracts (1) (2)	7,542,861	(4,147,980)
Foreign exchange variation of assets and liabilities overseas	(3,487,087)	4,470,840
Total (Note 8h)	7,019,958	285,892

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

(2) Includes the results and respective adjustment to the fair value of the hedge of the firm commitment, concerning the purchase and sale of shares agreement, which was offset, completely, by the adjustment of the fair value of the hedge object (Note 35f).

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

	On December 31 - R\$ thousand	
	2016	2015
BM&FBOVESPA (stock exchange)	298,318,114	194,819,447
CETIP (over-the-counter)	154,396,924	251,873,527
Overseas (stock exchange) (1)	16,835,168	25,776,762
Overseas (over-the-counter) (1)	9,776,470	17,837,798
Total	479,326,676	490,307,534

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

e) Credit Default Swaps (CDS)

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

f) Cash flow hedge

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

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Notes to the Consolidated Financial Statements**g) Hedge against market risk**

On December 31, 2015, Bradesco had a hedge against market risk using the futures contracts and, later, with cash in foreign currencies which generated R\$(1,406,154) thousand, for protection from the effects of the exchange rate variation of the firm commitment, related to the contract for the purchase and sale of shares (Note 35f), which produced an adjustment at fair value of R\$(1,761,964) thousand. The effect of these operations resulted in the revenue of R\$(355,810) thousand. The effectiveness of the hedge portfolio was assessed in accordance with Bacen Circular Letter No. 3,082/02.

h) Income from securities, insurance, pension plans and capitalization bonds, and derivative financial instruments

	Years ended December 31 - R\$ thousand	
	2016	2015
Fixed income securities (1)	21,262,919	18,465,008
Interbank investments (Note 7b)	22,786,659	20,922,416
Equity securities (2)	(215,928)	158,396
Subtotal	43,833,650	39,545,820
Income from insurance, pension plans and capitalization bonds (3)	33,140,993	16,262,707
Income from derivative financial instruments (Note 8d V)	7,019,958	285,892
Total	83,994,601	56,094,419

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

(2) During the years ended December 31, 2016 and 2015, it includes the losses through impairment to the sum of R\$108,294 thousand (R\$135,850 thousand in 2015); and

(3) During the years ended December 31, 2016 and 2015, it includes the losses through impairment to the sum of R\$27,887 thousand (R\$288,672 thousand in 2015).

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Notes to the Consolidated Financial Statements**9) INTERBANK ACCOUNTS – RESERVE REQUIREMENT****a) Reserve requirement**

		On December 31 - R\$ thousand	
		2016	2015
Compulsory deposit – demand deposits	Remuneration not remunerated	7,266,416	3,889,953
Compulsory deposit – savings deposits	savings index	19,164,904	19,406,668
Compulsory deposit – time deposits	Selic rate	16,798,087	16,399,981
Additional compulsory deposit – savings deposits	Selic rate	5,245,387	5,023,233
Additional compulsory deposit – time deposits	Selic rate	9,561,737	10,072,059
Reserve requirement – SFH	TR + interest rate	792,642	686,217
Total		58,829,173	55,478,111

b) Revenue from reserve requirement

		Years ended December 31 - R\$ thousand	
		2016	2015
Reserve requirement – Bacen (Compulsory deposit)		5,667,516	4,587,412
Reserve requirement – SFH		50,043	16,583
Total		5,717,559	4,603,995

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Notes to the Consolidated Financial Statements**10) LOANS**

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

a) By type and maturity

	1 to 30	31 to 60	61 to 90	91 to 180	Performing loan 181 to 360	Mo 36
	days	days	days	days	days	36
Discounted trade receivables and loans (1)	22,117,812	12,452,893	11,195,109	20,533,403	23,484,220	66
Financing	4,400,160	4,253,848	3,907,304	11,747,259	17,374,933	89
Agricultural and agribusiness loans	559,902	689,399	683,149	2,333,820	7,646,902	8
Subtotal	27,077,874	17,396,140	15,785,562	34,614,482	48,506,055	165
Leasing	150,254	145,700	122,509	347,187	543,625	1
Advances on foreign exchange contracts (2)	967,490	1,952,177	1,781,249	2,569,210	1,833,864	
Subtotal	28,195,618	19,494,017	17,689,320	37,530,879	50,883,544	166
Other receivables (3)	12,000,401	7,722,194	2,674,764	5,300,863	4,473,881	1
Total loans	40,196,019	27,216,211	20,364,084	42,831,742	55,357,425	168
Sureties and guarantees (4)	4,331,635	1,665,670	1,180,338	5,947,167	15,753,938	50
Loan assignment - real estate receivables certificate	42,003	42,000	41,998	120,872	180,390	
Acquisition of credit card receivables	391,601	159,946	76,165	104,462	43,677	
Loans available for import (4)	75,508	39,131	73,046	92,911	39,940	
Confirmed exports loans (4)	4,158	6,562	1,957	33,572	20,000	
Co-obligation from assignment of rural loan (4)	-	-	-	-	-	
Total in 2016	45,040,924	29,129,520	21,737,588	49,130,726	71,395,370	219
Total in 2015	41,227,767	28,644,236	18,834,662	44,695,154	63,115,075	215

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	Non-performing loans Past-due installments					Total in 2016 (B)	On December 31, 2016 % (5)
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 540 days		
Discounted trade receivables and loans (1)	1,672,172	1,758,119	1,382,318	3,516,699	5,312,276	13,641,584	77.5%
Financing	453,890	252,132	181,015	454,530	313,661	1,655,228	9.4%
Agricultural and agribusiness loans	49,508	87,949	125,903	150,550	72,099	486,009	2.8%
Subtotal	2,175,570	2,098,200	1,689,236	4,121,779	5,698,036	15,782,821	89.7%
Leasing	12,158	10,380	7,737	15,054	10,047	55,376	0.3%
Advances on foreign exchange contracts (2)	10,356	50,944	47,428	13,115	-	121,843	0.7%
Subtotal	2,198,084	2,159,524	1,744,401	4,149,948	5,708,083	15,960,040	90.7%
Other receivables (3)	1,118,926	36,377	33,112	220,308	229,258	1,637,981	9.3%
Total in 2016	3,317,010	2,195,901	1,777,513	4,370,256	5,937,341	17,598,021	100.0%
Total in 2015	1,904,667	1,542,068	1,268,818	3,087,458	3,766,818		

	Non-performing loans Installments not yet due						Total in 2016 (C)	On December 31, 2016
	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	More than 360 days		
Discounted trade receivables and loans (1)	920,191	798,500	666,293	1,647,896	2,554,261	6,348,564	12,935,700	
Financing	283,015	261,438	237,406	694,800	1,046,003	3,752,642	6,275,300	
Agricultural and agribusiness loans	810	1,720	2,239	13,709	76,243	231,888	326,600	
Subtotal	1,204,016	1,061,658	905,938	2,356,405	3,676,507	10,333,094	19,537,600	
Leasing	11,115	11,491	9,569	26,170	40,295	72,166	170,800	
Subtotal	1,215,131	1,073,149	915,507	2,382,575	3,716,802	10,405,260	19,708,400	
Other receivables (3)	4,381	3,841	3,269	7,906	9,302	12,780	41,470	
Total in 2016	1,219,512	1,076,990	918,776	2,390,481	3,726,104	10,418,040	19,749,900	
Total in 2015	1,016,136	845,915	795,048	1,931,685	3,096,455	7,885,374		

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Notes to the Consolidated Financial Statements

	On December 31 - R\$ thousand			
	Total		Total	
	Total in 2016	% (5)	Total in 2015	% (5)
	(A+B+C)		(A+B+C)	
Discounted trade receivables and loans (1)	183,209,469	38.6	178,794,555	40.7
Financing	139,377,225	29.5	130,785,647	29.8
Agricultural and agribusiness loans	21,670,986	4.6	20,843,832	4.7
Subtotal	344,257,680	72.7	330,424,034	75.2
Leasing	2,783,356	0.6	3,072,777	0.7
Advances on foreign exchange contracts (2) (Note 11a)	9,225,833	2.0	7,646,767	1.7
Subtotal	356,266,869	75.3	341,143,578	77.6
Other receivables (3)	35,304,722	7.5	25,423,848	5.8
Total loans	391,571,591	82.8	366,567,426	83.4
Sureties and guarantees (4)	78,947,801	16.7	69,882,893	15.9
Loan assignment – real estate receivables certificate	1,033,748	0.2	1,159,747	0.3
Acquisition of credit card receivables	775,851	0.2	1,292,981	0.3
Loans available for import (4)	329,015	0.1	245,751	0.1
Confirmed exports loans (4)	66,249	-	40,092	-
Co-obligation from assignment of rural loan (4)	81,653	-	91,234	-
Total in 2016	472,805,908	100.0		
Total in 2015			439,280,124	100.0

(1) Including credit card loans and advances on credit card receivables of R\$17,346,771 thousand (R\$16,706,143 thousand in 2015);

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

(3) The item “Other Receivables” comprises receivables on sureties and guarantees honored, receivables on sale of assets, securities and credits receivable, income receivable from foreign exchange contracts and export contracts and credit card receivables (cash and installment purchases at merchants) totaling R\$25,523,747 thousand (R\$20,706,029 thousand in 2015);

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

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

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

	Levels					
	AA	A	B	C	D	E
Discounted trade receivables and loans	33,117,864	77,588,073	11,898,656	23,611,553	8,803,562	4,607,121
Financing	83,451,539	21,430,251	19,625,099	6,780,829	3,120,351	1,191,930
Agricultural and agribusiness loans	5,604,641	4,857,598	7,730,504	2,078,275	753,810	263,822
Subtotal	122,174,044	103,875,922	39,254,259	32,470,657	12,677,723	6,062,883
Leasing	337,586	444,775	1,700,257	51,298	52,951	30,700
Advances on foreign exchange contracts (2)	2,448,149	3,033,800	2,051,733	1,409,647	132,081	45,160
Subtotal	124,959,779	107,354,497	43,006,249	33,931,602	12,862,755	6,138,750
Other receivables	4,110,126	20,930,144	3,142,960	4,249,207	295,470	98,540
Total in 2016	129,069,905	128,284,641	46,149,209	38,180,809	13,158,225	6,237,300
%	32.9	32.8	11.8	9.7	3.4	1.6
Total in 2015	75,718,718	147,400,089	65,215,037	43,933,865	10,012,021	3,781,660
%	20.7	40.2	17.8	12.0	2.7	1.0

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

(2) See Note 11a.

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

	Levels of risk Non-performing loans								On De
	AAA	B	C	D	E	F	G	H	Total in 2016
Installments not yet due	-	-	-	-	-	-	-	-	-
1 to 30	-	155,608	239,219	157,366	101,170	77,550	72,240	416,359	1,219,5
31 to 60	-	109,183	188,406	144,211	92,166	74,126	69,447	399,451	1,076,9
61 to 90	-	92,455	150,753	126,736	80,949	65,152	59,492	343,239	918,7
91 to 180	-	195,054	379,843	341,149	220,775	173,242	159,361	921,057	2,390,4
181 to 360	-	242,297	627,202	548,591	364,466	279,119	250,585	1,413,844	3,726,1
More than 360	-	468,802	2,039,180	1,996,230	1,050,350	745,671	599,728	3,518,079	10,418,0
Past-due installments (2)	-	-	-	-	-	-	-	-	-
1 to 14	-	5,505	88,200	102,121	219,644	33,159	24,955	339,397	812,9
15 to 30	-	413,326	320,794	151,101	89,932	53,595	44,421	1,430,860	2,504,0
31 to 60	-	8,474	805,665	337,660	177,050	107,436	237,680	521,936	2,195,9
61 to 90	-	-	37,176	723,007	206,314	220,994	104,667	485,355	1,777,5
91 to 180	-	-	6,137	33,032	648,686	747,656	925,869	2,008,876	4,370,2
181 to 360	-	-	-	-	13,198	22,712	21,643	5,666,957	5,724,5
More than 360	-	-	-	-	-	-	-	212,831	212,8
Subtotal	-	-	-	-	-	-	-	-	-
Specific provision	-	16,907	146,477	466,120	979,410	1,300,206	1,799,062	17,678,241	22,386,4

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

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

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	Levels of risk Performing loans							
	AA	A	B	C	D	E	F	G
Installments not yet due	129,069,905	128,284,641	44,458,505	33,298,234	8,497,021	2,972,602	1,151,478	521
1 to 30	8,203,054	19,287,942	3,765,313	6,317,054	1,074,814	236,517	115,670	84
31 to 60	6,132,399	12,813,926	3,051,071	3,989,557	471,706	171,645	99,616	38
61 to 90	6,873,258	7,862,674	1,878,330	2,625,804	464,678	135,687	48,250	30
91 to 180	13,719,791	16,724,120	5,795,228	4,863,215	617,040	370,003	90,126	74
181 to 360	18,284,626	21,857,183	7,404,915	5,396,954	819,206	481,945	228,954	85
More than 360	75,856,777	49,738,796	22,563,648	10,105,650	5,049,577	1,576,805	568,862	207
Generic provision	-	641,555	444,585	998,947	850,204	891,781	575,739	365
Total in 2016 (2)	129,069,905	128,284,641	46,149,209	38,180,809	13,158,225	6,237,302	3,751,890	3,091
Existing provision	-	833,582	1,001,045	2,436,724	3,924,930	3,075,705	2,617,992	3,076
Minimum required provision	-	641,555	461,492	1,145,424	1,316,324	1,871,191	1,875,945	2,164
Excess provision (3)	-	192,027	539,553	1,291,300	2,608,606	1,204,514	742,047	912
Total in 2015 (2)	75,718,718	147,400,089	65,215,037	43,933,865	10,012,021	3,781,664	3,433,779	2,080
Existing provision	-	842,256	746,626	3,994,052	2,557,018	1,850,771	2,364,740	2,069
Minimum required provision	-	737,049	652,150	1,318,016	1,001,202	1,134,499	1,716,890	1,456
Excess provision (3)	-	105,207	94,476	2,676,036	1,555,816	716,272	647,850	613

(1) Percentage of maturities by type of installment;

(2) The total includes performing loans of R\$354,223,667 thousand (R\$339,426,984 thousand in 2015) and non-performing loans of R\$37,347,924 thousand (R\$27,140,442 thousand in 2015); and

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

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Notes to the Consolidated Financial Statements**d) Concentration of loans**

	On December 31 - R\$ thousand			
	2016	% (1)	2015	% (1)
Largest borrower	8,813,581	2.3	10,241,594	2.8
10 largest borrowers	33,142,835	8.5	33,934,087	9.2
20 largest borrowers	49,304,501	12.6	49,215,450	13.4
50 largest borrowers	72,750,721	18.6	72,260,779	19.7
100 largest borrowers	90,181,624	23.0	88,061,715	24.0

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

e) By economic sector

	On December 31 - R\$ thousand			
	2016	%	2015	%
Public sector	8,813,581	2.3	10,250,375	2.8
Federal government	8,813,581	2.3	10,241,594	2.8
Petrochemical	8,813,581	2.3	10,241,594	2.8
State government	-	-	8,781	-
Production and distribution of electricity	-	-	8,781	-
Private sector	382,758,010	97.7	356,317,051	97.2
Manufacturing	68,659,155	17.6	65,158,128	17.6
Food products and beverages	16,616,458	4.2	13,663,410	3.7
Steel, metallurgy and mechanics	12,037,852	3.1	11,036,550	3.0
Light and heavy vehicles	9,661,882	2.5	8,690,405	2.4
Pulp and paper	5,307,358	1.4	4,532,249	1.2
Chemical	3,729,962	1.0	5,623,541	1.5
Textiles and apparel	2,702,434	0.7	2,905,258	0.8
Automotive parts and accessories	2,653,298	0.7	2,135,485	0.6
Rubber and plastic articles	2,628,035	0.7	2,820,736	0.8
Non-metallic materials	2,539,204	0.6	1,948,504	0.5
Furniture and wood products	2,031,428	0.5	2,118,945	0.6
Extraction of metallic and non-metallic ores	1,639,453	0.4	2,390,913	0.6
Oil refining and production of alcohol	1,351,070	0.3	1,492,215	0.4
Electric and electronic products	1,261,017	0.3	1,313,480	0.4
Leather articles	1,054,014	0.3	903,781	0.2
Publishing, printing and reproduction	633,217	0.2	552,354	0.1
Other industries	2,812,473	0.7	3,030,302	0.8
Commerce	43,094,790	11.0	41,167,863	11.3
Merchandise in specialty stores	7,239,485	1.8	7,562,731	2.1

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Non-specialized retailer	7,161,921	1.8	6,359,532	1.7
Food products, beverages and tobacco	5,296,989	1.4	4,874,823	1.3
Waste and scrap	4,101,903	1.0	3,387,141	0.9
Clothing and footwear	2,689,705	0.7	3,006,953	0.8
Agricultural products	2,620,565	0.7	2,066,407	0.6
Automobile	2,580,276	0.7	2,830,651	0.8
Motor vehicle repairs, parts and accessories	2,541,537	0.6	2,832,412	0.8
Grooming and household articles	2,280,972	0.6	1,877,115	0.5
Fuel	1,681,438	0.4	1,846,528	0.5

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Notes to the Consolidated Financial Statements

	On December 31 - R\$ thousand			
	2016	%	2015	%
Wholesale of goods in general	1,152,768	0.3	1,029,359	0.3
Trading intermediary	809,701	0.2	1,026,999	0.3
Other commerce	2,937,530	0.8	2,467,212	0.7
Financial intermediaries	2,241,631	0.6	4,252,849	1.2
Services	93,998,987	23.9	96,469,294	26.3
Civil construction	23,608,035	6.0	23,347,260	6.4
Transportation and storage	16,244,912	4.1	17,471,591	4.8
Real estate activities, rentals and corporate services	15,607,480	4.0	12,335,436	3.4
Holding companies, legal, accounting and business advisory services	8,764,597	2.2	7,165,977	1.9
Production and distribution of electric power, gas and water	5,244,520	1.3	4,722,345	1.3
Clubs, leisure, cultural and sport activities	5,034,333	1.3	5,675,333	1.5
Social services, education, health, defense and social security	3,655,042	0.9	3,118,796	0.8
Hotels and catering	2,967,894	0.8	2,867,336	0.8
Telecommunications	330,596	0.1	440,342	0.1
Other services	12,541,578	3.2	19,324,878	5.3
Agriculture, cattle raising, fishing, forestry and timber industry	4,337,781	1.1	3,155,975	0.9
Individuals	170,425,666	43.5	146,112,942	39.9
Total	391,571,591	100.0	366,567,426	100.0

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

Level of risk	Non-performing loans		Portfolio balance		Total	% (1)
	Installments past due	Installments not yet due	Total - non-performing loans	Performing loans		
AA	-	-	-	129,069,905	129,069,905	32.9
A	-	-	-	128,284,641	128,284,641	32.8
B	427,305	1,263,399	1,690,704	44,458,505	46,149,209	11.8
C	1,257,972	3,624,603	4,882,575	33,298,234	38,180,809	9.7
Subtotal	1,685,277	4,888,002	6,573,279	335,111,285	341,684,564	87.2
D	1,346,921	3,314,283	4,661,204	8,497,021	13,158,225	3.4
E	1,354,824	1,909,876	3,264,700	2,972,602	6,237,302	1.6
F	1,185,552	1,414,860	2,600,412	1,151,478	3,751,890	1.0
G	1,359,235	1,210,853	2,570,088	521,707	3,091,795	0.8
H	10,666,212	7,012,029	17,678,241	5,969,574	23,647,815	6.0
Subtotal	15,912,744	14,861,901	30,774,645	19,112,382	49,887,027	12.8
Total in 2016	17,598,021	19,749,903	37,347,924	354,223,667	391,571,591	100.0
%	4.5	5.0	9.5	90.5	100.0	
Total in 2015	11,569,829	15,570,613	27,140,442	339,426,984	366,567,426	100.0
%	3.1	4.3	7.4	92.6	100.0	

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

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

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Notes to the Consolidated Financial Statements

Level of risk	% Minimum provisioning required	Provision				
		Minimum required Specific		Total specific	Generic	Total
		Installments past due	Installments not yet due			
AA	-	-	-	-	-	-
A	0.5	-	-	-	641,555	641,555
B	1.0	4,273	12,634	16,907	444,585	461,492
C	3.0	37,739	108,738	146,477	998,947	1,145,424
Subtotal		42,012	121,372	163,384	2,085,087	2,248,471
D	10.0	134,692	331,428	466,120	850,204	1,316,324
E	30.0	406,447	572,963	979,410	891,781	1,871,191
F	50.0	592,776	707,430	1,300,206	575,739	1,875,945
G	70.0	951,465	847,597	1,799,062	365,195	2,164,257
H	100.0	10,666,212	7,012,029	17,678,241	5,969,574	23,647,815
Subtotal		12,751,592	9,471,447	22,223,039	8,652,493	30,875,532
Total in 2016		12,793,604	9,592,819	22,386,423	10,737,580	33,124,003
%		31.5	23.6	55.1	26.5	81.6
Total in 2015		7,473,380	6,723,441	14,196,821	8,811,051	23,007,872
%		25.4	22.9	48.3	29.9	78.2

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

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

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Notes to the Consolidated Financial Statements**g) Changes in allowance for loan losses**

	Years ended December 31 - R\$ thousand	
	2016	2015
Opening balance	29,416,600	23,068,867
- Specific provision (1)	14,196,821	11,931,414
- Generic provision (2)	8,811,051	7,131,452
- Excess provision (3) (4)	6,408,728	4,006,001
Additions (Note 10h-1)	26,533,170	20,884,079
Net write-offs/other	(22,608,729)	(14,536,346)
Balance originating from an acquired institution (5)	7,273,313	-
Closing balance	40,614,354	29,416,600
- Specific provision (1)	22,386,423	14,196,821
- Generic provision (2)	10,737,580	8,811,051
- Excess provision (3) (4)	7,490,351	6,408,728

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

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

(3) The additional provision is recognized based on Management's experience and the expectation in relation to the loan portfolio, to determine the total provision deemed sufficient to cover specific and general credit risk, when considered together with the provision calculated based on levels of risk and the corresponding minimum percentage in the provision established by Resolution No. 2,682/99. The excess provision per customer was classified according to the level of risk in Note 10f;

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

(5) Represented by HSBC Brasil (Note 35f).

h) Allowance for Loan Losses expense net of amounts recovered

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

	Years ended December 31 - R\$ thousand	
	2016	2015
Amount recognized (1)	26,533,170	20,884,079
Amount recovered (2) (3)	(5,507,507)	(4,144,879)
Allowance for Loan Losses expense net of amounts recovered	21,025,663	16,739,200

(1) During the year ended December 31, 2016, includes amount recognized of the provision of guarantees offered, comprising sureties, guarantees, letters of credit and standby letter of credit, which are presented in the "surplus" provision, totaling R\$2,366,806 thousand of which (i) R\$604,623 thousand refer, initially, to the specific portion, in accordance with Resolution No. 4,512/16; and (ii) R\$1,762,183 thousand refer to a surplus portion (R\$272,588 thousand in 2015) (Note 29);

(2) Classified in income from loans (Note 10j); and

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

i) Changes in the renegotiated portfolio

	On December 31 - R\$ thousand	
	2016	2015
Opening balance	12,728,723	10,775,621
Amount renegotiated	18,777,814	13,128,229
Amount received	(8,997,802)	(7,256,465)
Write-offs	(5,007,312)	(3,918,662)
Closing balance	17,501,423	12,728,723
Allowance for loan losses	11,975,490	8,430,828
Percentage on renegotiated portfolio	68.4%	66.2%

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Notes to the Consolidated Financial Statements**j) Income from loans and leasing**

	Years ended December 31 - R\$ thousand	
	2016	2015
Discounted trade receivables and loans Financing	50,882,174	46,036,032
Agricultural and agribusiness loans	17,106,534	15,252,597
Subtotal	69,837,957	62,900,356
Recovery of credits charged-off as losses	1,849,249	1,611,727
Subtotal	75,345,464	67,045,235
Leasing, net of expenses	379,628	505,182
Total	75,725,092	67,550,417

11) OTHER RECEIVABLES**a) Foreign exchange portfolio****Balances**

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

Off-balance-sheet accounts:

- Loans available for import	329,015	245,751
- Confirmed exports loans	66,249	40,092

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Notes to the Consolidated Financial Statements**Foreign exchange results****Adjusted foreign exchange results for presentation purposes**

	Years ended December 31 - R\$ thousand	
	2016	2015
Foreign exchange income	(2,996,375)	5,334,154
Adjustments:		
- Income on foreign currency financing (1)	185,027	370,318
- Income on export financing (1)	2,401,110	1,794,425
- Income on foreign investments (2)	18,790	59,908
- Expenses of liabilities with foreign bankers (3) (Note 17c)	(152,497)	(2,349,502)
- Funding expenses (4)	(1,772,847)	(1,179,402)
- Other (5)	4,342,460	(2,891,631)
Total adjustments	5,022,043	(4,195,884)
Adjusted foreign exchange income	2,025,668	1,138,270

(1) Recognized in "Income from loans";

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

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

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

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

b) Sundry

On December 31 - R\$ thousand	
2016	2015

Deferred tax assets (Note 34c)	50,955,601	49,428,379
Credit card operations	26,299,598	21,999,010
Debtors for escrow deposits	16,372,044	12,484,122
Trade and credit receivables (1)	9,156,328	5,084,525
Prepaid taxes	7,739,326	6,816,204
Other debtors	3,110,113	2,244,564
Payments to be reimbursed	594,231	708,240
Receivables from sale of assets	119,688	105,499
Other	554,656	306,143
Total	114,901,585	99,176,686

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

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Notes to the Consolidated Financial Statements**12) OTHER ASSETS****a) Foreclosed assets/other**

			On December 31 - R\$ thousand	
	Cost	Provision	Cost net of provision	
		for losses	2016	2015
Real estate	1,549,924	(287,798)	1,262,126	933,421
Vehicles and similar	663,083	(354,726)	308,357	303,057
Goods subject to special conditions	581,141	(581,141)	-	-
Inventories/warehouse	32,491	-	32,491	54,253
Machinery and equipment	20,156	(14,627)	5,529	6,117
Other	21,343	(18,389)	2,954	4,511
Total in 2016	2,868,138	(1,256,681)	1,611,457	
Total in 2015	2,172,491	(871,132)		1,301,359

b) Prepaid expenses

	On December 31 - R\$ thousand	
	2016	2015
Deferred insurance acquisition costs (1)	1,828,567	2,056,705
Commission on the placement of loans and financing (2)	590,524	823,017
Advertising and marketing expenses (3)	54,898	196,889
Other (4)	1,191,141	1,109,675
Total	3,665,130	4,186,286

(1) Commissions paid to brokers and representatives on sale of insurance, pension plans and capitalization bond products;

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

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

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

13) INVESTMENTS**a) Composition of investments in the consolidated financial statements**

	On December	
	R\$ thous	
Associates and Jointly Controlled Companies	2016	2015
- Cielo S.A.	3,899,567	3,125
- Elo Participações S.A. (1)	920,724	759
- IRB-Brasil Resseguros S.A.	662,461	658
- Fleury S.A.	651,906	512
- Fidelity Processadora e Serviços S.A. (2)	-	254
- Aquarius Participações S.A. (2)	263,632	
- Haitong Banco de Investimento do Brasil S.A.	127,922	130
- Others (3)	362,841	243
Total investment in Associates and Jointly Controlled Companies – in Brazil and Overseas	6,889,053	5,684
- Tax incentives	234,194	234
- Other investments	169,377	155
Provision for:		
- Tax incentives	(207,411)	(207,)
- Other investments	(46,819)	(43,)
Total investments	7,038,394	5,824

(1) A jointly-owned, parent company of Cia. Brasileira de Soluções e Serviços - Alelo, which acquired, through its subsidiaries, 100% of Banco CBSS S.A., whereby the only portion corresponding to the divestiture of third party shares is recognized as the income for the period, in the amount of R\$162,665 thousand;

(2) In January 2016, Aquarius Participações S.A. was endowed with the contribution of the investment of Fidelity Processadora e Serviços S.A.; and

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

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Notes to the Consolidated Financial Statements

b) The income/expense from the equity method accounting of investments was recognized in the statement of income, under "Equity in the Earnings (Losses) of Unconsolidated and Jointly Controlled Companies", and correspond in 2016 to R\$1,665,170 thousand (R\$1,485,880 thousand in 2015).

Companies	Capital Stock	Shareholders equity adjusted
- Elo Participações S.A. (2)	800,227	1,837,777
- IRB-Brasil Resseguros S.A. (3)	1,453,080	3,229,942
- Aquarius Participações S.A. (4)	518,592	538,021
- Haitong Banco de Investimento do Brasil S.A.	420,000	639,610
- Fidelity Processadora e Serviços S.A. (4)	-	-
- Integritas Participações S.A. (5)	-	-
- Others (6)	-	-

Equity in the earnings (losses) of unconsolidated and jointly controlled companies

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

(2) Investment in jointly controlled companies;

(3) Based on financial information from the previous month;

(4) In January 2016, Aquarius Participações S.A. was capitalized by with the contribution of the investment of Fidelity Processadora e Serviços S.A.;

(5) Company incorporated by Bradseg Participações S.A. in October 2015; and

(6) Includes, primarily, the adjustments resulting from the assessment by the equity equivalence method in public company (Cielo S.A. and Fleury S.A.).

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Notes to the Consolidated Financial Statements**14) PREMISES AND EQUIPMENT**

	Annual rate	Cost	Depreciation	On December 31 - R\$ thousand	
				Cost net of depreciation 2016	2015
Property and equipment:					
- Buildings	4%	1,763,962	(567,194)	1,196,768	574,019
- Land	-	855,214	-	855,214	448,020
Facilities, furniture and premises and equipment	10%	5,026,615	(2,297,445)	2,729,170	2,338,658
Security and communication systems (1)	10%	325,835	(192,865)	132,970	79,628
Data processing systems (1)	20 to 40%	6,733,742	(4,115,106)	2,618,636	1,535,619
Transportation systems (1)	20%	86,639	(40,034)	46,605	70,236
Fixed Assets in course	-	143,275	-	143,275	449,672
Total in 2016		14,935,282	(7,212,644)	7,722,638	
Total in 2015		12,251,010	(6,755,158)		5,495,852

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

The fixed assets to shareholders' equity ratio is 44.7% when considering only the companies and payment institutions within the economic group (the "Prudential Conglomerate"), where the maximum limit is 50.0%.

15) INTANGIBLE ASSETS**a) Goodwill**

The goodwill recognized from investment acquisitions totaled R\$11,585,810 thousand, net of accumulated amortization, as applicable, of which: (i) R\$1,740,315 thousand recognized in 'Permanent Assets – Investments' represents the acquisition of shares of affiliates and of jointly controlled companies (Cielo/Fleury), which will be amortized as realized; and (ii) R\$9,845,495 thousand represented by the acquisition of shares of subsidiaries/shared control, represented by the future profitability/client portfolio,

which is amortized in up to twenty years, net of accrued amortizations, if applicable, recognized in Fixed Assets – Intangible Assets.

During the year ended December 31, 2016, goodwill was amortized totaling R\$897,494 thousand (R\$130,116 thousand in 2015) (Note 29).

b) Intangible assets

Acquired intangible assets consist of:

	Rate of Amortization (1)	Cost	Amortization	On December 31 - R\$ thousand Cost net of amortization	
				2016	2015
Acquisition of financial services rights	Contract	5,926,581	(3,423,124)	2,503,457	2,260,033
Software (2)	20%	10,374,075	(6,428,831)	3,945,244	3,639,824
Goodwill (3)	Up to 20%	11,500,134	(1,654,639)	9,845,495	1,095,877
Other	Contract	762,294	(717,705)	44,589	76,788
Total in 2016		28,563,084	(12,224,299)	16,338,785	
Total in 2015		16,744,768	(9,672,246)		7,072,522

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

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

(3) Mainly composed of goodwill on the acquisition of equity interest in Bradescard - R\$650,835 thousand, Odontoprev - R\$127,191 thousand, Bradescard Mexico - R\$18,183 thousand, Europ Assistance - R\$6,604 thousand and Bradesco BBI S.A. - R\$129,050 thousand; and Kirton Bank - R\$8,881,478 thousand.

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Notes to the Consolidated Financial Statements**c) Changes in intangible assets by type**

On December 31 - R\$ th

	Initial balance	Balance originating from an acquired institution (1)	Additions / (reductions) (3)	Amortization for the period	b
Acquisition of financial services rights	2,260,033	264,349	930,190	(951,115)	2,
Software	3,639,824	288,826	1,071,668	(1,055,074)	3,
Goodwill – Future profitability(2)	1,095,877	4,221,787	(2,057)	(552,001)	4,
Goodwill – Based on intangible assets and other reasons (2)	-	3,771,674	-	(289,712)	3,
Goodwill – Difference in fair value of assets/liabilities (2)	-	1,655,708	-	(55,781)	1,
Other	76,788	4,840	129,266	(166,305)	
Total in 2016	7,072,522	10,207,184	2,129,067	(3,069,988)	16,
Total in 2015	7,272,161	-	1,764,558	(1,964,197)	7,

(1) HSBC Brasil (Note 35f);

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

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

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

	On December 31 - R\$ thousand					2016	2015
	1 to 30 days	31 to 180 days	181 to 360 days	More than 360 days			
Demand deposits (1)	33,420,111	-	-	-	-	33,420,111	23,819,720
Savings deposits (1)	97,088,828	-	-	-	-	97,088,828	91,878,816
Interbank deposits	296,228	225,088	6,399	61,157		588,872	466,448
Time deposits (2)	7,642,768	15,331,311	9,457,529	70,706,259		103,137,867	79,619,267
Total in 2016	138,447,935	15,556,399	9,463,928	70,767,416		234,235,678	
%	59.2	6.6	4.0	30.2		100.0	
Total in 2015	132,036,281	11,878,976	9,499,722	42,369,272			195,784,251
%	67.4	6.1	4.9	21.6			100.0

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

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

b) Securities sold under agreements to repurchase

	On December 31 - R\$ thousand					2016	2015
	1 to 30 days	31 to 180 days	181 to 360 days	More than 360 days			
Own portfolio	62,754,546	48,358,567	7,627,058	28,179,776		146,919,947	107,518,218
Government securities	53,129,616	176,096	82,244	788		53,388,744	24,192,624
Debentures of own issuance	4,620,862	47,033,339	7,311,631	27,312,488		86,278,320	79,184,074
Foreign	5,004,068	1,149,132	233,183	866,500		7,252,883	4,141,520
Third-party portfolio (1)	86,117,804	-	-	-		86,117,804	109,877,186
Unrestricted portfolio (1)	8,602,775	338,405	-	-		8,941,180	4,882,372
Total in 2016	157,475,125	48,696,972	7,627,058	28,179,776		241,978,931	
%	65.1	20.1	3.2	11.6		100.0	
Total in 2015	143,523,573	49,184,857	5,150,829	24,418,517			222,277,776
%	64.6	22.1	2.3	11.0			100.0

- (1) Represented by government securities.

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

	On December 31 - R\$ thousand				2016	2015
	1 to 30 days	31 to 180 days	181 to 360 days	More than 360 days		
Securities – Brazil:						
- Financial bills	3,626,966	31,546,653	26,224,822	47,076,765	108,475,206	71,691,563
- Letters of credit for real estate	551,705	10,068,278	8,927,415	7,408,176	26,955,574	20,223,220
- Letters of credit for agribusiness	534,493	2,839,570	4,368,997	1,373,232	9,116,292	7,642,250
Subtotal	4,713,164	44,454,501	39,521,234	55,858,173	144,547,072	99,557,033
Securities – Overseas:						
- Securitization of future flow of money orders received from overseas	10,583	460,930	253,162	2,333,455	3,058,130	3,272,230
- MTN Program Issues (1)	2,461,922	145,083	-	178,649	2,785,654	6,221,382
- Issuance costs	-	-	-	(28,666)	(28,666)	(16,440)
Subtotal	2,472,505	606,013	253,162	2,483,438	5,815,118	9,477,172
Structured operations certificates	28,445	154,336	229,368	33,019	445,168	512,343
Total in 2016	7,214,114	45,214,850	40,003,764	58,374,630	150,807,358	
%	4.8	30.0	26.5	38.7	100.0	
Total in 2015	4,601,838	20,055,363	28,481,507	56,407,840		109,546,548
%	4.2	18.3	26.0	51.5		100.0

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

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Notes to the Consolidated Financial Statements**d) Cost for market funding and inflation and interest adjustments of technical provisions for insurance, pension plans and capitalization bonds**

	Years ended December 31 - R\$ thousand	
	2016	2015
Savings deposits	6,712,509	6,450,258
Time deposits	8,769,262	9,757,937
Securities sold under agreements to repurchase	26,796,681	23,572,895
Funds from of securities issued	23,064,403	13,030,064
Other funding expenses	528,674	486,384
Subtotal	65,871,529	53,297,538
Cost for inflation and interest adjustment of technical provisions of insurance, pension plans and capitalization bonds	21,395,550	16,038,504
Total	87,267,079	69,336,042

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

	On December 31 - R\$ thousand					
	1 to 30	31 to 180	181 to 360	More than	2016	2015
	days	days	days	360 days		
In Brazil - Other Institutions	4,624	-	-	2,831	7,455	15,984
Overseas	3,307,552	9,876,176	6,620,203	2,354,029	22,157,960	32,116,235
Total in 2016	3,312,176	9,876,176	6,620,203	2,356,860	22,165,415	
%	14.9	44.6	29.9	10.6	100.0	
Total in 2015	4,593,361	10,582,367	9,900,105	7,056,386		32,132,219
%	14.3	32.9	30.8	22.0		100.0

b) On-lending

	On December 31 - R\$ thousand					
	1 to 30	31 to 180	181 to 360	More than	2016	2015
	days	days	days	360 days		
In Brazil	994,954	4,619,556	5,597,057	24,819,020	36,030,587	38,203,163

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

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Notes to the Consolidated Financial Statements**c) Borrowing and lending expenses**

	Years ended December 31 - R\$ thousand	
	2016	2015
Borrowing:		
- In Brazil	827,124	455,461
- Overseas	(10,999,400)	24,585,669
- Exchange variation from assets and liabilities overseas	5,741,209	(12,897,876)
Subtotal borrowing	(4,431,067)	12,143,254
On-lending in Brazil:		
- BNDES	1,032,792	769,167
- FINAME	661,503	825,788
- National Treasury	12,377	7,292
- Other institutions	131	1,461
On-lending overseas:		
- Payables to foreign bankers (Note 11a)	152,497	2,349,502
- Other expenses with foreign on-lending	4,470	119
Subtotal on-lending	1,863,770	3,953,329
Total	(2,567,297)	16,096,583

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

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

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

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

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

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

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

I - Labor claims

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

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

II - Civil claims

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

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

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

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

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

III - Legal obligations – provision for tax risks

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

The main cases are:

- PIS and COFINS – R\$2,320,261 thousand (R\$2,115,466 thousand in 2015): a request for authorization to calculate and pay PIS and COFINS based on effective billing, as set forth in Article 2 of Supplementary Law No. 70/91, removing from the calculation base the unconstitutional inclusion of other revenues other than those billed;
- IRPJ/CSLL on losses of credits – R\$1,913,208 thousand (R\$1,880,905 thousand in 2015): we are requesting to deduct from income tax and social contributions payable (IRPJ and CSLL, respectively) amounts of actual and definite loan losses related to unconditional discounts granted during collections, regardless of compliance with the terms and conditions provided for in Articles 9 to 14 of Law No. 9,430/96 that only apply to temporary losses;
- Pension Contributions – R\$1,385,456 thousand (R\$1,080,640 thousand in 2015): official notifications related to the pension contributions on financial contributions in private pension plans, considered by the authorities to be compensatory sums subject to the incidence of pension contributions and to an isolated fine for not withholding IRRF on the financial contributions;

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- INSS Autonomous Brokers – R\$901,171 thousand (R\$1,794,380 thousand in 2015): The Bradesco Organization is questioning the charging of social security contribution on remunerations paid to third-party service providers, established by Supplementary Law No. 84/96 and subsequent regulations/amendments, at 20.0% with an additional 2.5%, on the grounds that services are not provided to insurance companies but to policyholders, thus being outside the scope of such a contribution as provided for in item I, Article 22 of Law No. 8,212/91, as new wording in Law No. 9,876/99;
- INSS – Contribution to SAT – R\$374,620 thousand: in an ordinary lawsuit filed by the Brazilian Federation of Banks – Febraban, since April 2007, on behalf of its members, is questioned the classification of banks at the highest level of risk, with respect to Work Accident Risk – RAT, which eventually raised the rate of the respective contribution from 1% to 3%, in accordance with Decree No. 6,042/07; and
- PIS – R\$339,767 thousand (R\$325,932 thousand in 2015): The Bradesco Organization is requesting authorization to offset overpaid amounts in 1994 and 1995 as PIS contribution, already compensated, provisioned upon granting of the preliminary injunction, corresponding to the surplus paid over that calculated on the tax base established in the Constitution, i.e., gross operating income, as defined in the income tax legislation set out in Article 44 of Law No. 4,506/64, which excludes interest income.

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

IV - Provisions by nature

	On December 31 - R\$ thousand	
	2016	2015
Labor claims	5,101,732	3,048,442
Civil claims	5,003,440	4,202,950
Subtotal (1)	10,105,172	7,251,392
Provision for tax risks (2)	8,187,238	8,112,925
Total	18,292,410	15,364,317

(1) Note 20b; and

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

V - Changes in provisions

			R\$ thousand
	Labor	2016 Civil	Tax (1) (2)
Balance on December 31, 2015	3,048,442	4,202,950	8,112,925
Adjustment for inflation	454,045	409,236	705,036
Provisions, net of (reversals and write-offs)	876,816	1,310,333	(1,236,705)
Balance originating from an acquired institution (3)	1,684,370	544,997	703,967
Payments	(961,941)	(1,464,076)	(97,985)
Balance on December 31, 2016	5,101,732	5,003,440	8,187,238

(1) Mainly include legal liabilities;

(2) In 2016, there were reversals of a provisions relating to: i) the process of INSS of the self-employed of the Bradesco Saúde subsidiary, in the amount of R\$1,081,528 thousand; ii) to the Pis process – EC 17, in the amount of R\$242,242 thousand; offset by the provision for social security contributions on transfers to private pension plans, in the amount of R\$215,668 thousand; and

(3) HSBC Brasil (Note 35f).

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c) Contingent liabilities classified as possible losses

The Organization maintains a system to monitor all administrative and judicial proceedings in which the institution is plaintiff or defendant and, based on the opinion of legal counsel, classifies the lawsuits according to the expectation of loss. Case law trends are periodically analyzed and, if necessary, the related risk is reclassified. In this respect, contingent lawsuits deemed to have a possible risk of loss are not recognized as a liability in the financial statements. The main proceedings in this category are the following: a) 2006 to 2013 income tax and social contribution, relating to goodwill amortization being disallowed on the acquisition of investments, for the amount of R\$5,894,504 thousand (R\$5,194,055 thousand in 2015); b) Fines and disallowances of Cofins loan compensations, released after a favorable decision in a judicial proceeding, where the unconstitutionality of the expansion of the intended calculation base was discussed for revenues other than those from billing (Law No. 9,718/98), in the amount of R\$3,999,185 thousand; c) Leasing companies' Tax on Services of any Nature (ISSQN), total lawsuits correspond to R\$2,398,185 thousand (R\$1,910,629 thousand in 2015) which relates to the municipal tax demands from municipalities other than those in which the company is located and where, under law, tax is collected; d) IRPJ and CSLL deficiency note relating to disallowance of exclusions of revenues from the mark-to-market of securities from 2007 to 2012, differences in depreciation expenses, insufficient depreciation expenses, expenses with depreciation of leased assets, operating expenses and income and disallowance of tax loss compensation, in the amount of R\$1,653,942 thousand (R\$908,915 thousand in 2015); e) Notifications and disallowances of compensations of PIS and Cofins related to the unconstitutional extension of the basis of calculation intended for other income other than the billing (Law No 9,718/98), from acquired companies, amounting to R\$1,317,238 thousand; f) IRPJ and CSLL deficiency notice relating to the disallowance of loan loss deductions, for the amount of R\$760,436 thousand (R\$1,200,403 thousand in 2015); and g) IRPJ and CSLL deficiency note, amounting to R\$459,962 thousand (R\$421,035 thousand in 2015) relating to profit of subsidiaries based overseas, for the calendar years of 2008 and 2009.

d) Other matters

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

the information requested, in Brazil and abroad.

On account of the news published in the media, on the indictment in the "Operation Zealots", a class action was filed in the District Court of New York, on June 3, 2016. On September 1, 2016, Bradesco spontaneously attended the proceedings of the Class Action and agreed with the plaintiff a term for the submission of the revocation of the suit until December 21, 2016. On October 21, 2016, the Plaintiff Leader presented the addendum of the Initial Petition, appointing as defendants Bradesco and three members of its Board of Executive Officers. According to the demand, investors who purchased preferred American Depository Shares ("ADS") of Bradesco between April 30, 2012 and July 27, 2016 would have suffered losses provoked by Bradesco due to a supposed violation regarding the American law of capital markets, according to communication to the Market on May 31, June 8 and July 28, 2016. Considering that the demand is in a preliminary stage, it is not possible at present to make a risk rating, and there is not yet evidence to support an assessment of the value of the respective risk.

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

19) SUBORDINATED DEBT

			On December 31 - R\$ thousand	
	Original term	Amount of	2016	2015
	in years	the operation		
In Brazil:				
Subordinated CDB:				
2016 (1)	6	-	-	1,129
2019	10	20,000	56,200	48,919
Financial bills:				
2016 (1)	6	-	-	194,398
2017	6	8,630,999	11,075,463	10,479,463
2018	6	8,262,799	9,875,551	9,449,037
2019	6	21,858	33,402	29,859
2017	7	40,100	95,872	84,064
2018	7	141,050	293,357	256,191

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2019	7	3,172,835	3,423,463	3,366,282
2020	7	1,700	2,612	2,351
2022 (2)	7	4,305,011	5,050,633	4,393,265
2023 (4)	7	1,359,452	1,522,243	-
2018	8	50,000	112,038	97,531
2019	8	12,735	25,212	22,230
2020	8	28,556	49,498	43,541
2021	8	1,236	1,896	1,710
2023 (2)	8	1,706,846	2,015,625	1,733,383
2024 (4)	8	136,695	143,415	-
2021	9	7,000	11,813	10,214
2024 (2)	9	4,924	5,806	4,977
2025 (4)	9	400,944	417,641	-
2021	10	19,200	37,191	32,823
2022	10	54,143	91,314	81,225
2023	10	688,064	1,011,423	921,434
2025 (2)	10	284,137	342,886	293,445
2026 (4)	10	361,196	392,886	-
2026 (2)	11	3,400	4,001	3,432
2027 (4)	11	47,046	48,566	-
Perpetual (3)	-	5,000,000	5,015,870	5,016,437
CDB pegged to loans:				
2016 (1)	1	-	-	1,160
Subtotal in Brazil			41,155,877	36,568,500

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	Original term in years	Amount of the operation	On December 31 - R\$ thousand	
			2016	2015
Overseas:				
2019	10	1,333,575	2,486,489	2,978,569
2021	11	2,766,650	5,341,661	6,398,386
2022	10	1,886,720	3,644,838	4,364,895
Issuance costs on funding			(17,802)	(27,414)
Subtotal overseas			11,455,186	13,714,436
Total (5)			52,611,063	50,282,936

(1) Subordinated debt transactions that matured in 2016;

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

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

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

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

20) OTHER LIABILITIES**a) Tax and social security**

	On December 31 - R\$ thousand	
	2016	2015
Provision for tax risk (Note 18b IV)	8,187,238	8,112,925
Provision for deferred income tax (Note 34f)	3,277,050	2,840,341

Taxes and contributions on profit payable	2,130,286	2,781,104
Taxes and contributions payable	1,528,980	1,378,280
Total	15,123,554	15,112,650

b) Sundry

	On December 31 - R\$ thousand	
	2016	2015
Credit card operations	23,717,936	19,100,529
Civil and labor provisions (Note 18b IV)	10,105,172	7,251,392
Loan assignment obligations	8,761,827	7,519,809
Sundry creditors (1)	7,522,742	5,573,546
Provision for payments	6,997,168	5,610,317
Liabilities for acquisition of assets and rights	1,452,568	1,077,236
Obligations by quotas of investment funds	326,466	120,068
Other (2)	5,849,875	3,213,907
Total	64,733,754	49,466,804

(1) Includes provision for contingent liabilities, originating from obligations for transfer of credits, totaling R\$628,517 thousand (R\$558,010 thousand in 2015) (Note 29); and

(2) On December 31, 2016, it includes provision for guarantees provided, comprising sureties, letters of credit and standby letter of credit, which is presented here within the balance for excess provision, totaling R\$3,060,990 thousand of which (i) R\$604,623 thousand refers, initially, to the specific portion, in accordance with Resolution No. 4,512/16, that will be allocated to a specific account in January 2017; and (ii) R\$2,456,367 thousand refers to a surplus portion that will comprise the surplus provision over a loan portfolio (R\$694,184 thousand in 2015) (Notes 10g and 29).

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Notes to the Consolidated Financial Statements**21) INSURANCE, PENSION PLANS AND CAPITALIZATION BONDS****a) Technical provisions by account**

	Insurance (1)		Life and pension plans (2)		Capitaliza
	2016	2015	2016	2015	bonds
Current and long-term liabilities					
Mathematical reserve for unvested benefits	912,764	854,988	184,594,056	143,706,976	-
Mathematical reserve for vested benefits	210,855	187,100	8,989,482	7,747,615	-
Mathematical reserve for capitalization bonds	-	-	-	-	-6,534,9166,0
Reserve for claims incurred but not reported (IBNR)	2,770,507	2,540,044	1,264,116	1,096,961	-
Unearned premium reserve	4,265,157	4,206,016	574,544	362,409	-
Complementary reserve for coverage	-	-	899,117	947,576	-
Reserve for unsettled claims	4,645,467	4,198,342	1,682,146	1,426,709	-
Reserve for financial surplus	-	-	554,505	506,504	-
Reserve for draws and redemptions	-	-	-	-	867,088 7
Other reserves	2,053,440	1,354,524	2,423,843	1,805,176	100,154
Total reserves	14,858,190	13,341,014	200,981,809	157,599,926	7,502,1586,8

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Notes to the Consolidated Financial Statements**b) Guarantees for technical provisions**

	Insurance		Life and pension plans		Capitaliz
	2016	2015	2016	2015	bond
Total technical provisions	14,858,190	13,341,014	200,981,809	157,599,926	7,502,158
(-) Commercialization surcharge – extended warranty	(237,104)	(287,330)	-	-	-
(-) Portion corresponding to contracted reinsurance	(947,159)	(934,252)	(41,191)	(32,094)	-
(-) Deposits retained at IRB and court deposits	(16)	(2,318)	-	-	-
(-) Receivables	(1,068,329)	(934,747)	-	-	-
(-) Unearned premium reserve – Health Insurance (3)	(1,182,152)	(1,089,006)	-	-	-
(-) Reserves from DPVAT agreements	(465,567)	(325,149)	-	-	-
To be insured	10,957,863	9,768,212	200,940,618	157,567,832	7,502,158
Investment fund quotas (VGBL and PGBL)	-	-	-168,337,785	128,864,259	-
Investment fund quotas (excluding VGBL and PGBL)	7,164,637	6,077,310	23,273,027	18,159,359	3,473,852
Government securities	5,882,012	5,488,115	14,187,009	13,078,481	4,967,324
Shares	2,325	1,911	1,728,856	1,123,289	-
Private securities	93,287	106,660	169,440	176,214	43,636
Total technical provision guarantees	13,142,261	11,673,996	207,696,117	161,401,602	8,484,812

(1) “Other reserves” - Insurance primarily refers to technical provisions of the “personal health” portfolio;

(2) “Other reserves” - Life and Pension Plan mainly includes the “Reserve for redemption and other amounts to be settled”, “Reserve for related expenses”; and

(3) Deduction set forth in Article 4 of ANS Normative Resolution No. 392/15.

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Notes to the Consolidated Financial Statements**c) Insurance, pension plan contribution and capitalization bond retained premiums**

	Years ended December 31 - R\$ thousand	
	2016	2015
Written premiums	34,417,607	30,924,255
Pension plan contributions (including VGBL)	31,457,223	28,484,814
Capitalization bond income	5,863,210	5,506,969
Granted coinsurance premiums	(70,862)	(88,612)
Refunded premiums	(470,582)	(215,478)
Net written premiums	71,196,596	64,611,948
Reinsurance premiums	(306,265)	(344,199)
Insurance, pension plan and capitalization bond retained premiums	70,890,331	64,267,749

22) NON-CONTROLLING INTERESTS IN SUBSIDIARIES

	On December 31 - R\$ thousand	
	2016	2015
Banco Bradesco BBI S.A.	16,436	14,107
Other (1)	432,373	380,971
Total	448,809	395,078

(1) Primarily relates to the non-controlling interest in the subsidiary "Odontoprev".

23) SHAREHOLDERS' EQUITY (PARENT COMPANY)**a) Capital stock in number of shares**

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

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

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

b) Transactions of share capital involving quantities of shares

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

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

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

c) Interest on shareholders' equity/dividends

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

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

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

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

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

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

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

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

(2) Paid on July 18, 2016; and

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

d) Treasury shares

A total of 4,575,045 common shares and 17,141,588 preferred shares, with the share bonus effect of 10%, had been acquired, totaling R\$440,514 thousand until December 31, 2016, and remain in treasury. The minimum, average and maximum cost per common share is R\$19.34962, R\$24.55863 and R\$27.14350, and per preferred share is R\$19.37456, R\$26.98306 and R\$33.12855, respectively. The fair value was R\$29.14 per common share and R\$29.00 per preferred share on December 31, 2016.

24) FEE AND COMMISSION INCOME

	Years ended December 31 - R\$ thousand	
	2016	2015
Credit card income	6,251,963	5,875,060
Checking account	6,030,640	4,941,947
Loans	2,811,105	2,800,128
Collections	1,777,515	1,573,818
Consortium management	1,278,753	1,040,109
Asset management	1,079,653	1,084,767
Underwriting/ Financial Advisory Services	733,530	540,879
Custody and brokerage services	618,750	546,272
Payments	373,639	382,427
Other	621,859	515,563
Total	21,577,407	19,300,970

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Notes to the Consolidated Financial Statements**25) PAYROLL AND RELATED BENEFITS**

	Years ended December 31 - R\$ thousand	
	2016	2015
Salaries	8,322,222	6,448,507
Benefits	3,660,775	3,028,181
Social security charges	2,891,467	2,433,394
Employee profit sharing	1,467,868	1,318,839
Provision for labor claims	762,804	964,302
Training	165,940	135,336
Total	17,271,076	14,328,559

26) OTHER ADMINISTRATIVE EXPENSES

	Years ended December 31 - R\$ thousand	
	2016	2015
Outsourced services	5,034,120	4,302,276
Depreciation and amortization	2,387,664	2,092,010
Communication	1,653,055	1,427,682
Data processing	1,612,454	1,219,706
Advertising and marketing	1,124,659	966,625
Asset maintenance	1,060,856	925,931
Financial system services	1,047,654	873,664
Rental	1,027,561	887,393
Security and surveillance	736,547	606,292
Transport	719,842	631,082
Water, electricity and gas	384,069	339,266
Supplies	321,509	315,135
Travel	174,772	157,723
Other	1,059,887	896,909
Total	18,344,649	15,641,694

27) TAX EXPENSES

	Years ended December 31 - R\$ thousand	
	2016	2015
Contribution for Social Security Financing (COFINS)	4,458,019	3,290,382
Social Integration Program (PIS) contribution	736,351	545,489
Tax on Services (ISSQN)	656,841	565,259
Municipal Real Estate Tax (IPTU) expenses	88,595	72,149
Other	391,845	318,466
Total	6,331,651	4,791,745

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Notes to the Consolidated Financial Statements**28) OTHER OPERATING INCOME**

	Years ended December 31 - R\$ thousand	
	2016	2015
Other interest income	2,509,127	1,846,560
Reversal of other operating provisions (1)	1,893,425	497,134
Revenues from recovery of charges and expenses	275,503	253,067
Gains on sale of goods	4,005	1,654
Other	1,044,700	948,292
Total	5,726,760	3,546,707

(1) During the year ended December 31, 2016, it includes (i) the reversal of the provision for tax contingency (Note 18b (v)) and (ii) reversal of provision on the process of INSS of the Self-employed of the Bradesco Saúde subsidiary (Note 18b (v)).

29) OTHER OPERATING EXPENSES

	Years ended December 31 - R\$ thousand	
	2016	2015
Other finance costs	5,957,445	4,990,706
Sundry losses	1,852,244	1,771,312
Discount granted	1,537,672	1,379,058
Commissions on loans and financing	1,018,046	1,316,942
Intangible assets amortization	951,115	892,277
Goodwill amortization (Note 15a)	897,494	130,116
Other (1)	4,757,655	2,560,528
Total	16,971,671	13,040,939

(1) During the years ended December 31, 2016 and 2015, it includes: (i) provision for guarantees provided, encompassing guarantees, sureties, letters of credit and standby letter of credit, which is presented here within the balance for excess provision (Note 10h); and (ii) provision for contingent liabilities, originating from obligations for transfer of credits – FCVS (Note 20b).

30) NON-OPERATING INCOME (LOSS)

	Years ended December 31 - R\$ thousand	
	2016	2015
Gain/loss on sale and write-off of assets and investments (1)	(515,053)	(387,252)
Recording/reversal of non-operating provisions (2)	(418,585)	(189,939)
Other	112,543	64,929
Total	(821,095)	(512,262)

(1) During the year ended December 31, 2016, it includes: (i) the positive result in divestiture of the shares of Banco CBSS S.A (Note 13); and (ii) expenses by analysis of the recoverability of assets – impairment (Notes 13 and 15); and

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

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

	On December 31 - R\$						
	Controllers (1)		Jointly controlled and investment in associates (2)		Key management personnel (3)		Total
	2016	2015	2016	2015	2016	2015	
Assets							
Interbank investments	-	-	-483,199	223,874	-	-	483,199
Securities purchased under agreements to resell	-	-	-550,280	-	-	-	550,280
Receivable from associated companies	-	-	1,185	2,428	-	-	1,185
Other assets	-	-	4,943	8,849	-	-	4,943
Liabilities							
Demand deposits/Savings accounts	30	24	5,991	4,220	18,645	12,044	24,666
Time deposits	1,354,229	114,221	56,937	43,216	67,949	57,385	1,479,115
Securities sold under repurchase agreements	-	637,903	398,549	970,906	14,759	17,806	413,308
Securities issued	5,755,615	184,368	-	-	-808,768	698,594	6,564,383
Derivative financial instruments	20,681	-	-	-	-	-	20,681
Interest on own capital and dividends payable	1,770,149	1,279,382	-	-	-	-	-1,770,149
Other liabilities	-	-	13,704	24,811	-	-	13,704
Years ended December 31							
	Controllers (1)		Jointly controlled and investment in associates (2)		Key management personnel (3)		Total
	2016	2015	2016	2015	2016	2015	
Revenue from financial intermediation	-	-	57,234	27,338	-	-	57,234
Financial intermediation expenses	(1,109,250)	(78,813)	(99,048)	(27,764)	(108,333)	(88,344)	(1,316,508)
Income from services provided	-	-	360,286	337,070	-	-	360,286
Expenses in operations with derivatives	(20,681)	-	-	-	-	-	(20,681)
Other expenses net of other operating revenues	(2,391)	(2,160)	(224,444)	(246,504)	-	-	(226,895)

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

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b) Compensation for Key Management Personnel

Each year, the Annual Shareholders' Meeting approves:

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

For 2016, the maximum amount of R\$474,500 thousand was set for Management compensation and R\$268,100 thousand to finance defined contribution pension plans.

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

Short-term Management benefits

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

Post-employment benefits

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

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

Shareholding

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

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

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

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Notes to the Consolidated Financial Statements**32) FINANCIAL INSTRUMENTS**

Below is the statement of financial position by currency

	On December 31		
	2016		
	Balance	Local	Foreign
			(1) (2)
Assets			
Current and long-term assets	1,148,507,298	1,078,748,005	69,759,2
Funds available	14,518,120	12,432,471	2,085,6
Interbank investments	177,635,629	175,233,300	2,402,3
Securities and derivative financial instruments	440,010,105	425,210,658	14,799,4
Interbank and interdepartmental accounts	59,006,812	59,006,812	
Loan and leasing	312,642,352	274,858,513	37,783,8
Other receivables and assets	144,694,280	132,006,251	12,688,0
Permanent assets	31,099,817	31,056,509	43,3
Investments	7,038,394	7,035,047	3,3
Premises and equipment and leased assets	7,722,638	7,696,815	25,8
Intangible assets	16,338,785	16,324,647	14,1
Total	1,179,607,115	1,109,804,514	69,802,6
Liabilities			
Current and long-term liabilities	1,078,238,708	1,002,913,130	75,325,5
Deposits	234,235,678	216,367,179	17,868,4
Securities sold under agreements to repurchase	241,978,931	234,726,047	7,252,8
Funds from issuance of securities	150,807,358	144,992,240	5,815,1
Interbank and interdepartmental accounts	7,089,003	4,050,957	3,038,0
Borrowing and on-lending	58,196,002	35,650,666	22,545,3
Derivative financial instruments	13,435,679	13,111,489	324,1
Technical provision for insurance, pension plans and capitalization bonds	223,342,157	223,341,504	6
Other liabilities:			
- Subordinated debts	52,611,063	41,155,877	11,455,1
- Other	96,542,837	89,517,171	7,025,6
Deferred income	477,185	477,185	
Non-controlling interests in subsidiaries	448,809	448,809	
Shareholders' equity	100,442,413	100,442,413	
Total	1,179,607,115	1,104,281,537	75,325,5

Net position of assets and liabilities

Net position of derivatives (2)

Other net off-balance-sheet accounts (3)

Net exchange position (liability)

(1) Amounts originally recognized and/or indexed mainly in USD;

(2) Excluding operations maturing in D+1, to be settled at the rate on the last day of the month; and

(3) Other commitments recognized in off-balance-sheet accounts.

(5,522,97

(45,398,98

(371,67

(51,293,63

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VaR Internal Model – Trading Portfolio

The Trading Portfolio is composed of all the operations made with financial instruments, including derivatives, retained for negotiation or destined to hedge other instruments of the portfolio itself, and that are not subject to the limitation of their negotiability. The operations destined for negotiation are those destined for resale, to obtain benefits based on the variation of effective or expected prices, or for arbitrage.

Below is the 1-day VaR:

Risk factors	On December 31 - R\$ thousand	
	2016	2015
Fixed rates	20,704	16,514
IGPM/IPCA	416	524
Exchange coupon	64	1,117
Foreign currency	224	937
Sovereign/Eurobonds and Treasuries	3,230	6,468
Other	2	31
Correlation/diversification effect	(1,892)	(7,575)
VaR (Value at Risk)	22,748	18,016
Amounts net of tax.		

Sensitivity analysis

The Trading Portfolio is also monitored through daily sensitivity analyses that measure the effect of market movements of market and price curves on our positions. Furthermore, a sensitivity analysis of the Organization's financial exposures (Trading and Banking Portfolio) is performed on a quarterly basis, in compliance with CVM Rule No. 475/08.

Sensitivity analyses were carried out based on scenarios prepared at the respective dates, always considering market data at the time and scenarios that would adversely affect our positions, according to

the examples below:

Scenario 1: Based on market information (BM&FBOVESPA, Anbima, etc.), stresses were applied for 1 basis point on the interest rate and 1.0% variation on prices. For example: for a Real/US dollar exchange rate of R\$3.25 a scenario of R\$3.28 was used, while for a 1-year fixed interest rate of 11.54%, a 11.55% scenario was applied;

Scenario 2: 25.0% stresses were determined based on market information. For example: for a Real/US dollar exchange rate of R\$3.25 a scenario of R\$4.06 was used, while for a 1-year fixed interest rate of 11.54%, a 14.42% scenario was applied. The scenarios for other risk factors also accounted for 25.0% stresses in the respective curves or prices; and

Scenario 3: 50.0% stresses were determined based on market information. For example: for a Real/US dollar quote of R\$3.25 a scenario of R\$4.87 was used, while for a 1-year fixed interest rate of 11.54%, a 17.30% scenario was applied. The scenarios for other risk factors also account for 50.0% stresses in the respective curves or prices.

The results presented reveal the impacts for each scenario in a static position of the portfolio. The dynamism of the market and portfolios means that these positions change continuously and do not necessarily reflect the position demonstrated here. In addition, the Organization has a continuous market risk management process, which is always searching for ways to mitigate the associated risks, according to the strategy determined by Top Management. Therefore, where there are indicators of deterioration in certain positions, proactive measures are taken to minimize any potential negative impact and maximize the risk/return ratio for the Organization.

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Notes to the Consolidated Financial Statements**Sensitivity Analysis – Trading Portfolio**

		On December 31 - R\$ thousand					
		2016			2015		
		Trading Portfolio (1)					
		Scenarios			Scenarios		
		1	2	3	1	2	3
Interest rate in Reais	Exposure subject to variations in fixed interest rates and interest rate coupons	(1,074)	(293,350)	(568,367)	(867)	(321,946)	(627,934)
Price indexes	Exposure subject to variations in price index coupon rates	(26)	(3,723)	(7,174)	(53)	(8,834)	(16,217)
Exchange coupon	Exposure subject to variations in foreign currency coupon rates	(2)	(224)	(437)	(30)	(1,312)	(2,592)
Foreign currency	Exposure subject to exchange rate variations	(106)	(2,649)	(5,297)	(276)	(6,898)	(13,796)
Sovereign/Eurobonds and Treasuries	Exposure subject to variations in the interest rate of securities traded on the international market	(1,464)	(11,649)	(24,751)	(530)	(7,281)	(14,747)
Other	Exposure not classified in	-	(19)	(39)	-	(2)	(3)

	other definitions						
Total excluding correlation of risk factors		(2,672)	(311,614)	(606,065)	(1,756)	(346,273)	(675,289)
Total including correlation of risk factors		(2,058)	(295,900)	(574,058)	(1,357)	(333,171)	(649,489)

(1) Amounts net of tax.

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Presented below are the impacts of the financial exposures also considering the Banking Portfolio (composed of operations not classified in the Trading Portfolio, originating from other business of the Organization and their respective hedges).

Sensitivity Analysis – Trading and Banking Portfolios

		On December 31 - R\$ thousand					
		Trading and Banking Portfolios (1)			Trading and Banking Portfolios (1)		
		2016			2015		
		Scenarios			Scenarios		
		1	2	3	1	2	3
	Exposure subject to variations in fixed interest rates and interest rate coupons						
Interest rate in Reais		(8,994)	(2,466,388)	(4,786,687)	(5,027)	(1,920,630)	(3,739,629)
	Exposure subject to variations in price index coupon rates						
Price indexes		(9,255)	(1,224,208)	(2,264,187)	(7,930)	(1,395,457)	(2,613,957)
	Exposure subject to variations in foreign currency coupon rates						
Exchange coupon		(455)	(49,446)	(93,726)	(581)	(81,873)	(150,673)
	Exposure subject to exchange rate variations						
Foreign currency		(867)	(21,663)	(43,327)	(5,054)	(132,492)	(264,983)
	Exposure subject to variation in stock prices						
Equities		(14,817)	(370,420)	(740,841)	(12,054)	(301,354)	(602,707)

	Exposure subject to variations in the interest rate of securities traded on the international						
Sovereign/Eurobonds and Treasuries market		(1,786)	(15,940)	(32,801)	(1,260)	(51,310)	(101,025)
	Exposure not classified in other definitions						
Other		(1)	(28)	(55)	(454)	(11,353)	(22,706)
Total excluding correlation of risk factors		(36,175)	(4,148,093)	(7,961,624)	(32,360)	(3,894,469)	(7,495,680)
Total including correlation of risk factors		(26,893)	(3,691,157)	(7,090,253)	(17,879)	(3,218,376)	(6,181,241)

(1) Amounts net of tax.

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The statement of financial position by maturity is as follows:

	1 to 30	31 to 180	181 to 360
	days	days	days
Assets			
Current and long-term assets	639,222,377	92,821,485	61,105,050
Funds available	14,518,120	-	-
Interbank investments (1)	172,625,845	2,481,056	1,748,330
Securities and derivative financial instruments (1) (2)	310,106,869	4,602,473	1,447,470
Interbank and interdepartmental accounts	58,228,558	-	-
Loan and leasing	28,869,221	68,362,432	49,429,280
Other receivables and assets	54,873,764	17,375,524	8,479,960
Permanent assets	426,677	2,080,126	2,483,560
Investments	-	-	-
Premises and equipment	106,187	530,927	637,110
Intangible assets	320,490	1,549,199	1,846,450
Total in 2016	639,649,054	94,901,611	63,588,620
Total in 2015	535,909,486	97,020,248	61,882,650
Liabilities			
Current and long-term liabilities	579,723,025	135,748,296	79,310,100
Deposits (3)	138,447,935	15,556,399	9,463,920
Securities sold under agreements to repurchase (1)	157,475,125	48,696,972	7,627,050
Funds from issuance of securities	7,214,114	45,214,850	40,003,760
Interbank and interdepartmental accounts	7,089,003	-	-
Borrowing and on-lending	4,307,130	14,495,732	12,217,260
Derivative financial instruments	12,428,600	534,525	279,660
Technical provisions for insurance, pension plans and capitalization bonds (3)	188,213,731	4,985,634	1,686,830
Other liabilities:			
- Subordinated debts	426,665	3,904,856	7,068,020
- Other	64,120,722	2,359,328	963,560
Deferred income	477,185	-	-
Non-controlling interests in subsidiaries	-	-	-
Shareholders' equity	-	-	-
Total in 2016	580,200,210	135,748,296	79,310,100
Total in 2015	507,400,521	104,262,422	61,106,990
Net assets in 2016 YTD	59,448,844	18,602,159	2,880,670

Net assets in 2015 YTD

28,508,965 21,266,791 22,042,45

- (1) Repurchase agreements are classified according to the maturity of the transactions;
- (2) Investments in investment funds are classified as 1 to 30 days; and
- (3) Demand and savings deposits and technical provisions for insurance, pension plans and capitalization bonds comprising "VGBL" and "PGBL" products are classified as 1 to 30 days, without considering average historical turnover.

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Calculation basis - Basel Ratio	On December 31 - R\$ thousand	
	Prudential Conglomerate 2016	2015
Tier I capital	78,762,886	77,506,951
Common equity	73,747,016	77,506,951
Shareholders' equity	100,442,413	88,906,644
Non-controlling interests / Other	60,615	-
Prudential adjustments (1) (2)	(26,756,012)	(11,399,693)
Additional Capital (3)	5,015,870	-
Tier II capital	22,363,950	25,318,399
Subordinated debts (CMN Resolution No. 4,192/13)	9,803,498	5,805,384
Subordinated debts (previous to CMN Resolution No. 4,192/13)	12,560,452	19,513,015
Reference Equity (a)	101,126,836	102,825,350
- Credit risk	589,977,243	556,440,558
- Market risk	15,767,767	18,670,132
- Operational risk	50,443,507	37,106,557
Risk-weighted assets – RWA (b)	656,188,517	612,217,247
Basel ratio (a/b)	15.4%	16.8%
Tier I capital	12.0%	12.7%
- Principal capital	11.2%	12.7%
- Additional Capital	0.8%	-
Tier II capital	3.4%	4.1%

(1) As from January 2016, the factor applied to prudential adjustments went from 40% to 60%, according to the timeline for application of deductions of prudential adjustments, defined in Article 11 of CMN Resolution No. 4,192/13;

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

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

a) Capital Management

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

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Notes to the Consolidated Financial Statements**b) Fair value**

The book value, net of loss provisions of the principal financial instruments is shown below:

Portfolio	Carrying amount	Unrealized gain/(loss) without tax effect			On December 31, 2016
		Fair value	In statement of income	In	
	2016	2016	2015	2016	2015
Securities and derivative financial instruments (Notes 3e, 3f and 8)	440,010,105	441,262,826	192,859	(8,250,063)	1,250,000
- Adjustment of available-for-sale securities (Note 8bii)			(1,059,862)	(6,860,533)	
- Adjustment of held-to-maturity securities (Note 8c item 4)			1,252,721	(1,389,530)	1,250,000
Loan and leasing (Notes 2, 3g and 10) (1)	391,571,591	386,424,584	(5,147,007)	(4,294,403)	(5,147,007)
Investments (Notes 3j and 13) (2)	7,038,394	29,941,914	22,903,520	18,017,813	22,903,520
Treasury shares (Note 23d)	440,514	630,423	-	-	18,017,813
Time deposits (Notes 3n and 16a)	103,137,867	102,614,734	523,133	590,981	523,133
Funds from issuance of securities (Note 16c)	150,807,358	151,328,401	(521,043)	(155,402)	(521,043)
Borrowing and on-lending (Notes 17a and 17b)	58,196,002	58,030,726	165,276	660,480	165,276
Subordinated debts (Note 19)	52,611,063	53,436,791	(825,728)	530,218	(825,728)
Unrealized gains excluding tax			17,291,010	7,099,624	18,540,000

(1) Includes advances on foreign exchange contracts, leases and other receivables with lending characteristics; and

(2) Primarily includes the surplus of interest in subsidiaries, associates and jointly controlled companies (Cielo, Odontoprev and Fleury).

Determination of the fair value of financial instruments:

- Securities and derivative financial instruments, investments, subordinated debts and treasury shares are based on the market price at the reporting date. If no quoted market price is available, amounts are estimated based on the dealer quotations, pricing models, quotation models or quotations for instruments with similar characteristics;
- Fixed rate loans were determined by discounting estimated cash flows, using interest rates applied by the Organization for new contracts with similar features. These rates are consistent with the market at the reporting date; and
- Time deposits, funds from issuance of securities, borrowing and on lending were calculated by discounting the difference between the cash flows under the contract terms and our prevailing market rates

for the same product at the reporting date.

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33) EMPLOYEE BENEFITS

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

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

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

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

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

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

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

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

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

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

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

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

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

Plans in deficit	(130,293)	(131,849)
Plans in surplus	116,772	17,626
Net balance	(13,521)	(114,223)

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

	Years ended December 31 - R\$ thousand	
	2016	2015
Projected benefit obligations:		
Cost of service	(1,077)	(579)
Cost of interest on actuarial obligations	181,595	133,385
Expected earnings from the assets of the plan	(174,937)	(120,960)
Net cost/(benefit) of the pension plans	5,581	11,846

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

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

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

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

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

Expenses related to contributions made during the year ended December 31, 2016, totaled R\$584,438 thousand (R\$606,342 thousand in 2015).

In addition to this benefit, Bradesco and its subsidiaries offer other benefits to their employees and administrators, including health insurance, dental care, life and personal accident insurance, and professional training. These expenses, including the aforementioned contributions, totaled R\$3,826,715 thousand during the year ended December 31, 2016 (R\$3,163,517 thousand in 2015).

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Notes to the Consolidated Financial Statements**34) INCOME TAX AND SOCIAL CONTRIBUTION****a) Calculation of income tax and social contribution charges**

	Years ended December 31 - R\$ thousand	
	2016	2015
Income before income tax and social contribution	27,159,678	9,113,165
Total burden of income tax and social contribution at the current rates (1)	(12,221,855)	(4,100,924)
Effect on the tax calculation:		
Earnings (losses) of affiliates and jointly controlled companies	749,327	668,646
Net non-deductible expenses of nontaxable income	604,577	149,178
Net tax credit of deferred liabilities (2)	-	2,341,220
Interest on shareholders' equity (paid and payable)	3,139,102	2,305,334
Other amounts (3)	(4,245,890)	6,819,279
Income and social contribution taxes for the year	(11,974,739)	8,182,733

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

(2) Constitution of tax credit, net of deferred liabilities, related to the increase in the social contribution tax rate, according to Law No. 13,169/15; and

(3) Primarily, includes: (i) the exchange rate variation of assets and liabilities, derived from investments abroad; (ii) the equalization of the effective rate of social contribution in relation to the rate (45%) shown; and (iii) the deduction incentives.

b) Breakdown of income tax and social contribution in the statement of income

Years ended December 31 - R\$
thousand

	2016	2015
Current taxes:		
Income tax and social contribution payable	(8,805,368)	(7,330,298)
Deferred taxes:		
Amount recognized/realized in the period on temporary differences	(2,211,854)	12,223,614
Use of opening balances of:		
Social contribution loss	(647,282)	(127,191)
Income tax loss	(883,018)	(65,173)
Constitution in the period on:		
Social contribution loss	234,730	276,139
Income tax loss	338,053	731,741
Activation of the tax credit – Law No. 13,169/15:		
Negative base of social contribution	-	422,853
Temporary additions	-	2,051,048
Total deferred tax assets	(3,169,371)	15,513,031
Income tax and social contribution for the period	(11,974,739)	8,182,733

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	Balance on 12/31/2015	Balance originating from an acquired institution (1)	Amount recognized	Amount realized
Allowance for loan losses	24,012,539	3,938,976	14,357,877	16,493,157
Civil provisions	1,849,816	207,352	1,199,341	1,048,501
Tax provisions	2,582,217	317,416	726,341	590,579
Labor provisions	1,288,565	684,917	572,535	438,188
Provision for devaluation of securities and investments	442,287	109,501	37,614	74,063
Provision for devaluation of foreclosed assets	382,672	3,301	307,115	153,868
Adjustment to fair value of trading securities	6,648,651	-	156,230	1,920,634
Amortization of goodwill	240,052	-	253,927	12,477
Other	3,118,766	437,156	2,868,875	1,960,242
Total deductible taxes on temporary differences	40,565,565	5,698,619	20,479,855	22,691,709
Income tax and social contribution losses in Brazil and overseas	5,765,368	787,878	572,783	1,530,300
Subtotal (2) (3)	46,330,933	6,486,497	21,052,638	24,222,009
Adjustment to fair value of available-for-sale securities (3)	2,983,663	32,120	393,369	2,101,610
Social contribution - Provisional Measure No. 2,158-35/01	113,783	-	-	113,783
Total deferred tax assets (Note 11b)	49,428,379	6,518,617	21,446,007	26,437,402
Deferred tax liabilities (Note 34f)	2,840,341	3,592	1,317,231	884,114
Deferred tax assets, net of deferred tax liabilities	46,588,038	6,515,025	20,128,776	25,553,288
- Percentage of net deferred tax assets on capital (Note 32)	45.3%			
- Percentage of net deferred tax assets over total assets	4.6%			

(1) HSBC Brasil (Note 35f);

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

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

d) Expected realization of deferred tax assets on temporary differences, tax loss and negative basis of social contribution

	Temporary differences		Income tax and social contribution losses		R\$ thousand
	Income tax	Social contribution	Income tax	Social contribution	Total
2017	6,055,452	3,861,883	143,796	311,665	10,322,796
2018	6,452,629	4,725,917	774,369	607,424	12,650,339
2019	6,018,052	3,835,014	447,326	208,304	10,508,696
2020	4,943,868	2,700,623	114,751	227,996	7,987,238
2021	1,681,380	1,097,956	1,162,066	767,302	4,708,704
After 2021	1,506,341	1,133,215	287,344	543,386	3,470,286
Total	26,697,722	17,354,608	2,929,652	2,666,077	49,648,059

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

The present value of deferred tax assets, calculated based on the average funding interest rate, net of tax effects, amounts to R\$46,240,611 thousand (R\$41,463,906 thousand in 2015), of which R\$41,150,573 thousand (R\$36,157,502 thousand in 2015) relates to temporary differences; R\$5,090,038 thousand (R\$ 5,195,823 thousand in 2015) to tax losses and negative basis of social contribution and (R\$110,581 thousand in 2015) to deferred social contribution, Provisional Measure No. 2,158-35.

e) Unrecognized deferred tax assets

On December 31, 2016, deferred tax assets of R\$14,102 thousand (R\$17,344 thousand in 2015) were not recognized, and will only be registered when they meet the regulatory requirements and/or present prospects of realization according to technical studies and analyses prepared by the Management and in accordance with Bacen regulations.

f) Deferred tax liabilities

	On December 31 - R\$ thousand	
	2016	2015
Fair value adjustment to securities and derivative financial instruments	1,027,777	415,911
Difference in depreciation	381,118	597,233
Judicial deposit and others (1)	1,868,155	1,827,197
Total	3,277,050	2,840,341

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

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

35) OTHER INFORMATION

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

b) Consortium funds

	On December 31 - R\$ thousand	
	2016	2015
Monthly estimate of funds receivable from consortium members	581,688	485,083
Contributions payable by the group	29,474,653	23,659,786
Consortium members - assets to be included	25,901,634	21,213,015
Credits available to consortium members	5,488,351	4,617,600
		In units
	2016	2015
Number of groups managed	3,700	3,590
Number of active consortium members	1,334,286	1,194,004
Number of assets to be included	610,666	567,892

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

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Notes to the Consolidated Financial Statements

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

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

CMN Resolution No. 3,786/09 and Bacen Circular Letters No. 3,472/09 and No. 3,516/10 establish that financial institutions and other entities authorized by Bacen to operate, which are publicly-held companies or which are required to establish an Audit Committee shall, since December 31, 2010, annually prepare and publish in up to 90 days after the reference date of December 31 their consolidated financial statements, prepared under the International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board (IASB). As required by CMN Resolution, on March 7, 2016, Bradesco published its consolidated financial statements for December 31, 2014 and 2015 on its website, in accordance with IFRS. The net income and shareholders' equity of the financial statements disclosed in IFRS were not substantially different from those presented in the financial statements prepared in accordance with the accounting practices adopted in Brazil and applicable to institutions authorized to operate by the Brazilian Central Bank (Bacen).

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

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

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

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

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

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

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

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

Bradesco

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

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

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

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

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

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

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

Bank.

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

g) In October 2016, Bradesco Seguros S.A. ("Bradesco Seguros") and Swiss Re Corporate Solutions Ltd. ("Swiss Re Corso") signed a deal whereby: (i) Swiss Re Corporate Solutions Brasil Seguros S/A ("Swiss Re Corporate Solutions Brasil") will assume the insurance operations of P&C (Property and Casualty) and of transport of Bradesco Seguros ("Large Risks Insurance"), to have exclusive access to Bradesco clients to exploit the marketing of Large Risks Insurance; and (ii) Bradesco Seguros will hold an equity interest of 40% in Swiss Re Corporate Solutions Brasil and the other 60% interest will remain with its controlling shareholder Swiss Re Corso. The transaction is subject to approval by the competent authorities and other contractual terms commonly used for this type of transaction.

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

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Management Bodies

Reference Date: January 27, 2017

Board of Directors

Chairman

Lázaro de Mello Brandão

Vice-Chairman

Luiz Carlos Trabuco Cappi

Members

Denise Aguiar Alvarez
João Aguiar Alvarez
Carlos Alberto Rodrigues Guilherme
Milton Matsumoto
José Alcides Munhoz
Aurélio Conrado Boni

Board

Executive Officers

Chief Executive Officer

Luiz Carlos Trabuco Cappi

Executive Vice-Presidents

Domingos Figueiredo de Abreu
Alexandre da Silva Glüher
Josué Augusto Pancini
Maurício Machado de Minas
Marcelo de Araújo Noronha
André Rodrigues Cano

Managing Directors

Luiz Carlos Angelotti
Nilton Pelegrino Nogueira
André Marcelo da Silva Prado
Altair Antônio de Souza
Denise Pauli Pavarina
Moacir Nachbar Junior
Octavio de Lazari Junior
Cassiano Ricardo Scarpelli
Eurico Ramos Fabri
Renato Ejnisman

Directors

Albert Adell Roso
Alexandre Cesar Pinheiro Quercia
Antonio Chinellato Neto
Antonio Daissuke Tokuriki
*Antranik Haroutiounian
*Carlos Henrique Villela Pedras
Carlos Leibowicz
*Edilson Dias dos Reis
Edmir José Domingues
Fernando Freiburger
*Fernando Honorato Barbosa
Gilvandro Matos da Silva
Jefferson Ricardo Romon
Juliano Ribeiro Marcílio
*Manoel Guedes de Araújo Neto
Marcio Henrique Araujo Parizotto
Paulo Eduardo Waack

Regional Officers

Ademir Aparecido Correa Junior
Alberto do Nascimento Lemos
Almir Rocha
Altair Naumann
Amadeu Emilio Suter Neto
André Ferreira Gomes
Antonio Piovesan
Carlos Alberto Alástico
César Cabús Berenguer Silvany
Delvair Fidêncio de Lima
Francisco Aquilino Pontes Gadelha
Francisco Assis da Silveira Junior
Geraldo Dias Pacheco
João Alexandre Silva
João Pedro da Silva Villela
*Joel Queiroz de Lima
José Flávio Ferreira Clemente
José Roberto Guzela
Luiz Benoni Passini
Nelson Veiga Neto

Integrated Risk Management and Capital Allocation

Alexandre da Silva Glüher
José Alcides Munhoz
Aurélio Conrado Boni
Domingos Figueiredo de
Josué Augusto Pancini
Maurício Machado de M
Marcelo de Araújo Noro
André Rodrigues Cano
Luiz Carlos Angelotti
Moacir Nachbar Junior
Gedson Oliveira Santos

Nominating Committee

Lázaro de Mello Brandão
Luiz Carlos Trabuco Cappi
Carlos Alberto Rodrigues
Milton Matsumoto
André Rodrigues Cano
Glaucimar Peticov

Sustainability Committee

Luiz Carlos Angelotti - C
Carlos Alberto Rodrigues
Milton Matsumoto
Aurélio Conrado Boni
Domingos Figueiredo de
Alexandre da Silva Glüher
Josué Augusto Pancini
Maurício Machado de M
Moacir Nachbar Junior

Executive Disclosure

Alexandre da Silva Glüher
Domingos Figueiredo de
André Rodrigues Cano
Luiz Carlos Angelotti
Moacir Nachbar Junior
Antonio José Barbara

Walkiria Schirrmeister Marchetti
*Rômulo de Mello Dias

Deputy Directors

Aurélio Guido Pagani
Guilherme Muller Leal
Luiz Carlos Brandão Cavalcanti Junior
Rogério Pedro Câmara

Department Directors

Alexandre Rappaport
Amilton Nieto
André Bernardino da Cruz Filho
Antonio Carlos Melhado
Antonio Gualberto Diniz
Antonio José da Barbara
Bruno D'Avila Melo Boetger
Carlos Wagner Firetti
Clayton Camacho
Edilson Wiggers
Edson Marcelo Moreto
Fernando Antônio Tenório
Frederico William Wolf
Gedson Oliveira Santos
Glaucimar Peticov
Hiroshi Obuchi
João Albino Winkelmann
João Carlos Gomes da Silva
Joel Antonio Scalabrini
Johan Albino Ribeiro
José Luis Elias
José Ramos Rocha Neto
Layette Lamartine Azevedo Júnior
Lucio Rideki Takahama
Marcelo Frontini
Marcelo Santos Dall'Occo
Marcos Aparecido Galende
Marlos Francisco de Souza Araujo
Mauricio Gomes Maciel
Paulo Aparecido dos Santos
Paulo Manuel Taveira de Oliveira Ferreira
Roberto de Jesus Paris
Waldemar Ruggiero Júnior
Wilson Reginaldo Martins

Osmar Sanches Biscuola
Paulo Roberto Andrade de Aguiar

Audit Committee

Milton Matsumoto - Coordinator
Osvaldo Watanabe
Paulo Roberto Simões da Cunha

Compensation Committee

Lázaro de Mello Brandão - Coordinator
Luiz Carlos Trabuco Cappi
Carlos Alberto Rodrigues Guilherme
Milton Matsumoto
Valdirene Soares Secato (non-Manager)

Compliance and Internal Control Committee

Milton Matsumoto - Coordinator
Carlos Alberto Rodrigues Guilherme
Aurélio Conrado Boni
Domingos Figueiredo de Abreu
Alexandre da Silva Glüher
Josué Augusto Pancini
Maurício Machado de Minas
Marcelo de Araújo Noronha
Moacir Nachbar Junior
Frederico William Wolf
Gedson Oliveira Santos
Joel Antonio Scalabrini
Johan Albino Ribeiro

Ethical Conduct Committee

Milton Matsumoto - Coordinator
Carlos Alberto Rodrigues Guilherme
Domingos Figueiredo de Abreu
Alexandre da Silva Glüher
Josué Augusto Pancini
Maurício Machado de Minas
Marcelo de Araújo Noronha
André Rodrigues Cano
André Marcelo da Silva Prado
Denise Pauli Pavarina
Moacir Nachbar Junior
Octavio de Lazari Junior
Randal Luiz Zanetti
Clayton Camacho
Frederico William Wolf
Gedson Oliveira Santos
Glaucimar Peticov
Joel Antonio Scalabrini
Nairo José Martinelli Vidal Júnior

Carlos Wagner Firetti
Marcos Aparecido Gale
Marcelo Santos Dall'Occo
Marlos Francisco de Souza
Haydewaldo R. Chamberlain

Fiscal Council

Sitting Members

Luiz Carlos de Freitas -
Domingos Aparecido M
José Maria Soares Nun
Ariovaldo Pereira
João Carlos de Oliveira

Deputy Members

João Batistela Biazon
Nilson Pinhal
Renaud Roberto Teixeira
Jorge Tadeu Pinto de F

Ombudsman Department

Nairo José Martinelli Vidal

General Accountant

Marcos Aparecido Galende
Accountant - CR

Bradesco _____

Consolidated Financial Statements, Independent Auditors' Report, Audit Committee Report Summary and Fiscal

Independent Auditors' Report on the Consolidated Financial Statements

To

The Board of Directors and Shareholders of

Banco Bradesco S.A.

Osasco – SP

Opinion

We have audited the consolidated financial statements of Banco Bradesco S.A. (“Bradesco”), which comprise the consolidated balance sheet as of December 31, 2016 and the respective consolidated statements of income, changes in shareholders’ equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of Bradesco as of December 31, 2016, the consolidated performance of its operations and its consolidated cash flows, for the year then ended, in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

Basis for opinion

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

Key Audit Matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and, we do not express a separate opinion on these matters.

§ Allowance for doubtful accounts

As disclosed in Notes 3g and 10, for purposes of measuring the allowance for doubtful accounts, which total amount shown in the Consolidated Financial Statements is R\$ 40,614,354 thousand, Bradesco classifies its loans (which comprise loans, leasing, advances on foreign exchange contracts, other receivables with credit characteristics), into nine risk levels, taking into account inputs and assumptions such as late payments, economic and financial position, indebtedness level, economy sector, guarantee characteristics, and the other factors and assumptions described in CMN Resolution No. 2.682/1999, with rating “AA” being the minimum risk level, and “H” the maximum risk level. Bradesco initially applies the loss percentages established in such Resolution for each risk level for purposes of calculating the allowance and further increases the allowance, when necessary, based on additional internal evaluations (excess provision). The classification of loans into risk levels as well as the loss percentages related to each risk level requires Bradesco to make assumptions and judgments, based on its internal risk classification methodologies, and the allowance for doubtful accounts represent Bradesco’s best estimate of the portfolio losses. Due to the relevance of loans and the uncertainties related to the estimate of the allowance for doubtful accounts, we consider this as a significant matter in our audit .

How our audit addressed this matter

We evaluate the design, implementation and operating effectiveness of the internal controls related to the processes of approval, recording and accrual of loans as well as the internal risk rating methodologies that support the classification of transactions, the main assumptions used for calculation and the arithmetic accuracy of the allowance for doubtful accounts. We also evaluate, on a sampling basis, whether Bradesco met the minimum requirements established by the CMN Resolution No. 2.682/1999, related to the determination of the allowance for doubtful accounts. We also analyzed whether the disclosures made in the financial statements, described in Notes 3g and 10, are in accordance with the applicable accounting practices.

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Independent Auditors' Report on the Consolidated Financial Statements

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

§ Market value of financial instruments

As disclosed in the Notes 3e, 3f, 8 and 32b, derivative financial instruments amount to R\$ 16,960,945 thousand (assets) and R\$ (13,435,679) thousand (liabilities), available-for-sale securities amount to R\$ 177,215,001 thousand and trading securities amount to R\$ 202,853,492 thousand. These instruments, measured at market value, are relevant to the consolidated financial statements of Bradesco. For the financial instruments that are actively traded and those which market prices and parameters are available, there is a higher objectivity level in the determination of market values. However, when the market prices or parameters are not observable, the determination of the market values is subject to a higher uncertainty level, to the extent Bradesco makes significant judgments to estimate such amounts. Therefore, we consider the market value measurement of these financial instruments as a significant matter in our audit.

How our audit addressed this matter

As part of our procedures, we evaluate the design, implementation, and operating effectiveness of the internal controls implemented by Bradesco to mitigate the risk of material misstatement in the consolidated financial statements arising from uncertainties in the market value measurement of financial instruments. For a sample of financial instruments which market value measurement parameters are not observable, with the technical support of our professionals with knowledge of financial instruments, we evaluate the models developed by Bradesco for determining market values and the reasonableness of data, the parameters and information included in the pricing models used, and we recalculate the amount of operations. Our procedures also included the evaluation of the disclosures made by Bradesco in the consolidated financial statements in Notes 3e, 3f, 8 and 32b.

Based on the evidence obtained from the procedures described above, we considered the market value measurement of financial instruments and disclosures adequate in the context of the consolidated financial

statements taken as a whole.

§ Provisions and contingent liabilities - tax, civil and labor

As described in Notes 3p and 18, Bradesco is defendant in lawsuits of tax, civil and labor nature, related to the normal course of its activities, which total provision recognized in the consolidated financial statements amounts to R\$ 8,187,238 thousand, R\$ 5,003,440 thousand, and R\$ 5,101,732 thousand, respectively. Some laws and regulations in Brazil have high complexity levels, and, therefore, the measurement, recognition and disclosure of Provisions and Contingent Liabilities, related to lawsuits, and/or, in certain cases, adherence to laws and regulations, require Bradesco's professional judgment. Due to the relevance, complexity and judgment involved in the evaluation, measurement, definition of recognition and disclosures related to Provisions and Contingent Liabilities, we consider this as a significant matter in our audit.

How our audit addressed this matter

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

Bradesco _____

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Independent Auditors' Report on the Consolidated Financial Statements

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

§ Impairment of assets

The consolidated financial statements include deferred tax assets in the amount of R\$ 50,955,601 thousand (Note 34) and goodwill in the amount of R\$ 11,585,810 thousand (Note 15) which realization depends on future profitability based on business plans and budgets prepared by Bradesco and which are supported by several economic and business assumptions, among others. Since they require the exercise of judgment, such estimates are prepared and reviewed internally according to Bradesco's governance framework. As described in Notes 3h, 3l and 3m, considering the frequent changes that occur in the economic or regulatory environment of the markets where it operates, Bradesco continuously evaluate the assumptions and estimates of taxable profit, profitability of the cash generating units (CGU) to which goodwill and intangible assets are allocated, growth rates, discount rates, and cash flow projections. In view of the relevance of the future profitability estimates made and the impact that changes in the assumptions of such estimates would have on the consolidated financial statements, we consider this area relevant to our audit.

How our audit addressed this matter

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

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

§ Acquisition of control of HSBC Brasil

As described in Note 35f, in August 2015, Bradesco entered into a Purchase and Sale of Shares Agreement with HSBC Latin America Holdings Limited to acquire 100% of the capital of HSBC Bank Brasil S.A. and HSBC Serviços e Participações Ltda. (collectively, "HSBC Brasil"). The transaction was completed on July 1, 2016, after the approval from the regulatory bodies, fulfillment of the legal formalities, and the effective payment in the amount of R\$ 17,288,470 thousand. With the acquisition, Bradesco took over HSBC Brasil operations, including retail, wholesale, insurance and asset management. Accounting practices require the measurement of the fair value of acquired assets and assumed liabilities for purposes of determining goodwill as well as the identifiable acquired intangible assets. Such measurement involves Bradesco's judgment and includes the projection of future cash flows, discount rate, and definition of the useful lives of the identified assets. Later on, on October 7, 2016, Bradesco carried out the migration of the entire service network and operations of HSBC Brasil to the operational structures of Bradesco. In view of the relevance and the high judgment level involved in the accounting record process of the acquisition, as well as the complexity of the HSBC Brasil operations migration process, we consider this matter significant in our audit.

Consolidated Financial Statements, Independent Auditors' Report, Audit Committee Report Summary and Fiscal C

Independent Auditors' Report on the Consolidated Financial Statements

How our audit addressed this matter

Our audit procedures included the evaluation of the design, implementation and operating effectiveness of the internal controls related to the process of measurement, recognition and disclosures of transactions of such nature according to the applicable accounting practices. We also analyzed, with the technical support of our corporate finance specialists, the reasonableness and consistency of the methodology used for measuring the fair value assigned to the acquired assets and assumed liabilities, identified intangible assets as well as the assumptions used for making the projection of cash flows, discount rates and useful life estimates. We also conducted tests of the controls related to the HSBC Brasil acquisition. Additionally, we evaluated the controls related to the migration of the operations to Bradesco systems and considered the analysis of general controls related to migration governance, inspection of the migration plan, and the migration rules on data and obtaining evidences of the conducted data migration tests. We involved our Information Technology ("IT") specialists in order to analyze the migration interfaces, and we carried out the inspection/re-execution on test basis of the accounting and operating reconciliations of the migrated balances and data. It was also part of our procedures the evaluation of the disclosures made by Bradesco in the consolidated financial statements in Note 35f.

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

§ Technical Provisions – Insurance and Pension Plans

As mentioned in Notes 3o and 21, Bradesco has liabilities related to insurance and pension plans contracts denominated Technical Provisions, in the amount of R\$ 215,839,999 thousand. In view of the uncertainties and subjectivity inherent in insurance and pension plans contracts, the liability adequacy test and the process of determination and measurement of technical reserves involve a high judgment level. Bradesco continuously evaluates methodologies and assumptions, which include, among others, expectations of loss ratio, mortality, longevity, persistency, and interest rates. In view of the involved relevance and uncertainty, and the impact that any change in assumptions would have on the amount of Technical Provisions, we consider this matter relevant to our audit.

How our audit addressed this matter

On sampling basis, we tested the design, implementation and operating effectiveness of the significant internal controls related to the Technical Provisions. With the technical support of our actuarial specialists, we made the evaluation of the methodologies used for measuring technical reserves and the liability adequacy test. We also evaluated the consistency of data and reasonableness of assumptions, such as loss ratio, interest rates, longevity, mortality, and persistency. Additionally, we made the recalculation of technical provisions considering the methodology, assumptions and data. Our audit procedures also included the evaluation of the disclosures made in the consolidated financial statements Notes 30 and 21.

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

§ Application controls and information technology general controls

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

Bradesco _____

Consolidated Financial Statements, Independent Auditors' Report, Audit Committee Report Summary and Fiscal

Independent Auditors' Report on the Consolidated Financial Statements

How our audit addressed this matter

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

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

Other matters

Statement of added value

The consolidated statement of added value for the year ended December 31, 2016, prepared under the responsibility of Bradesco's management, whose presentation is required in accordance with the standards issued by the CVM – Brazilian Exchange Commission, was subjected to audit procedures performed in conjunction with the audit of Bradesco's financial statements. For the purposes of forming our opinion, we assess whether these statements are reconciled with the financial statements and accounting records, as applicable, and if their form and content are in accordance with the criteria set forth in Technical Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added have been properly prepared, in all material respects, in accordance with the criteria set forth in this Technical Pronouncement and are consistent with the consolidated financial statements taken as a whole.

Individual financial statements

Bradesco prepared a complete set of individual financial statements of Banco Bradesco S.A. for the year ended December 31, 2016 in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil that were presented separately, over which we issued a separate independent audit report, without any modification, dated February 1, 2017.

Other information that accompany the consolidated financial statements and the auditor report

Bradesco's management is responsible for the other information. The other information comprises the Management's Report.

Our opinion on the consolidated financial statements does not cover other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or with our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate

by the Central Bank of Brazil, and the internal controls as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement whether due to fraud or error.

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Independent Auditors' Report on the Consolidated Financial Statements

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, we exercise professional judgment, and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is higher than for the one resulting from error, as fraud may involve collusion, forgery, intentional omission or misrepresentations, or the override of internal controls.

- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bradesco and its subsidiaries internal control.
- Evaluate the appropriateness of the accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting, and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on Bradesco's ability to continue as going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements, or if such disclosures are inadequate to modify our opinion. Our conclusions are based on the audit evidences obtained up to the date of our auditor's report. However, future events or conditions may cause Bradesco and its subsidiaries to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of group audit. We remain solely responsible for our audit opinion.

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Independent Auditors' Report on the Consolidated Financial Statements

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

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

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

Osasco, February 1st, 2017

KPMG Auditores Independentes

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Original report in Portuguese signed by

Rodrigo de Mattos Lia

Accountant CRC 1SP252418/O-3

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Audit Committee Report Summary

Corporate Governance and Responsibilities

The Board of Directors of Banco Bradesco S.A. has opted for a single Audit Committee for all the Financial Conglomerate, including those in Grupo Bradesco Seguros.

The Audit Committee is a statutory advisory body, associated directly to the Board of Directors. It is currently composed of one board member and two more members, appointed each year by the Board of Directors, which takes into account the criteria set out in the applicable laws and regulations.

The Management of the connected companies and dependencies answers for the definition and implementation of processes and procedures in order to collect data for the preparation of the financial statements of the companies that make up the Bradesco Organization, in compliance with the accounting practices adopted in Brazil, issued by the responsible supervisory authorities (Brazilian Central Bank – Bacen, the Superintendence of Private Insurance – Susep, the Brazilian Securities Commission – CVM, and the National Supplementary Health Agency – ANS), as well as the International Accounting Standards – IFRS, and those issued by the US Securities and Exchange Commission (SEC) and by the Sarbanes-Oxley Act (SOx), for being listed on the New York Stock Exchange.

The Management is also responsible for processes, policies and internal control procedures to ensure the safeguarding of assets, the timely recognition of

Some of the main duties of the Audit Committee are: a) to review, prior to publication, the financial statements, including explanatory notes and Management reports; b) to assess the effectiveness of the Internal and Independent Audits, as well as to verify compliance with legal and regulatory provisions and adequacy of the internal controls system, and the assessment and monitoring of the Organization's risks; c) to recommend to Management, when applicable, the correction or improvement of policies, practices, and procedures identified in the scope of the exercise of its functions.

Among the duties of the Audit Committee are also those required by American Law Sarbanes-Oxley for companies registered with the U.S. Securities and Exchange Commission and listed on the New York Stock Exchange.

The Audit Committee forms its opinions and judgments through information received from Management, from presentations made by the various departments in the business, accounting, technology, and control areas, in addition to the results of the work from the Integrated Risks/Internal Controls Area, from Internal and Independent Audits, from the Brazilian Central Bank, and from the Superintendence of Private Insurance.

The Audit Committee discloses its rules on the site www.bradesco.com.br/ri, area of Corporate Governance.

liabilities and the mitigation to acceptable levels of risk factors of the Bradesco Organization.

KPMG Auditores Independentes is responsible for reviewing the financial statements and issuing a report on their adherence to the applicable standards. It evaluates, to the extent necessary to carry out its work, the quality and adequacy of the internal control systems and compliance with legal and regulatory provisions, preparing a report of recommendations on accounting procedures and internal controls, without prejudice to other reports that it is also responsible for preparing, like those of limited reviews of quarterly information required by the CVM.

The Internal Audit (Department of General Inspectorate) has as duties to assess the quality of the systems of internal controls of the Bradesco Organization and compliance with the policies and procedures defined by the Management, including those adopted in the preparation of accounting and financial reports.

Activities related to 2016

The Committee has participated in 247 meetings, with the Board of Directors, with executives from the areas of business, information technology, control and risk management and the internal and independent auditors, with the Fiscal Council, and with the Brazilian Central Bank. The meetings, duly formalized in Minutes, were divided in the following manner:

- 184 Institutions under the jurisdiction of the Brazilian Central Bank;
- 43 companies from the areas of Insurance, Pension and Capitalization; and
- 20 companies from the area of Health.

Concerning further education, the Committee participated in conferences, seminars and courses that total 228 hours in the year.

The work plan of the Audit Committee for the financial year of 2016 had as its focus the main processes and products inherent to the business of the Bradesco Organization. Among the aspects considered most relevant, we highlight:

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Audit Committee Report Summary

- Impairment of loans and advances: loans and advances portfolio (including guarantees, debentures, etc.), evaluating the estimated loss on impairment of its operations;
- Fair value of financial instruments: derivative financial instruments, available-for-sale securities and securities classified as trading securities measured at fair value;
- Provisions and contingent liabilities – tax, civil and labor;
- Recoverable value of assets: assets relating to tax credits, goodwill on the purchase of investments and intangible assets of indefinite lifecycle, which is supported by estimates of future profitability based on the business plan and budget prepared by the Management;
- Provisions: liabilities related to insurance contracts called technical provisions;
- Improvement of the internal controls systems resulting from projects in the areas of Technology and Risk Management, from the Financial Conglomerate, and the Insurance Group;
- Compliance with consumer service standards: Customer Service (SAC/Ombudsman) and Prevention of Money Laundering (PLD);

As a result, Audit Committee believes that the activities carried out in Risk Management and Internal Controls is appropriate to the size and complexity of its business and are structured so as to ensure the efficiency of its operations, of information that generate the financial reports, as well as the compliance with internal and external standards to which the transactions are subjected.

Independent Audit

The planning of the assignments of independent audit for the 2016 financial year was discussed with KPMG Auditores Independentes and, during 2016, the audit teams responsible for services presented the results and main conclusions to the Audit Committee.

The relevant points highlighted in the report on the study and evaluation of accounting systems and internal controls, prepared in connection with the examination of the financial statements and their recommendations for the improvement of these systems, and the appropriate mitigation of risks, were discussed with the Committee, which requested monitoring of implementations of the improvements in the areas responsible.

We also evaluated the effectiveness of the verification of compliance with legal and regulatory provisions applicable to the institution, in addition to internal regulations and procedures.

- Tax credits – Bacen Circular Letter No. 3,776, from December 30, 2015; and

- Follow up of the acquisition and integration of the controlling interest of HSBC Brasil.

Based on the planning submitted by the auditors and in subsequent discussions on the results, the Committee considers that the work carried out by the teams were appropriate to the business of the Organization.

Internal Audit

Risk Management and Internal Control Systems

The Strategic Management of Risks and of the Internal Controls System in the Bradesco Organization is exercised by Independent Units of the commercial areas. During the 2016 financial year, we monitored the work of the DCIR – Integrated Risks Department, in the evaluation of adherence to the Internal Controls System and in the identification, monitoring, and management of the more relevant risks to which the Organization is exposed to.

Once the evaluations were completed at the time of the meetings with the various business and control areas, with the independent and internal audits, to monitor the main processes, and Management's commitment to act to mitigate risks, and in the continuous improvement of the associated internal controls.

The Committee became aware of the planning of the work for the 2016 financial year, and requested the inclusion of the issues covered in this Committee's agenda, so as to reconcile and complete its "Annual Audit and Inspection Plan".

During 2016, in ordinary quarterly meetings, the teams in charge of the execution of the schedule work met with this Audit Committee and reported the main conclusions regarding processes, and inherent and residual risks, in addition to aspects related to compliance with legal/regulatory provisions and the conglomerate's internal regulations and procedures.

Audit Committee, due to monitoring the work and evaluating the effectiveness of its results, believes that the Internal Audit has responded adequately to the demands of the Committee and to the needs and requirements of the Organization and the regulatory bodies.

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Audit Committee Report Summary

Financial Statements of Banco Bradesco S.A.

The Committee met with the areas of General Accounting, Planning, Budget and Control, and General Inspectorate and with the Independent Audit (KPMG) to evaluate the monthly, quarterly, semiannual and annual financial statements. In these meetings, the aspects of preparation of balance sheets and individual and consolidated balance sheets, the explanatory notes and the financial reports published with the financial statements were evaluated.

Bradesco in the preparation of the financial statements also examined to determine whether they are in accordance with accounting practices adopted in Brazil, including those issued by the responsible supervisory authorities: Brazilian Central Bank, Superintendence of Private Insurance (Susep), Brazilian Securities Commission (CVM) and National Supplementary Health Agency (ANS). The Committee also reviewed the procedures for the preparation and disclosure of the consolidated financial statements prepared in accordance with standards issued by the International Accounting Standards Board (IASB).

Before the disclosure of the Quarterly Information (ITR Form) and the semiannual and annual balance sheet, the Committee met with KPMG to assess the aspects of independence of auditors and the control environment in generating the figures for disclosure.

Conclusion

Based on the work, evaluations, reviews, and discussions mentioned above, and taking into account the context and scope of its duties, the Audit Committee recommends to the Board of Directors the approval of the audited financial statements for the financial year ended on December 31, 2016.

Cidade de Deus, Osasco, SP, February 1st, 2017

The Committee held semiannual meetings with the Board of Directors of the Bradesco Organization and with the Fiscal Council, at which time it presented the results of the work of its activities and the respective recommendations to be addressed to the executives.

MILTON MATSUMOTO

(Coordinator)

OSVALDO WATANABE

PAULO ROBERTO SIMÕES DA CUNHA

(Financial Specialist)

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Fiscal Council Report

The members of the Fiscal Council, in the exercise of their legal and statutory attributes, have examined the Management Report and the Financial Statements of Banco Bradesco S.A (Bradesco), for the fiscal year ended December 31, 2016, and, based on: (i) (i) the report of the Independent Auditors, dated February 1, 2017; (ii) the technical feasibility study for the use of the tax credits, drawn up by the Administration of Bradesco, following determinations established by Instruction no. 371/02, of the Securities Commission - CVM; Resolution No. 3.059/02, of the National Monetary Council; and Circular no. 3.171/02, of the Central Bank, whose values are shown in the respective Explanatory Notes; (iii) the meetings with the Independent Auditors; (iv) the reports of the Audit Committee of Bradesco; (v) analyses of documents and, substantially, on the information received; and (vi) the regular meetings with the administrators and managers of areas of Bradesco, concluded that the documents reflect adequately the equity situation, the financial position and the activities developed by Bradesco during the financial year of 2016, corroborating with the judgment of the Audit Committee, that the internal controls are appropriate according to the size and complexity of the business, these structured in compliance with the internal and external rules to which they are subject, and supported by systems that generate financial reports, aiming to ensure operational efficiency.

In view of the exposed, the members of the Fiscal Council confirmed that the documents examined are ready to be assessed and approved by the Ordinary General Meeting of Shareholders of Bradesco.

Cidade de Deus, Osasco, SP, February 1st, 2017

Luiz Carlos de Freitas

Domingos Aparecido Maia

José Maria Soares Nunes

Ariovaldo Pereira

João Carlos de Oliveira

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SIGNATURES

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

Date: February 10, 2017

BANCO BRADESCO S.A.

By:

/S/ Luiz Carlos Angelotti

Luiz Carlos Angelotti
Executive Managing Officer and
Investor Relations Officer

FORWARD-LOOKING STATEMENTS

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