BANK BRADESCO
Form 20-F
June 30, 2010

71

2h

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

FORM 20 F

¨ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

¨ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1 15250

BANCO BRADESCO S.A.

(Exact name of Registrant as specified in its charter)

BANK BRADESCO

(Translation of Registrant's name into English)

Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Cidade de Deus S/N Vila Yara 06029 900 Osasco SP, Brazil

(Address of principal executive offices)

Domingos Figueiredo de Abreu (Vice President and Investor Relations Officer) +55 11 3684 4011, e mail: 4000.abreu@bradesco.com.br Cidade de Deus S/N Vila Yara, 06029 900 Osasco SP, Brazil

(Name, Telephone, E mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, or ADSs (evidenced by American Depositary Receipts, or ADRs), each representing 1 Preferred Share	New York Stock Exchange
Preferred Shares	New York Stock Exchange *

* Not for trading, but only in connection with the registration of ADSs pursuant to the requirements of the SEC.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None.

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None.

Number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2009:

1,710,204,835	Common Shares, without par value
1,710,345,568	Preferred Shares, without par value

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨ Yes x No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b 2 of the Exchange Act:

Large accelerated filer x   Accelerated filer ¨   Non accelerated filer ¨

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP x   International Financial Reporting Standards as issued by the International Accounting Standards Board ¨   Other ¨

Indicate by check mark which financial statement item the registrant has elected to follow. ¨ Item 17 x Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b 2 of the Exchange Act). ¨ Yes x No

Table of Contents

Table of Contents

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, the terms "Bradesco," the "company," the "Bank," the "organization," "we" or "us" refer to Banco Bradesco S.A., a *sociedade anônima* organized under the laws of Brazil and, unless the context otherwise requires, its consolidated subsidiaries. We are a full service financial institution providing, directly or through our subsidiaries, a full range of banking, financial, consortium management, insurance, private pension plan and certificated savings plans services to all segments of the Brazilian domestic market. Our operations are based primarily in Brazil.

All references herein to "*real*," "*reais*" or "R$" are to the Brazilian *real*, the official currency of Brazil. References herein to "U.S. dollars," "dollar" and "US$" are to United States dollars, the official currency of the United States of America.

Our audited consolidated financial statements as of and for the years ended December 31, 2007, 2008 and 2009, including the notes thereto, are included in Item 18. Financial Statements of this annual report and have been prepared in accordance with U.S. generally accepted accounting principles, or "U.S. GAAP."

We use the accounting principles adopted in Brazil for certain purposes, such as reports to Brazilian shareholders, registrations with the Brazilian Securities Commission, which we call "CVM," and for determining the payment of dividends and tax liabilities.

On June 15, 2010, the *real*/U.S. dollar exchange rate was R$1.7971 per US$1.00 based on the closing selling commercial exchange rate reported by Brazil's Central Bank. The commercial rate as of December 31, 2009 was R$1.7412 per US$1.00. See "Item 3.A. Selected Financial Information - Exchange Rate Information" for more information regarding the exchange rates applicable to the Brazilian currency since 2005.

As a result of recent fluctuations in the *real*/U.S. dollar exchange rate, the closing selling commercial exchange rate at June 15, 2010 or at any other date may not be indicative of current or future exchange rates.

Some data related to economic sectors presented in this annual report was obtained from the following sources: *Associação Brasileira das Empresas de Cartão de Crédito e Serviços* (Brazilian Association of Credit Card Companies and Services) or ABECS; *Associação Brasileira de Empresas de Leasing* (Brazilian Association of Leasing Companies) or ABEL; *Associação Brasileira das Entidades dos Mercados de Financeiros e de Capitais* (Brazilian Association of Financial and Capital Markets Entities) or ANBIMA; *Agência Nacional de Saúde Suplementar* (Brazilian Health Insurance Authority) or ANS; *Banco Nacional de Desenvolvimento Econômico e Social* (Brazilian Development Bank) or BNDES; *Federação Nacional de Previdência Privada e Vida* (National Association of Private Pension Plans) or FENAPREVI; *Fundação Getulio Vargas* (Getulio Vargas Foundation) or FGV and *Superintendência de Seguros Privados* (Private Insurance Superintendence) or SUSEP. We believe that these sources are reliable, but we cannot take responsibility for the accuracy of this data.

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

Table of Contents

FORWARD LOOKING STATEMENTS

This annual report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or "Securities Act," and Section 21E of the Securities Exchange Act of 1934, as amended, or "Exchange Act." These statements are based mainly on our current expectations and projections of future events and financial trends that currently affect or might affect our business. In addition to the items discussed in other sections of this annual report, there are many significant factors that could cause our financial condition and results of operation to differ materially from those set out in our forward looking statements, including, but not limited to, the following:

- global economic conditions;
- economic, political and business conditions in Brazil and the markets in which we operate;
- risks of lending, credit, investments and other activities;
- our level of capitalization;
- cost and availability of funds;
- increase in defaults by borrowers, loan delinquencies and other breaches of contract that result in an increase in our provision for loan losses;
- loss of clients or other sources of income;
- our ability to execute our investment strategies and plans as well as to maintain and improve our operating performance;
- our revenues from new products and businesses;
- adverse claims or legal or regulatory disputes or proceedings;
- inflation, depreciation of the *real* and/or fluctuations in the interest rate, which could adversely affect our margins;
- conditions of competition in the banking and financial services, credit card, asset management, insurance and related sectors;
- the market value of securities, particularly Brazilian government securities; and
- changes by the Central Bank and others in laws and regulations, applicable to us and our activities, including, but not limited to, those affecting tax issues.

Words such as "believe," "expect," "continue," "understand," "estimate," "will," "may," "anticipate," "should," "intend," and other similar expressions are intended to identify forward looking statements. These statements refer only to the date on which they were made, and we undertake no obligation to publicly update or revise any forward looking statements, whether as a result of new information or any other event.

In light of these risks and uncertainties, the forward looking statements, events and circumstances discussed in this annual report may not be accurate, and our actual results and performance could differ materially from those anticipated in our forward looking statements. Investors should not make investment decisions based solely on the forward looking statements in this annual report.

Table of Contents

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

We present below our selected financial data prepared in accordance with U.S. GAAP as of and for the years ended December 31, 2005, 2006, 2007, 2008 and 2009. The data for each of the five years in the period ended December 31, 2005, 2006, 2007, 2008 and 2009 is derived from our audited consolidated financial statements, which were audited by PricewaterhouseCoopers Auditores Independentes.

Certain prior year amounts for the years ended December 31, 2005, 2006, 2007 and 2008 have been reclassified to conform to presentation standards used for the year ended December 31, 2009. These reclassifications had no impact on our assets, liabilities, shareholders' equity or our net income.

The following selected financial data should be read together with the "Presentation of Financial and Other Information" and "Item 5. Operating and Financial Review and Prospects."

Selected Financial Data according to U.S. GAAP

	Year ended December 31,					
	2005	**2006**	**2007**	**2008**	**2009**	**2009**
			(*R$ in millions*)			(*US$ in millions*)[1]
Data from the Consolidated Statement of Income:						
Net interest income[2]	R$ 18,485	R$ 21,402	R$ 23,771	R$ 25,371	R$ 33,133	US$ 18,238
Provision for loan losses	(1,823)	(3,767)	(4,616)	(6,651)	(10,822)	(5,957)
Net interest income after provision for loan losses	16,662	17,635	19,155	18,720	22,311	12,281

Fee and commission income[2]	5,121	6,379	7,819	8,997	9,381	5,164
Insurance premiums	7,805	8,121	8,843	10,963	12,521	6,892
Pension plan income	377	791	555	710	607	334
Equity in the earnings of unconsolidated companies[3]	186	224	407	597	644	354
Other non interest income[2][4]	4,051	4,365	7,457	2,393	8,581	4,723
Operating expenses[5]	(9,645)	(11,310)	(13,005)	(14,168)	(15,615)	(8,595)
Insurance claims	(5,501)	(6,124)	(6,012)	(7,391)	(8,329)	(4,585)
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(3,939)	(4,199)	(4,981)	(4,225)	(6,008)	(3,307)
Pension plan operating expenses	(505)	(560)	(478)	(482)	(410)	(226)
Insurance and pension plan selling expenses	(1,041)	(852)	(1,157)	(1,014)	(1,654)	(910)
Other non interest expense[2][6]	(4,819)	(5,720)	(7,306)	(8,352)	(8,360)	(4,602)
Income before income taxes	8,752	8,750	11,297	6,748	13,669	7,524
Income tax and social contribution on net income	(2,431)	(2,273)	(3,352)	401	(4,420)	(2,433)
Net income attributed to noncontrolling interest	(11)	(15)	(37)	(131)	(33)	(18)
Parent company´s net income	**R$ 6,310**	**R$ 6,462**	**R$ 7,908**	**R$ 7,018**	**R$ 9,216**	**US$ 5,073**

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$1.8167 per US$1.00, the Central Bank exchange rate on May 31, 2010. Such translations should not be construed as a representation that the Brazilian *real* amounts presented were or could be converted into U.S. dollars at that rate.

(2) For the years ended December 31, 2005 and 2006, the following reclassifications were made: (i) the amounts R$16 and R$231 respectively, were reclassified from the line item "Fee and commission income" to the line item "Net interest income" and (ii) the amounts R$397 and R$535, respectively, were reclassified from the line item "Other non interest expense" to the line item "Net interest income". For the years ended December 31, 2006, 2007 and 2008, the amounts of R$27, R$1,200 and R$165 were reclassified from the line item Other non-interest expense to the line item Other non-interest income . These reclassifications were implemented to allow the comparability of the financial statements as of and for the years ended December 31, 2005, 2006, 2007 e 2008 with the financial statements as of and for the year ended December 31, 2009. These reclassifications do not affect the amounts recorded as assets, liabilities, shareholders' equity or net income.

(3) For further information on the results of equity in the earnings of unconsolidated companies, see "Item 5. Operating and Financial Review and Prospects" and note 9 to our consolidated financial statements in Item 18. Financial Statements .

(4) Other non interest income consists of gains (losses) of trading securities, net realized gains on available for sale securities,other non interest income, net impairment losses recognized in earnings on available-for-sale debt securities.

(5) Operating expenses consist of salaries, benefits and administrative expenses.

(6) Other non interest expenses consist of amortization of intangible assets, depreciation and amortization and other non interest expenses.

Table of Contents

	Year ended December 31,					
	2005	2006	2007	2008	2009	2009
		(*R$, except for number of shares*)				(*US$ in millions*)[1]
Data on Earnings and Dividends per Share[2]:						
Earnings per share (parent company):[3][4]						
Common	R$ 1.87	R$ 1.90	R$ 2.28	R$ 1.98	R$ 2.60	US$ 1.43
Preferred	2.05	2.09	2.50	2.18	2.86	1.57
Dividends/interest on shareholders' equity per share:[5]						
Common	0.56	0.64	0.81	0.73	0.80	0.44
Preferred	R$ 0.61	R$ 0.70	R$ 0.89	R$ 0.80	0.88	US$ 0.48
Weighted average number of outstanding shares:						
Common	1,612,348,003	1,617,632,745	1,654,409,790	1,684,494,483	1,687,866,458	
Preferred	1,606,923,849	1,619,759,760	1,655,650,313	1,684,573,384	1,687,895,921	

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$1.8167 per US$1.00, the Central Bank exchange rate on May 31, 2010. Such translations should not be construed as a representation that the Brazilian *real* amounts presented were or could be converted into U.S. dollars at that rate.

(2) Data on earnings and dividends per share reflects: (a) the split of our capital stock on November 11, 2005, in which we issued to our shareholders one new share for each existing share of the same class; (b) the split of our capital stock on March 12, 2007, in which we issued to our shareholders one new share for each existing share of the same class; (c) the split of our capital stock on March 24, 2008, in which we issued to our shareholders one new share for each two existing shares of the same class, as approved by our shareholders; and (d) the split of our capital stock on January 22, 2010, in which we issued to our shareholders one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009. For comparison purposes, all share amounts have been retroactively adjusted for all periods to reflect the stock split.

(3) Holders of preferred shares are entitled to receive dividends per share in an amount 10.0% greater than the dividends per share paid to common shareholders. For purposes of calculating earnings per share according to U.S. GAAP, preferred shares are treated in the same manner as common shares. For a description of our two classes of shares, see "Item 10.B. Memorandum and Articles of Incorporation."

(4) None of our outstanding liabilities are exchangeable for or convertible into equity securities. As a consequence, our diluted earnings per share do not differ from our earnings per share. Accordingly, our basic and diluted earnings per share are equal in all periods presented. See note 2(u) to our consolidated financial statements in "Item 18. Financial Statements."

(5) The amounts determined in U.S. dollars were converted into *reais* using the exchange rate on the date such dividend was paid.

3.A. Selected Financial Data

Table of Contents

	As of December 31,					
	2005	2006	2007	2008	2009	2009
			(*R$ in millions*)			(*US$ in millions*)[1]
Data from the Consolidated Balance Sheet:						
Assets						
Cash and due from banks	R$3,447	R$4,748	R$5,485	R$9,353	R$ 6,992	US$ 3,849
Interest earning deposits in other banks	13,119	8,918	7,887	14,435	11,211	6,171
Federal funds sold and securities purchased under agreements to resell	10,985	14,649	40,601	46,950	82,146	45,217
Brazilian Central Bank compulsory deposits	21,686	23,461	31,813	26,384	32,696	17,997
Trading and available-for-sale securities, at fair value	55,658	86,614	88,799	121,804	143,331	78,896
Held to maturity securities, at amortized cost	4,121	3,265	2,981	4,097	3,883	2,137
Loans[2]	83,311	98,724	133,137	174,835	179,934	99,044
Allowance for loan losses	(4,964)	(6,552)	(7,769)	(10,318)	(14,572)	(8,021)
Equity investees and other investments	397	527	761	881	2,284	1,257
Premises and equipment, net	2,721	3,000	3,547	4,263	4,830	2,659
Goodwill	332	667	883	1,286	1,234	679
Intangible assets, net[2]	1,554	2,163	2,917	3,138	3,643	2,005
Other assets[2]	14,227	19,087	23,467	38,363	39,203	21,579
Total assets	**206,594**	**259,271**	**334,509**	**435,471**	**496,815**	**273,471**
Liabilities						
Deposits	75,407	83,925	98,341	164,501	171,115	94,190
Federal funds purchased and securities sold under agreements to repurchase	22,886	42,875	69,015	74,730	108,357	59,645
Short term borrowings	7,066	5,709	7,989	13,849	7,976	4,390
Long term debt	23,316	30,122	38,915	47,255	50,817	27,972
Pension plan investment contracts	25,457	30,948	37,947	43,388	52,314	28,796
Insurance claims and pension plans reserves	10,695	12,787	14,616	14,689	15,354	8,452
Other liabilities	21,460	26,348	34,316	39,797	44,772	24,645
Total liabilities	**186,287**	**232,714**	**301,139**	**398,209**	**450,705**	**248,090**
Shareholders' Equity						
Common shares[3]	6,497	7,095	9,497	11,500	13,250	7,293
Preferred shares[4]	6,503	7,105	9,503	11,500	13,250	7,293
Capital stock	13,000	14,200	19,000	23,000	26,500	14,587
Total shareholders' equity of the parent company	20,219	26,464	33,089	36,930	45,770	25,194
Noncontrolling interest	88	93	281	332	340	187
	20,307	26,557	33,370	37,262	46,110	25,381

Total shareholders' equity and noncontrolling interest[5]						
Total liabilities, shareholders' equity and noncontrolling interest	**206,594**	**259,271**	**334,509**	**435,471**	**496,815**	**273,471**
Average assets[6]	188,091	227,898	289,456	376,546	463,931	255,370
Average liabilities	170,677	206,466	261,552	342,178	424,149	233,472
Total average shareholders' equity of the parent company[6]	R$17,357	R$21,323	R$27,731	R$33,180	R$39,352	US$ 21,661

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$1.8167 per US$1.00, the Central Bank exchange rate on May 31, 2010. Such translations should not be construed as a representation that the Brazilian *real* amounts presented have been or could be converted into U.S. dollars at that rate.

(2) With respect to the data as of December 31, 2005 and 2006, (i) "Loans" includes R$622 million and R$789 million, respectively, relating to loan origination fees and costs that were reclassified from "Other Assets," and (ii) "Intangible assets, net" includes R$260 million and R$540 million, respectively, relating to exclusive rights for rendering banking services that were reclassified from "Other assets." These reclassifications were implemented to alow comparability of the financial statements as of and for the years ended December 31, 2005 and 2006 with the financial statements as of and for the years ended December 31, 2007, 2008 and 2009. These reclassifications do not affect the amounts recorded as assets, liabilities, shareholders' equity or net income.

(3) Common shares outstanding, no par value: (i) 1,710,204,835 authorized and issued at December 31, 2009 due to the split of one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009; (ii) 1,534,805,958 authorized and issued at December 31, 2008; (iii) 1,009,337,030 authorized and issued at December 31, 2007; (iv) 500,071,456 authorized and issued up to December 31, 2006; and (v) 489,450,004 authorized and issued up to December 31, 2005. Data from 2005 to 2009 reflect (a) the split of our capital stock on November 11, 2005, in which we issued one new share for each existing share; (b) the split of our capital stock on March 12, 2007, in which we issued one new share for each existing share; (c) the split of one share for each two existing shares, which was approved by our shareholders on March 24, 2008; and (d) the split of one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009.

(4) Preferred shares outstanding, no par value: (i) 1,710,345,568 authorized and issued at December 31, 2009 due to the split of one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009; (ii) 1,534,900,221 authorized and issued at December 31, 2008; (iii) 1,009,336,926 authorized and issued at December 31, 2007; (iv) 500,811,468 authorized and issued up to December 31, 2006; and (v) 489,938,838 authorized and issued up to December 31, 2005. Data from 2005 to 2009 reflect (a) the split of our capital stock on November 11, 2005, in which we issued one new share for each existing share; (b) the split of our capital stock on March 12, 2007, in which we issued one new share for each existing share; (c) the split of one share for each two existing shares, which was approved by our shareholders on March 24, 2008; and (d) the split of one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009.

(5) Pursuant to ASC 810 of December 15, 2009, noncontrolling interest in subsidiaries is the portion of equity in the consolidated financial statements not attributable to the parent company. For comparison purposes, this reclassification was also applied to previous years.

(6) See "Item 4.B. Business Overview Selected Statistical Information."

Exchange Rate Information

In the past years, the exchange rate between the *real* and the U.S. dollar has experienced significant variation. From 2005 to mid 2008, the *real* appreciated against the U.S. dollar. In the second half of 2008, the *real* depreciated against the U.S. dollar, from R$1.5919 per U.S.$1.00 on June 30, 2008 to R$2.3370 per U.S.$1.00 on December 31, 2008, mainly due to the global economic crisis that began in mid 2008. In 2009, the *real* began to appreciate against the U.S. dollar, from R$2.3370 per U.S.$1.00 on December 31, 2008 to R$1.7412 as of December 31, 2009. On June 15, 2010, the exchange rate was R$1.7971 per U.S.$1.00. Under the current free convertibility exchange system, the *real* may undergo further depreciation or appreciation against the U.S. dollar and other currencies.

The following table sets forth the period end, average and high and low selling rate reported by the Central Bank at closing, expressed in *reais* per US$1.00 for the periods and dates indicated:

	Closing Selling Rate for U.S. dollars R$ per US$1.00			
Period	**Period End**	**Average(1)**	**High**	**Low**
2005	R$ 2.3407	R$ 2.4341	R$ 2.7621	R$ 2.1633
2006	2.1380	2.1812	2.3407	2.0892
2007	1.7713	1.9460	2.1380	1.7440
2008	2.3370	1.8824	2.4689	1.5666
2009	1.7412	2.0171	2.3784	1.7412
December	1.7412	1.7503	1.7879	1.7096
2010				
January	1.8748	1.7798	1.8748	1.7227
February	1.8110	1.8416	1.8773	1.8046
March	1.7821	1.7855	1.8207	1.7620
April	1.7306	1.7566	1.7806	1.7306
May	R$ 1.8167	R$ 1.8132	R$ 1.8811	R$ 1.7315

(1) Average of the month end rates beginning with December of the previous period through last month of the period indicated.

Source: Central Bank

3.B. Capitalization and Indebtedness

Not applicable.

3.C. Reasons for the Offer and Use of Proceeds

Not applicable.

3.D. Risk Factors

Macroeconomic risks

Our business and the results of our operations have been materially affected by the adverse conditions in the global financial markets.

Recent disruptions in the global capital and credit markets have reduced liquidity and increased credit risk premiums for many market participants, which has led to a reduction in the availability of funds and/or an increase in funding costs for financial institutions and their clients. High interest rates and/or widening credit spreads have created a less favorable environment for most of our business operations and could hinder the ability of our clients to repay their debts to us, which reduces our flexibility to plan or react to changes in our clients' operations and to the financial industry in general. Accordingly, even though the global and Brazilian economies experienced a strong recovery since the second half of 2009, the results of our operations will likely continue to be affected by adverse conditions in the global financial markets as long as the global financial markets remain volatile.

Globally and in Brazil, adverse macroeconomic conditions have impacted our business, and the results of our operations may be negatively impacted while these adverse conditions persist.

Most of our profit is generated by our operations in Brazil. Consistent with global trends, the Brazilian economy suffered, particularly because of volatility in commodities prices, which impacted some key industries in Brazil. According to the Brazilian Geography and Statistics Institute (or IBGE), Brazil's GDP decreased by 0.2% in 2009, compared to prior years. Our allowance for loan losses increased significantly as of December 31, 2009, compared to prior years, as a result of the adverse economic conditions. Since the economic conditions globally and in Brazil have not yet fully recovered, some of our clients may continue to experience difficulties in repaying their debts to us. Adverse economic conditions may also limit our ability to carry out our strategy in the same way that we would have during a period of economic growth and stability. Accordingly, for so long as these adverse conditions persist, our results of operations are likely to be negatively affected.

The Brazilian government exercises significant influence over the Brazilian economy, and Brazilian political and economic conditions may directly impact our business.

Our financial condition and results of operations depend mostly on the Brazilian economy, which in the past has been characterized by frequent and sometimes drastic intervention by the Brazilian government and by volatile economic cycles.

In the past, the Brazilian government has often changed monetary, fiscal and tax policies to influence the course of the Brazilian economy. We cannot control, nor foresee, which measures or policies the Brazilian government may adopt in response to the current or future economic situation or how Brazilian government policies or interventions will directly or indirectly affect our operations and revenues.

Therefore, our business, financial situation and the market value of our preferred shares and ADSs may be adversely affected by changes in these policies and other factors such as the following:

- fluctuations in exchange rates;
- fluctuations in the base interest rate;
- domestic economic growth;
- political, social or economic instability;
- monetary;
- tax and changes in tax regimes;
- exchange controls;
- liquidity of domestic financial, capital and credit markets;

- our customers' ability to meet their obligations to us;
- decreases in wage and income levels;
- increases in unemployment rates;
- inflation; and
- other political, diplomatic, social and economic developments in Brazil or abroad.

Uncertainty about whether the Brazilian government will implement changes in policy or regulations affecting these or other factors in the future may contribute to economic uncertainty in Brazil and to an increase in the volatility of the Brazilian securities market and the market for securities issued abroad by Brazilian companies. Changes in policies and regulations may adversely affect our business, financial condition, results of operations and the market price of our preferred shares and ADSs.

Currency exchange variations may have an adverse effect on the Brazilian economy, our financial results and our financial situation.

Our business is impacted by variations in the value of the *real*. Since June 2004 the *real* has slowly gained in value against the U.S. dollar (reaching R$1.5593 per US$1.00 on August 1, 2008). In 2008 the *real* depreciated (reaching R$2.3370 per US$1.00 on December 31, 2008). In 2009, the *real* began to appreciate again in relation to the U.S. dollar (reaching R$1.7412 per US$1.00 on December 31, 2009).

As of December 31, 2009, the net balance of our financial assets and liabilities denominated in, or indexed to, foreign currencies (primarily the U.S. dollar) reached 1.6% of our total assets. If the Brazilian currency depreciates, we may incur losses on our liabilities denominated in, or indexed to, foreign currencies, such as our U.S. dollar denominated long term debt and foreign currency loans, and gains in monetary assets denominated in, or indexed to, foreign currencies, because the liabilities and assets are translated into *reais*. Therefore, if our liabilities denominated in, or indexed to, a foreign currency, significantly exceed our monetary assets denominated in, or indexed to, a foreign currency, including any financial instruments used for hedging purposes, then a strong depreciation of the Brazilian currency could materially and adversely affect our business, financial condition, results of operations and the market price of our preferred shares and ADSs, even if the liability amount has not changed in its original currency. Furthermore, our loan operations depend heavily on our ability to match the cost of the U.S. dollar indexed funds with the rates we charge our clients. A significant depreciation could affect our capacity to attract clients on these terms or to charge dollar pegged rates.

Conversely, when the value of the Brazilian currency appreciates, we may incur losses on our monetary assets denominated in, or indexed to, foreign currencies such as the U.S. dollar, and we may experience decreases in our liabilities denominated in, or indexed to, foreign currencies since the assets and liabilities are translated into *reais*. Therefore, if our monetary assets denominated in, or indexed to, a foreign currency significantly exceed our liabilities denominated in, or indexed to, a foreign currency, including any financial instruments used for hedging purposes, then a strong appreciation of the Brazilian currency could materially and adversely affect our financial results even if the monetary asset amount has not changed in its original currency.

If Brazil experiences substantial inflation in the future, our revenues and our ability to access foreign financial markets may be reduced.

In the past, Brazil has experienced extremely high rates of inflation along with Brazilian government measures to combat inflation. As measured by the *Índice Geral de Preços Disponibilidade Interna* (General Price Index Domestic Availability), or IGP DI, inflation rates in Brazil reached 1.23%, 3.80%, 7.90%, 9.11% and (1.44)% at December 31, 2005, 2006, 2007, 2008 and 2009, respectively. Inflation, the Brazilian government's measures to combat inflation and public speculation about possible future government measures have had a significant negative effect on the Brazilian economy, contributing to an increase in economic uncertainty and heightened volatility in the Brazilian securities market, which may negatively impact us.

Brazilian government measures may include maintaining a tight monetary policy with high interest rates, restricting the availability of credit and reducing economic growth. As a result, interest rates may fluctuate significantly. Increases in the *Sistema Especial de Liquidação e Custódia* rate (Special Clearing and Settlement System rate), which we call the "SELIC rate," and the base interest rate established by the *Comitê de Política Monetária* (Brazilian Committee for Monetary Policy), which we call "COPOM," may have an adverse effect on us by reducing demand for our credit, and increasing our cost of funds, domestic debt expense and the risk of customer default. Decreases in the SELIC rate may also have an adverse effect on us by decreasing the interest income we earn on our interest earning assets. Although, in this case, a decrease in our interest expense from our liabilities may occur..

Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil experiences fluctuations in rates of inflation, our costs and net margins may be affected and, if investor confidence lags, the price of our securities may drop. Inflationary pressures m ay also affect our ability to access foreign financial markets and may lead to counter inflationary policies that may have an adverse effect on our business, financial condition, results of operations and the market price of our preferred shares and ADRs.

Changes in the base interest rate by the COPOM may materially and adversely affect our margins and operating results.

The COPOM establishes the base interest rates for the Brazilian banking system. The base interest rate was 18.00%, 13.25%, 11.25%, 13.75% and 8.75% per year on December 31, 2005, 2006, 2007, 2008 and 2009, respectively. Changes to the base interest rate may substantially and adversely affect the results of our operations for the following reasons:

- high base interest rates increase our domestic debt expense and could increase the probability of customer defaults; and

- low base interest rates may lower our interest income.

The COPOM adjusts the base interest rate to manage aspects of the Brazilian economy and to protect its reserves and capital flows. We do not have control over either the base interest rates established by the COPOM or over the frequency with which these rates are adjusted.

Economic developments and the perception of risk in Brazil and in other emerging market countries may have an adverse effect on the market price of Brazilian securities, including our preferred shares and ADRs.

The market price of securities of Brazilian companies is affected to varying degrees by economic conditions in other countries, including the United States and other Latin American and emerging market countries. Although economic conditions in these countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market price of securities of Brazilian issuers. Crises in other emerging countries may diminish investor interest in securities of Brazilian issuers, including ours, which could adversely affect the market price of our preferred shares and ADRs.

The recent global financial crisis has had significant consequences worldwide and in Brazil, including volatility in the capital markets, unavailability of credit, higher interest rates, a general slowdown of the global economy, volatile exchange rates and inflationary pressure which have and may continue to have, directly or indirectly, an adverse effect on our business, financial condition, results of operations, the market price of securities issued by Brazilian companies, including ours, and our ability to finance our operations.

We have been and may continue to be affected by volatility in the markets and adverse macroeconomic conditions globally and in Brazil.

Most of our profit is generated by our operations in Brazil. Consistent with global trends, the Brazilian economy suffered in 2008 and 2009, particularly as a result of falling commodity prices. This impacted certain key industries in Brazil, including industries where we have debtor clients. According to the Brazilian Geography and Statistics Institute (or IBGE), Brazil's GDP decreased by 0.2% in 2009, compared to prior years. As a result of the economic downturn, our allowance for loan losses increased materially as of December 31, 2009 compared to prior years. Economic conditions globally and in Brazil have not yet fully recovered. Recently, there has been significant volatility in global markets as a result of adverse economic conditions in certain countries in the European Union, including Greece**.** If these conditions persist or worsen, the Brazilian economy may be affected and/or we may not be able to obtain financing on favorable terms, each of which could adversely affect our results of operations and ability to execute our strategy.

Risks relating to Bradesco and the Brazilian banking industry

We may experience increases in our level of past due loans as our loan portfolio matures.

Our loan portfolio has grown substantially since 2005, especially as a result of the expansion of Brazil's economy. Any corresponding rise in our level of past due loans may lag behind the rate of loan growth, as loans typically do not become due within a short period of time after their origination. Our level of past due loans is higher for our individual client base than for our corporate client base. From 2005 to 2009, our loan portfolio increased by 116.0%, and our level of non-performing loans increased by 310.7% as a result of the increase in our individual client base.

Weakening economic conditions in Brazil beginning in mid 2008 resulted in increased unemployment, which caused increases in our level of non-performing loans, especially within our individual client base. This trend of increasing levels of non-performing loans worsened in 2009. As of December 31, 2009, our allowance for loan losses increased 41.2% compared to December 31, 2008, and our credit portfolio grew 2.9% in the same period. If the economic conditions in Brazil deteriorate further, we may be required to increase our allowance for loan losses in the future.

Rapid loan growth may also reduce our ratio of past due loans to total loans until growth slows or the portfolio becomes more seasoned. Adverse economic conditions and lower growth rates of our credit portfolio may result in increases in our provisions for loan losses, charge offs and the ratio of non-performing loans to total loans, which may have an adverse effect on our business, financial condition and results of operations.

Adverse conditions in the credit and capital markets may negatively affect our ability to access funding in a cost effective way and/or on a timely basis.

The recent volatility, disruption and uncertainty in the credit and capital markets have lowered liquidity in general, increasing financing costs for financial institutions and companies. These conditions may impact our ability to restructure the maturity date of our liabilities in a cost effective way and/or on a timely basis, and/or have access to funds to carry out our growth strategy. If we are forced to raise capital at unattractive interest rates, our financial condition and the result of our operations may be negatively affected.

An increasingly competitive environment in the banking and insurance segments in Brazil could negatively affect the prospects of our business.

Financial, banking and insurance service markets in Brazil are highly competitive. We face significant competition from other large Brazilian and international banks and insurance companies, both public and private, in all of our main areas of operation. The Brazilian banking market has also become more consolidated in the last two years. In November 2008, Banco Itaú S.A. (Banco Itaú) and Unibanco União de Bancos Brasileiros S.A. (Unibanco) merged to become an important player in our market. Furthermore, Banco do Brasil S.A. (Banco do Brasil) announced a merger with Banco Nossa Caixa S.A. in November 2008 and a strategic partnership with Banco Votorantim S.A. (Banco Votorantim) in January 2009. Recently, Itaú Unibanco announced a partnership agreement with Porto Seguro in the auto and home insurance sector.

Brazilian regulations have also created barriers to market entry and do not differentiate between local or foreign commercial and investment banks, and local or foreign insurance companies. As a consequence, the presence of foreign banks and insurance companies in Brazil, some of them with greater resources than ours, increased competition in the banking and insurance sectors and in markets for specific products. The privatization of publicly owned banks has also made the Brazilian markets for banking and financial services more competitive.

This increased competition may negatively affect our business results and prospects by, among other factors:

- limiting our ability to increase our customer base and expand our operations;
- reducing our profit margins on banking, insurance, leasing and other services and products we offer; and

- increasing competition for foreign investment opportunities.

Losses on our investments in marketable securities may have a significant effect on our results of operations and are unpredictable.

The value of some of our investments in securities may drop significantly due to dislocated financial markets and may fluctuate over short periods. As of December 31, 2009, investments in securities represented 29.6% of our assets, and realized investment gains and losses have had, and will continue to have, a significant impact on our results of operations. These gains and losses, which we record when investments in securities are sold or recognized at fair value, may fluctuate considerably from time to time. The level of fluctuation depends, in part, upon the market value of the securities, which in turn may vary considerably. We cannot predict the amount of realized gain or loss for any future period, and our management believes that variations from time to time have no practical analytical value. In addition, any gains on our investment portfolio may not continue to contribute to net income at levels consistent with recent periods or at all, and we may not successfully realize the appreciation now existing in our consolidated investment portfolio or any portion thereof.

We may incur losses associated with counterparty exposures.

We face the possibility that counterparties will be unable to honor their contractual obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swaps or other derivative contracts under which counterparties have obligations to make payments to us or from executing currency or other trades that fail to settle at the required time due to non delivery or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Such counterparty risk is more acute in difficult markets where the risk of failure of counterparties is higher.

Our trading activities and derivatives transactions may produce material losses.

We engage in the trading of securities, buying debt and equity securities principally to sell them in the near term with the objective of generating profits on short term differences in price. These investments could expose us to the possibility of material financial losses in the future, as securities are subject to fluctuations in value and may generate losses. In addition, we enter into derivative transactions to manage our exposure to interest rate and exchange rate risk to hedge against either increases or decreases in such rates, but not both. For instance, if we have entered into derivative transactions to protect against decreases in the value of the *real* or in interest rates and the *real* instead increases in value or interest rates increase, we may incur financial losses. Such losses could adversely affect our net income and future liquidity.

The Brazilian government regulates the operations of Brazilian financial institutions and insurance companies, and changes in existing laws and regulations, or the imposition of new laws and regulations, may adversely affect our operations and earnings.

Brazilian banks and insurance companies, including our banking and insurance operations, are subject to extensive and continuous regulatory review by the Brazilian government. We have no control over government regulations, which govern certain aspects of our operations, including the following:

- minimum capital requirements;

- compulsory deposit/reserve requirements;
- investment requirements in fixed assets;
- lending limits and other credit restrictions;
- accounting and statistical requirements;
- solvency margins;
- minimum coverage; and
- mandatory policy.

The regulatory structure governing Brazilian banks and insurance companies is continuously evolving. Existing laws and regulations could change the way in which these laws and regulations are enforced or interpreted, may be altered, and new laws and regulations may be adopted. These changes could materially adversely affect our operations and our revenues.

The Brazilian government, in particular, has historically issued regulations that affect financial institutions in an effort to implement the Brazilian government's economic policies. These regulations are intended to control credit availability and reduce or increase consumption in Brazil. These changes may adversely affect us because our return on compulsory deposits is smaller than what we obtain on our other investments.

Parts of our business that are not currently subject to government regulations could be regulated in the future. For example, currently there are various legislative proposals under discussion in the Brazilian congress to regulate the credit card sector. Some of these proposals are related to increasing the competition in the sector and limiting the fees charged by credit card companies. New regulations that affect the credit card sector could have an adverse effect on the revenues of our credit card businesses. These regulations and regulatory changes that affect other businesses we are involved in, including our brokerage and leasing operations, could have a negative effect on our operations and revenues.

Most of our common shares are held by a single shareholder whose interests may conflict with the interests of certain investors.

As of December 31, 2009, *Fundação Bradesco* directly and indirectly held 51.23% of our common shares. Consequently, this shareholder has the power to, among other actions, prevent a change in control of our company and can approve related party transactions or corporate reorganizations. According to *Fundação Bradesco*'s bylaws, all of our executive officers, members of our Board of Executive Officers and department directors who have worked at Bradesco Group for more than ten years are members of the *Fundação Bradesco*'s Presiding Board. The Presiding Board does not have other members. For further information about our shareholders, see "Item 7.A. Major Shareholders."

Changes in reserve and compulsory deposit requirements and taxes may reduce our operating margins.

The Central Bank has periodically changed the level of reserve requirements and compulsory deposits that financial institutions in Brazil are required to maintain with the Central Bank. For example, in September 2008, the Central Bank revoked and changed a number of compulsory deposit requirements in an attempt to reduce the impact of the global financial crisis. In February 2010, following a strong recovery of the Brazilian and global economies in the second half of 2009, the Central Bank increased compulsory deposits imposed on time deposits. The Central Bank may further increase reserve and compulsory deposit requirements in the future or impose new reserve or compulsory deposit requirements.

The compulsory deposits generally do not yield the same return as other investments and deposits because:

- a portion of compulsory deposits does not bear interest;
- a portion of compulsory deposits must be held in Brazilian federal government securities; and
- a portion of compulsory deposits must be used to finance the federal housing program, the Brazilian rural sector, low income clients and small companies through a program known as "microcredit program."

Our compulsory deposits for demand deposits, savings deposits and time deposits were R$32.7 billion as of December 31, 2009. Compulsory deposits have been used in the past by the Central Bank to control liquidity as part of its monetary policy, and we do not have control over these impositions. Any increase in compulsory deposit requirements may reduce our ability to lend funds and make other investments and, as a result, may adversely affect us. For more information on compulsory deposits, see "Item 4.B. Business Overview Deposit taking activities."

Changes in taxes and other fiscal charges may adversely affect us.

The Brazilian government enacts reforms on a regular basis for tax rates and other charges that affect us and our clients. These reforms include changes in the rate of assessments and occasionally the enactment of temporary taxes, the proceeds of which are earmarked for governmental purposes. The effects of these changes and other changes that result from additional tax reforms have not been and cannot be quantified, and there are no guarantees that once these reforms are implemented they will not have a negative effect on our business.

Furthermore, these changes could bring about uncertainties in the financial system by increasing the cost of borrowing and contributing to an increase in the non performing loan portfolio.

In the past, the Brazilian Constitution established a ceiling for interest rates on bank loans, and the impact of subsequent legislation regulating this subject is uncertain.

Article 192 of the Brazilian Constitution enacted in 1988 established a ceiling of 12.0% per year for bank loan interest rates. After the enactment of the constitution, however, this rate was not enforced because the regulation regarding this ceiling was pending. Various attempts were made to regulate interest rates on bank loans, but none of them has been implemented.

On May 29, 2003, Constitutional Amendment no. 40 (or EC 40/03) was enacted and revoked all sub items and paragraphs under Article 192 of the Brazilian Constitution. This amendment allows the Brazilian financial system to be regulated by specific laws for each sector rather than by a single law related to the system as a whole.

With the enactment of the new Civil Code (or Law no. 10,406 of January 10, 2002) there exists some uncertainty as to whether or not the interest rate ceiling is linked to the base rate charged by the Brazilian Federal Revenue Service unless the parties to a loan have agreed to use a different rate. Today this base rate is the SELIC, which as of December 31, 2009 was 8.75% per year. However, there is presently some uncertainty as to whether said applicable base rate would actually be the SELIC rate or the 12% annual interest rate established in the National Tax Code.

The impact of EC 40/03 and the provisions of the new Civil Code are uncertain at the moment, but any substantial increase or reduction in the interest rate ceiling could have a material adverse effect on the financial condition, operating results or prospects of Brazilian financial institutions, including us.

Furthermore, some Brazilian courts have, in the past, issued decisions limiting interest rates on consumer loans that were considered abusive or excessively burdensome in comparison to market practices. Future decisions from the Brazilian courts, as well as changes in legislation and regulations restricting interest rates charged by financial institutions may have a negative effect on our business.

Our losses in connection with insurance claims may vary from time to time, and differences between the losses from actual claims and underwriting and reserving assumptions may have an adverse effect on us.

Our results of operations significantly depend upon the extent to which our actual insurance losses are consistent with the assumptions we used to assess our obligations under current and future insurance policies and to price our insurance products. We seek to limit our responsibility and price our insurance products based on the expected payout of benefits, calculated using factors such as: assumptions about investment returns, mortality and morbidity, expenses and certain macroeconomic factors, such as inflation and interest rates. These assumptions may deviate from our prior experience due to factors beyond our control such as natural disasters (floods, explosions and fires) and man made disasters (riots, gang or terrorist attacks) or changes in mortality and morbidity rates as a result of advances in medical technology and longevity. Therefore, we cannot precisely determine the amounts that we will ultimately pay to settle these liabilities, when these payments will need to be made, or whether the assets supporting our policy liabilities, together with future premiums, will be sufficient for payment of these liabilities. These amounts may vary from the estimated amounts, particularly when those payments do not occur until well into the future, which is the case with certain of our life insurance products. To the extent that actual claims experience is less favorable than the underlying assumptions used in establishing such liabilities, we may be required to increase our provisions, which may have an adverse effect on our cash flow.

If our actual losses exceed our provisions on risks that we underwrite, we could be adversely affected.

Our results of operations and financial condition depend upon our ability to accurately estimate the actual losses associated with the risks that we underwrite. Our current provisions are based on estimates that rely on available information and involve a number of factors, including recent loss experience, current economic conditions, internal risk rating, actuarial and statistical projections of the cost of the settlement of future claims, such as estimates of future trends in claims severity and frequency, judicial theories of liability, the levels of and/or timing of receipt or payment of premiums and rates of retirement, mortality and morbidity. Accordingly, the establishment of provisions is inherently uncertain, and our actual losses usually deviate, sometimes substantially, from such estimates. Deviations occur for a variety of reasons, for example: since we record our loan loss provisions based on estimates of incurred losses, the allowance for loan losses might not be sufficient to cover actual losses; we might have an increased number of claims; or our costs could be higher than the costs we estimated. If actual losses materially exceed our provisions, we could be adversely affected.

We are jointly liable for claims of our clients if our reinsurers fail to meet their obligations under the reinsurance contracts.

The purchase of reinsurance does not hold us harmless against our liability to our clients if the reinsurer fails to meet its obligations under the reinsurance contracts. As a result, reinsurers' insolvency or failure to make timely payments under these contracts could have an adverse effect on us, given that we remain responsible to our insureds.

Risks relating to the preferred shares and ADSs

The preferred shares and ADSs generally do not give their holders voting rights.

Under Brazilian corporate law (Brazilian Law No. 6,404/76, as amended by Law No. 9,457/97 and Brazilian Law No. 10,303/01, which we refer to collectively as "Brazilian Corporate Law") and our bylaws, holders of our preferred shares, and therefore of our ADSs, are not entitled to vote at our shareholders' meetings, except in limited circumstances. This means, among other things, that you, as a holder of ADSs, are not entitled to vote on corporate transactions, including any proposed merger or consolidation with other companies.

In addition, in the limited circumstances where preferred shareholders are able to vote, holders may exercise voting rights with respect to the preferred shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs. There are no provisions under Brazilian law or under our bylaws that limit ADS holders' ability to exercise their voting rights through the depositary bank with respect to the underlying preferred shares. However, there are practical limits to the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders. For example, our preferred shareholders will either receive notice directly from us or through publication of notice in Brazilian newspapers and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary bank, which will, in turn, as soon as practicable thereafter, mail to holders of ADSs the notice of such meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary bank how to vote the shares represented by their ADSs. Because of this extra procedural step involving the depositary bank, the process for exercising voting rights will take longer for ADS holders than for holders of preferred shares. ADSs for which the depositary bank does not receive timely voting instructions will not be voted at any meeting.

Except in limited circumstances, ADS holders are not able to exercise voting rights attached to the ADSs.

The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the preferred shares underlying the ADSs at the price and time you desire.

Investing in securities that trade in emerging markets such as Brazil often involves greater risk than investing in securities of issuers in other countries, and these investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid and can be more volatile than the major securities markets, such as the United States. Although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time acceptable to you may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets such as the United States or other countries. The ten largest companies in terms of market capitalization represented 53.0% of the aggregate market capitalization of the BM&FBovespa in March 2010.

The preferred shares and ADSs do not entitle you to a fixed or minimum dividend.

Holders of our preferred shares and ADSs are not entitled to a fixed or minimum dividend. Pursuant to our bylaws, our preferred shares are entitled to dividends 10% higher than those assigned to our common shares. Although under our current bylaws we are obligated to pay our shareholders at least 30% of our annual adjusted net income, our shareholders, acting at our annual shareholders' meeting, have the discretion to suspend this mandatory distribution of dividends if the Board of Directors advises them that the payment of the dividend is not compatible with our financial condition. Neither our bylaws nor Brazilian law specifies the circumstances in which a distribution would not be compatible with our financial condition, and our controlling shareholders have never suspended the mandatory distribution of dividends. However, general Brazilian practice is that a company need not pay dividends if such payment would threaten the existence of the company as a going concern or would harm its normal course of operations.

As a holder of ADSs you will have fewer and less well defined shareholders' rights than in the United States and certain other jurisdictions.

Our corporate affairs are governed by our bylaws and Brazilian Corporate Law, which may differ from the legal principles that would apply if we were incorporated in a jurisdiction in the United States or in certain other jurisdictions outside Brazil. Under Brazilian Corporate Law, you and the holders of the preferred shares may have fewer and less well defined rights to protect your interests relative to actions taken by our Board of Directors or the holders of our common shares than under the laws of other jurisdictions outside Brazil.

Although Brazilian Corporate Law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions. In addition, self dealing and the preservation of shareholder interests may not be as regulated, and regulations may not be as strictly enforced, in Brazil as in the United States, which could potentially disadvantage you as a holder of the preferred shares underlying ADSs. For example, when compared to Delaware general corporation law, Brazilian Corporate Law and practice have less detailed and well established rules and judicial precedents relating to the review of management decisions against duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties, and sale of business transactions. In addition, shareholders in Delaware companies must hold 5% of the outstanding share capital of a corporation to have standing to bring shareholders' derivative suits, and shareholders in Brazilian companies ordinarily do not have standing to bring a class action.

It may be difficult to enforce civil liabilities against us or our directors and officers.

We are organized under the laws of Brazil, and all of our directors and officers reside outside the United States. In addition, a substantial portion of our assets and most or all of the assets of our directors and officers are located in Brazil. As a result, it may be difficult for investors to effect service of process within the United States or other jurisdictions outside of Brazil on such persons or to enforce judgments against them, including any based on civil liabilities under the U.S. federal securities laws.

If we issue new shares or our shareholders sell shares in the future, the market price of your ADSs may be reduced.

Sales of a substantial number of shares, or the belief that those may occur, could decrease the market price of the preferred shares and ADSs by diluting the shares' value. If we issue new shares or our existing shareholders sell shares they hold, the market price of the preferred shares and, by extension, of the ADSs, may decrease significantly.

You may be unable to exercise preemptive rights relating to the preferred shares.

You will not be able to exercise preemptive rights relating to the preferred shares underlying your ADSs unless a registration statement under the Securities Act is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. Similarly, we may from time to time distribute rights to our shareholders. The depositary bank will not offer rights to you as a holder of the ADSs unless the rights are either registered under the Securities Act or are subject to an exemption from the registration requirements. We are not obligated to file a registration statement with respect to the shares or other securities relating to these rights, and we cannot assure you that we will file any such registration statement. Accordingly, you may receive only the net proceeds from the sale by the depositary bank of the rights received in respect of the shares represented by your ADSs or, if the preemptive rights cannot be sold, they will be allowed to lapse. You may also be unable to participate in rights offerings by us, and your holdings may be diluted as a result.

If you exchange your ADSs for preferred shares, you risk losing Brazilian tax advantages and the ability to remit foreign currency abroad.

Brazilian law requires that parties obtain registration with the Central Bank in order to be allowed to remit foreign currencies, including U.S. dollars, abroad. The Brazilian custodian for the preferred shares will obtain the necessary registration with the Central Bank for the payment of dividends or other cash distributions relating to the preferred shares or upon the disposition of the preferred shares. If you exchange your ADSs for the underlying preferred shares, however, you may only rely on the custodian's certificate for five business days from the date of exchange. Thereafter, you must obtain your own registration in accordance with Central Bank and the *Comissão de Valores Mobiliários* (the Brazilian Securities Commission), which we call "CVM," rules, in order to obtain and remit U.S. dollars abroad upon the disposition of the preferred shares or the receipt of distributions relating to the preferred shares. If you do not obtain a certificate of registration, you may not be able to remit U.S. dollars or other currencies abroad and may be subject to less favorable tax treatment on gains with respect to the preferred shares. For more information, see "Item 10.D. Exchange Controls."

If you attempt to obtain your own registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to the preferred shares or the return of your capital in a timely manner. The custodian's registration and any certificate of foreign capital registration you obtain may be affected by future legislative changes. Additional restrictions applicable to you, to the disposition of the underlying preferred shares or to the repatriation of the proceeds from disposition may be imposed in the future.

ITEM 4. INFORMATION ON THE COMPANY

4.A. History, Development of the Company and Business Strategy

The company

We were founded in 1943 as a commercial bank under the name "Banco Brasileiro de Descontos S.A." In 1948, we began a period of aggressive expansion, which led to our becoming the largest private sector commercial bank in Brazil by the end of the 1960s. We expanded our activities nationwide during the 1970s, entering into urban and rural Brazilian markets. In 1988 we merged with our real estate finance, investment bank and consumer credit subsidiaries to become a multiple service bank and changed our name to Banco Bradesco S.A.

We are currently one of the largest private sector banks (non government controlled) in Brazil in terms of total assets. We offer a wide range of banking and financial products and services in Brazil and abroad to individuals, large, mid sized and small companies and major local and international corporations and institutions. We have the most extensive private sector branch and service network in Brazil, allowing us to reach a diverse client base. Our products and services encompass banking operations such as lending and deposit taking, credit card issuance, consortiums, insurance, leasing, payment collection and processing, pension plans, asset management and brokerage services.

According to information published by SUSEP and by ANS, we are the largest insurance, pension plan and certificated savings plan group in Brazil on a consolidated basis in terms of insurance premiums, pension plan contributions and income from certificated savings plans. *Títulos de capitalização,* which we call "certificated savings plans," is a type of savings account that is coupled with periodic drawings for prizes. According to the annual publication of Fundación Mapfre, in Spain, Grupo Bradesco de Seguros e Previdência was the largest insurance and supplementary private pension group in Latin America in 2008.

In 2009, some of our subsidiaries ranked among the largest companies in Brazil in their respective markets, according to the sources cited in parentheses below, including:

• *Bradesco Seguros S.A.*, our insurance subsidiary ("Bradesco Seguros"), together with its subsidiaries, leader in terms of insurance premiums, shareholders' equity and technical reserves (SUSEP and ANS):

– *Bradesco Vida e Previdência S.A.* ("Bradesco Vida e Previdência"), Bradesco Seguros' subsidiary is the largest company in the market in terms of private pension plan contributions, life and personal accident insurance premiums, investment portfolios and technical provisions (SUSEP);

– *Bradesco Capitalização S.A.* ("Bradesco Capitalização"), Bradesco Seguros' subsidiary offers certificated savings plans. Bradesco Capitalização is the leading private company in the market in terms of revenue from the sale of certificated savings plans (SUSEP);

– *Bradesco Auto/RE Companhia de Seguros S.A.* ("Bradesco Auto/RE"), Bradesco Seguros' subsidiary is one of the largest company in its segment, offering automobile insurance, basic lines and liability products (SUSEP);

– *Bradesco Saúde S.A.* ("Bradesco Saúde"), Bradesco Seguros' subsidiary offers health insurance coverage, including medical and hospitalization. Bradesco Saúde has one of the largest networks of healthcare service providers and is the leader in the health insurance market (ANS);

• *Bradesco Leasing S.A. Arrendamento Mercantil* ("Bradesco Leasing"), is one of the leaders in terms of the present value of leasing portfolio (ABEL);

• *Bradesco Administradora de Consórcios Ltda.* ("Bradesco Consórcios"), market leader with over 395,000 outstanding consortium quotas (Central Bank); and

• *Banco Bradesco Financiamentos* (Bradesco Financiamentos) (former Banco Finasa BMC), leader in terms of automobile financing loans (Central Bank).

We are also one of the leaders among private sector financial institutions in third party asset management and in underwriting debt securities, according to information published by *Associação Brasileira das Entidades dos Mercados Financeiros e de Capitais* (the Brazilian Association of Financial and Capital Markets Entities, "ANBIMA").

As of December 31, 2009, we had, on a consolidated basis:

• R$496.8 billion in total assets;

• R$179.9 billion in total loans;

• R$171.1 billion in total deposits;

• R$46.1 billion in shareholders' equity, including noncontrolling interest;

- R$74.6 billion in technical reserves for insurance claims, pension plans, certificated savings plans and pension investment contract operations;
- R$22.0 billion in foreign trading financing;
- 26.3 million insurance policyholders;
- 20.9 million checking account holders;

- 37.7 million savings accounts;
- 2.5 million certificated savings plans holders;
- 2.0 million pension plan holders;
- 1,213 Brazilian and multinational corporations with affiliated companies in Brazil as corporate customers;
- an average of 14.3 million daily transactions, including 2.4 million in our 3,454 branches and 11.9 million through self service outlets, mainly Automatic Teller Machines ("ATMs"), the Internet and *Fone Fácil*;
- a nationwide network consisting of 3,454 branches, 30,657 ATMs and 4,112 special banking service stations and outlets located on the premises of selected corporate clients, as well as 7,300 *Banco24Horas* ATMs for operations such as cash withdrawal, statement printing, account balance information, loan application, or money transfer between accounts; and
- a total of four branches and seven subsidiaries located in New York, London, the Cayman Islands, the Bahamas, Japan, Argentina, Luxembourg and Hong Kong.

Although our client base includes individuals of all income levels as well as large, midsized and small businesses, the lower to middle income citizens of Brazil have traditionally been Bradesco's strategic focus. Since the 1960s, we have been a leader in the retail banking market in Brazil. This segment still has great potential for growth and provides us with higher margins than other segments, such as corporate loan operations and securities trading, where we face greater price competition.

Since 2009, we operate in all Brazilian municipalities and our large banking network allows us to be closer to our customers, providing our managers with information on economically active regions and other conditions relevant to our business. This knowledge helps us to assess and limit risks in credit operations, among other risks, as well as to service the particular needs of our clients.

We are a corporation established under the laws of Brazil. We are headquartered at Cidade de Deus, Vila Yara, 06029 900, Osasco, SP, Brazil, and our headquarters' telephone number is (55 11) 3684 5376. Our New York Branch is located at 450 Park Avenue, 32nd and 33th floor, New York 10022 2605.

Recent acquisitions

In June 2010, Bradesco concluded the acquisition of the entire capital stock of the controlling group of Ibi Services S. de R.L. México ("Ibi México") and of RFS Human Management S. de R.L., a subsidiary of Ibi México . As of December, 2009 Ibi México had a credit portfolio of R$205 million and more than 1.3 million credit cards. This transaction includes a partnership contract with C&A México S. de R.L. (C&A México) for a period of 20 years for the exclusive joint sale of financial products and services through the C&A México chain of stores.

In October 2009 we announced that the Board of Directors of both Odontoprev and Bradesco, as indirect controlling shareholder of Bradesco Dental, approved the execution of an agreement establishing the terms of the merger between

Bradesco Dental and Odontoprev in the segment of dental insurance. Under the plan of merger, Bradesco Dental becomes a wholly owned subsidiary of Odontoprev, and Bradesco Saúde, the direct controlling company of Bradesco Dental, receives shares representing 43.50% of Odontoprev's total capital. Bradesco Saúde and Odontoprev's major shareholder, Mr. Randal Luiz Zanetti, will jointly own 51.06% of the combined company's capital.

In June 2009, we entered into an agreement to acquire Ibi Participações S.A., Banco Ibi and its subsidiaries, for a total consideration of R$1.5 billion, paid to the former controlling shareholders in shares representing approximately 1.6% of Bradesco's capital stock. Banco Ibi is among the main credit card issuers in Brazil, both in the private label segment as well as in branded cards, and its acquisition will substantially strengthen our position in both markets. The transaction includes a partnership with C&A Modas Ltda., a leader in the fashion and clothing markets, under which Bradesco will offer its financial products and services at C&A stores, for 20 years.

Bradesco announced in April 2009 that through Bradesco Seguros e Previdência, its insurer group, it acquired 20% of the voting capital and total capital stock of Integritas, a holding company of Grupo Fleury, for R$342 million. Grupo Fleury, which has operated for the past 83 years, is one of Brazil's most renowned and respected medical and health organizations. It provides diagnosis, clinical treatment and medical analyses services and provides the benchmark in complex medical tests for nearly 1,500 clinical laboratories and hospitals.

2008 and 2007 acquisitions

In March 2008, Banco Bradesco BBI S.A. ("BBI") entered into an agreement with the shareholders of Ágora CTVM S.A. ("Ágora Corretora") to acquire 100% of its total capital stock for R$908 million. With the closing of the transaction, which occurred in September 2008 upon receipt of Central Bank approval, the Ágora Corretora shareholders received as consideration shares representing 7.8% of BBI's capital stock. Ágora Corretora became BBI's wholly owned subsidiary. In November and December 2008, we repurchased 6.1% of BBI shares held by Ágora's former shareholders.

In January 2008, we entered into an agreement with Marsh Corretora de Seguros Ltda. to acquire 100% of the total capital stock of Mediservice Administradora de Planos de Saúde Ltda. ("Mediservice") for R$84.9 million. Mediservice has been operating for 20 years in Brazil. It has offices located in the cities of São Paulo, Rio de Janeiro and Salvador. It serves approximately 300,000 patients and has a network of nearly 30,000 accredited physicians, as well as dentists, laboratories, diagnosis centers, clinics, hospitals and emergency services. This acquisition expands the client portfolio of Grupo Bradesco Seguros e Previdência and reinforces its position in the health plan market. ANS approved the transaction in February 2008.

In January 2007, we entered into an agreement with the shareholders of Banco BMC S.A. ("BMC") to acquire 100% of the total capital stock of BMC, and, accordingly, its controlled companies BMC Asset Management Ltda. Distribuidora de Títulos e Valores Mobiliários, BMC Previdência Privada S.A. and Credicerto Promotora de Vendas Ltda. BMC is one of the largest private banks in the payroll deductible loan market for beneficiaries and pensioners of INSS, with a network of approximately 7,000 agents and 749 correspondent banks. In accordance with the terms of this agreement, in August 2007 we delivered 9,299,618 of our common shares and 9,299,514 of our preferred shares to BMC shareholders in exchange for their BMC shares, which amounted to R$790 million. This transaction was closed in August 2007, upon receipt of Central Bank approval.

Other strategic alliances

In April, 2010 Bradesco.and Banco do Brasil signed a non-binding memorandum of understanding for the preparation of a business model, involving: (i) the integration of part of their card operations; (ii) the launch of a Brazilian brand of credit, debit and pre-paid cards for account-holders and nonaccount-holders and (iii) the joint creation of new businesses for private label cards (cards offered to non-account-holder clients through partner merchants).The conclusion of the operation is subject to technical, legal and financial studies, the satisfactorynegotiation of the final documents and compliance with the applicable legal and regulatory requirements.

In September 2009, Bradesco launched a family of investment funds domiciled in Luxemburg to be marketed exclusively to foreign investors. The family of funds called Bradesco Global Funds is managed by BRAM *Bradesco Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários*, our asset management company (BRAM) and the custody of its assets in Brazil is provided by Bradesco. Bradesco Global Funds is an umbrella structure that will provide investors with a series of investment funds, each with different investment objectives and separate accounting records.

On June 3, 2009, Bradesco entered into a partnership with SEB Skandinaviska Enskilda Banken, a Swedish bank, to offer cash management solutions to its clients, increasing Bradesco´s presence in the international market.

In August 2008, we entered into an operational agreement with The Bank of Tokyo Mitsubishi UFJ to manage investment funds through BRAM. In November 2008, BRAM launched the Bradesco Brazil Saiken Fund, a fixed-income investment fund aimed at Japanese retail investors who are investing in Brazil. It is the first fund established in a partnership with Mitsubishi UFJ Asset Management, an affiliate of The Bank of Tokyo-Mitsubishi UFJ.

Our brokerage house in London, Bradesco Securities UK, Ltd. ("Bradesco Securities UK") began its activities in March 2008. Bradesco Securities UK acts as an intermediary in transactions involving Brazilian fixed and variable bonds between Brazilian companies and European and global institutional investors, and is mainly focused on intermediation in purchases and sales of shares on the NYSE, NASDAQ and BM&FBovespa exchanges, the distribution of research reports and prospectuses, presentations to European and global investors and other investment banking activities.

In October 2007, we entered into a partnership agreement with *Banco de Chile* to jointly develop investment products and offer new business opportunities and synergy gains through BRAM and *Banchile Administradora General de Fondos S.A.*, Banco de Chile's asset management company.

In June 2007, we sold 676,009 of our shares in Serasa S.A., ("Serasa") to Experian Brasil Aquisições Ltda., a subsidiary of Experian Solutions Inc. Serasa is a leader in credit analysis and information services, and Experian is a world leader in analytical and information services to organizations and consumers. Despite this sale, we maintained the right to appoint a member of the Board of Directors of Serasa. As a result of this sale, we currently hold 8.3% of the Serasa's capital stock.

In September 2006, we and Dimed S.A. Distribuidora de Medicamentos, the leading pharmaceutical company in the State of Rio Grande do Sul, entered into an agreement for the issuance and management of its private label cards.

In July 2006, we and Coop Cooperativa de Consumo, the largest consumption cooperative in the supermarket sector of Latin America, entered into an agreement to regulate the issuance and management of its private label cards and provide financial products and services to its clients.

In May 2006, we and GBarbosa, the fourth largest supermarket retailer in Brazil, entered into an agreement for the issuance and administration of its private label credit card called "Credi Hiper," and the provision of financial services and products to Gbarbosa's clients. There are currently more than 1.3 million Credi Hiper cards issued.

In March 2006, we entered into a joint venture agreement with Fidelity National and Banco ABN AMRO Real S.A. ("Banco Real") for the rendering of card processing services through a newly formed company called Fidelity Processadora e Serviços S.A. ("Fidelity"). Fidelity provides all card processing services (including credit, multiple, debit, benefit and private label cards), such as authorization, processing and settlement of transactions (including data exchange and other procedures for authorization of transactions, database marketing and credit analysis) as well as maintenance, printing (including tailor made cards), mailing of invoices and other correspondence, call center, billing services and fraud prevention. Fidelity has been rendering services to our clients, Banco Real's clients and other card issuers since April 2006. Fidelity became one of the largest providers of credit card processing services in Brazil after the transfer of our and Banco Real's credit card accounts to them.

Banco Postal

We offer our products and services throughout Brazil, together with *Empresa Brasileira de Correios e Telégrafos* (the government owned postal company) ("Postal Service") through correspondent offices operating under the trademark

"Banco Postal" ("Postal Bank.").

Through our service contract dated September 2001 with the Postal Service, we have exclusive rights to offer services at a number of locations, some of which we own and others which we rent from the Postal Service and which we refer to as "correspondent offices."

Delivery of services started in March 2002, when we opened the first Postal Bank branch in the State of Minas Gerais. As of December 31, 2009 we had 6,067 open correspondent offices in 5,183 Brazilian municipalities, processing on average more than 38.9 million transactions monthly or 1.77 million transactions daily.

Approximately 1,800 out of 6,067 correspondent offices were set up in new markets, bringing services, either directly or indirectly, to millions of people for whom financial services were previously either inaccessible or difficult to obtain.

The Postal Bank offers basic services, mainly addressed to the low income segments of the population, and include:

- submission of proposals for new accounts;
- submission of proposals for loans, financing and credit cards;
- withdrawals from checking and savings accounts, and benefit payments under the INSS social security program;
- deposits in checking and savings accounts;
- consultation of balances of checking and savings accounts, and benefit payments under the INSS social security program;
- receipt of bank payment slips;
- processing utilities bills payments;
- processing municipal, state and federal taxes payments; and
- licensing of vehicles.

Bradesco Expresso

In addition to Postal Bank services performed at correspondent offices, we have also opened outlets under the trademark "Bradesco Expresso" located on the premises of retail networks such as supermarkets, drug stores and bakeries, to provide our clients with greater access to banking correspondent services. *Bradesco* Expresso processes utilities bills and bank collection invoices for our clients at their offices, as well as offering withdrawals from checking and savings accounts and pension payments.

As of December 31, 2009, the Bradesco Expresso network totaled 20,200 outlets averaging more than 30.7 million transactions monthly or 1.4 million transactions daily.

Store owners benefit directly from Bradesco Expresso through remuneration received in connection with the Bradesco Expresso units placed in their stores and also benefit indirectly from the increased flow of people, which may increase both sales and client loyalty.

Business strategy

We believe that the Brazilian financial system has been able to weather the sudden downturn in the global economy beginning in the second half of 2008 and the challenges the financial crisis presented to the liquidity of large financial institutions. We expect that the expansion of the Brazilian economy will gradually resume as a result of a significant increase in the purchasing power of certain income segments of the Brazilian population, mainly the low and medium income population as well as an increase in private investments. This would lead to a sustained expansion of demand for financial services and insurance in the upcoming years and that, in the long term, the Brazilian financial system may be strengthened as a result of the present global economic crisis.

Our main objective is to maintain our focus on the domestic market, as one of the largest private banks in Brazil, and to expand our profitability, maximizing our shareholders' value and generating a higher rate of return than other Brazilian financial institutions.

Our strategy to achieve these goals is focused not only on continuing to expand our client base but also on consolidating our position as a "complete bank," the "first bank" for all our clients. We are increasingly segmenting our products and services as we allocate our resources and talents to provide our clients with products and services that are tailored to meet their needs. We believe that our concern with our clients' financial profiles and our respect for their individuality results in greater satisfaction and loyalty. The segmentation of our financial services has also allowed us to better absorb and take greater advantage of the integration of institutions we have acquired over the past years.

We have the largest and, we believe, the best network of distribution channels among Brazilian private banks. This network includes our branches, banking posts and outlets, ATMs, Postal Bank services and other third party channels. The growth of these channels was spurred mainly by our arrangements with large retailers as our banking correspondents. We also have more than 71,800 physical banking posts and outlets. We have a well distributed and extensive branch network which optimizes our clients' access to our products and services and allows us to fully compete in the retail banking market. We intend to continue expanding and refining our branch network to provide more and better mass products and services to our clients, in order to meet a growing demand for credit and insurance in the Brazilian market.

We are also focused on expanding our wholesale operations in all aspects, especially our corporate and private banking services. The economic scenario in Brazil has significantly improved the performance of small and medium sized companies, a market in which we believe we are well positioned to increase our market share.

In addition, since 2006, we have been paying particular attention to our investment banking subsidiary Bradesco BBI. We will continue to maintain and hire professionals for our highly qualified investment banking team, and we plan to make full use of our solid relationship with corporate clients and high income individuals to develop our investment banking activities.

We also intend to focus on segments in which we were traditionally less focused, such as securities brokerage services. The significant growth in the Brazilian securities market over the past years and our acquisition of Brazil's largest brokerage company, Ágora Corretora, made us one of the leaders in the brokerage market.

We believe that our insurance segment has high growth potential, due to the low percentage of the GDP covered by the Brazilian insurance industry. Increases in the average income of the Brazilian population has led to millions of new policyholders. We intend to capture new customers seeking insurance products and to consolidate our leadership in different insurance lines.

We are also structuring ourselves to increase our scale and operational efficiency gains by segmenting our line of insurance products through the creation of specialized insurance companies in each specific insurance field, which we call "multi line" insurance companies. This approach allows us to avoid crossing revenues or expenses among different insurance segments as we maintain complete control over the performance of each line of products. We believe that we can benefit from this structure by maximizing insurance product sales, which have a high contribution margin and give us access to independent brokers.

Additionally, in each of our business segments, we strive to be recognized by our clients as leaders in performance and efficiency. We closely monitor and continually seek to improve our level of operational efficiency.

We understand that the success of a financial sector company depends not only on the number of clients it has but also on having highly capable, well trained and dedicated personnel with strict work and ethical standards. Qualification, promotion and the creation of a culture of solidarity at work are keys to improving the business, creating a cooperative and friendly environment where our employees can develop long lasting careers. In 2009, we were once again chosen in an employee survey by the "Guia Você S/A Exame" publication as one of the best companies to work for in Brazil.

Our key philosophy is the management of our business in accordance with the highest ethical standards. Beyond creating shareholders' value, our strategy is also guided and focused on achieving the best market practices of corporate governance and the understanding that we play an important role in our society.

The key elements of our business strategy are to:

- expand through organic growth;
- operate based on the bank insurance model, in order to maintain our profitability and consolidate our leadership in the insurance sector;
- increase revenues, profitability and shareholder value by strengthening our loan and financing operations, our core activity, and expanding to new products and services;
- maintain our commitment to technological innovation;
- achieve profitability and shareholder return through the ongoing improvement of our efficiency ratio;
- maintain acceptable risk levels in our operations; and
- expand through strategic alliances and selective acquisitions when advantageous.

Expand through organic growth

Despite the global economic crisis, which began in the second half of 2008, we expect the Brazilian economy to recover and continue to grow. The Brazilian economy has been growing at a sustained rate and has produced strategic opportunities for growth in the financial and insurance industries, mainly due to increases in business volume in the segments in which we are particularly well positioned. We plan to continue to take advantage of this growth to increase our revenue, build profitability and maximize shareholder value by:

- taking advantage of the opportunity in the Brazilian market to capture new customers, mainly from the low and middle income brackets, whose financial and credit needs have not yet been served, while continuing to compete for the small group of clients in upper income brackets;
- expanding our financial services distribution channels by creatively developing new mass market products and utilizing third party channels, such as, for example, by expanding our offers for credit cards, financial and insurance products and services, to large retail stores by means of partnerships with retail chains, the Postal Bank and other correspondent banks;
- taking advantage of our existing distribution channels, including our traditional branch network and other means of distribution to identify demand for new products and expanding the offer of traditional products, such as long term financing and particularly real estate credit, which is in renewed demand due to the stability of the Brazilian economy;
- using our client base to offer our products and services more widely and to increase the average number of products used from 4.8 products as of December 2009, to an average of 5.0 products per client by December 2010;

- using our branch based systems aimed at assessing and monitoring clients' use of our products so as to channel them to the proper selling, delivery and trading platforms; and
- developing products tailored to profiles and needs of both our existing and potential segment of clients.

Operate based on the bank insurance model, in order to maintain our profitability and consolidate our leadership in the insurance sector.

Our goal is to have our customers look to us first for all of their banking, insurance and pension needs. We believe that we are in a good position to capitalize on the synergies among our banking, insurance, pension and other financial activities. These products are offered throughout Brazil through our banking distribution network, Internet distribution services and new and creative distribution channels. We also have specific distribution channels for the offering of these products that rely on our 24,004 insurance brokers and 8,460 brokers for pension products and VGBL. We continuously assist and encourage our brokers and dealers to improve services to our clients.

At the same time, we are looking to increase the profitability of our insurance and pension plan businesses by using our profitability measures, instead of the volume of premiums underwritten or amounts deposited, as follows:

- managing our portfolio and reserves;
- aggressively marketing our products and services; and
- maintaining acceptable risk levels in our operations through a strategy of:
- prioritizing insurance underwriting opportunities according to the "risk spread," which is the difference between the expected income under an insurance contract and the actuarially determined amount of claims likely to be paid under that same contract;
- entering into hedging transactions, so as to avoid mismatches between the actual rate of inflation and provisions for interest rate and inflation adjustments in long term contracts; and
- entering into reinsurance agreements with well known reinsurers, and taking advantage of the new reality of the Brazilian reinsurance market.

Increase revenues, profitability and shareholder value by strengthening our loan and financing operations, our core activity, and expanding to new products and services.

Our strategy to increase revenues and profitability of our banking operations is focused on:

- building our traditional deposit taking and loan and financing operations by continuously improving the quality of the loan portfolio, through risk mitigation plans and improving the delinquency risk pricing models, ensuring appropriate provisions for incurred losses in loan operations and better results in credit granting, following up on, and recovering operations;
- continuing to build our corporate and individual client base by offering services tailored to meet specific clients' profiles and needs;
- focusing aggressively on fee based services, such as bill collection and payment processing;
- expanding our financial services and products that are distributed outside of the conventional branch environment, such as our credit card businesses, taking advantage of changes in consumer behavior in the consumption of financial services;
- expanding our asset management revenues; and
- continuing to build our base of high income clients by offering a wide range of tailor made products and services.

Maintain our commitment to technological innovation

The development of efficient means of reaching customers and processing transactions safely and on a continued basis is a key element of our goal to expand our profitability and to capitalize on opportunities for organic growth.

We have been pioneers in our field for more than six decades by creating efficient strategies and positive impacts to anticipate future challenges. Amongst these strategies, our use of cutting edge technology stands out as a central pillar of our strategy for sustainability, business generation and easy client access to innovative and safe services.

We believe we are among the Brazilian companies that most invest in research and development in the banking segment. Therefore, with the goals of further strengthening the organization's IT environment to prepare it for the decades to come and increasing public perception of our technological resources, and based on best practices and existing technology, we have invested in a major strategic program titled "IT Improvements," which touches upon five macro areas of the IT chain (processes, applications, operational environments, technologies and infrastructure).

We believe that technology offers unparalleled opportunities to reach our customers in a cost efficient manner. We are committed to being at the forefront of the bank automation process by creating opportunities for the Brazilian public to reach us through the Internet and other means of access, such as:

- expanding our mobile banking service, "Bradesco Mobile Banking," which allows customers to conduct their banking business with compatible mobile phones; and

- providing "Pocket Internet Banking" for hand held devices and personal digital assistants or "PDAs," including mobile phones that allow our clients to check their savings and checking account information, review recent credit card transactions, make payments, transfer funds and obtain information relating to our services.

Achieve profitability and shareholder return through the ongoing improvement of our efficiency ratio

We intend to improve on our levels of operating efficiency by:

- maintaining austerity as the basis of our cost control policy;

- continuously revising internal processes to reduce resource consumption and contribute to our policy of corporate sustainability;

- consolidating the synergies created by our recent acquisitions;

- continuing to reduce our operational costs through investments in technology that will minimize these costs on a per transaction basis, emphasizing our existing automated channels of distribution, including our wireless distribution systems, telephone, Internet banking and ATMs; and

- continuing to merge the institutions that we acquire in the future into our existing system in order to eliminate redundancies and potential inefficiencies and improve our gains on scale.

Maintain acceptable risk levels in our operations

We approach the management of risks inherent in our activities in an integrated manner, a process within our internal controls and compliance structure called "Risk Management Process." This process allows the continuous improvement of our models for risk management and minimizes the existence of loopholes undermining their correct identification and assessment. The process provides a centralized and permanent method for identifying, measuring, controlling, monitoring and mitigating our credit, market, liquidity and operational risks.

The existence of our Integrated Risk Management and Capital Allocation Committee, a statutory level committee, guarantees the uniqueness of our risk management process. The committee's assignment is to advise our Board of Directors in the adoption of institutional policies, operational guidelines and the establishment of limits for exposure to risks within our consolidated financial statements.

In addition, we have three executive committees charged with topics related to credit, market, liquidity and operational risks, and which, amongst other responsibilities, are charged with suggesting limits of tolerance to their respective risks and the design of risk mitigation plans for submission to the Integrated Risk Management and Capital Allocation Committee.

We have two independent departments dedicated to global risk management and internal controls, the Integrated Risk Control Department and the Internal Controls and Compliance Department, which implement and continuously monitor the directives and processes formulated by our higher level committees.

Our internal risk management processes and groups, on par with the best international practices, assure the maintenance of our operational risks at adequate levels and the efficient allocation of our capital, permitting us to obtain competitive advantages.

Expand through strategic alliances and selective acquisitions when advantageous

We believe that in the coming years, most of Brazilian financial institutions will rely on organic growth. We believe there could be opportunities to acquire other financial institutions, including institutions in newer segments, such as consumer financing, credit cards and investment banking. For that reason we are continuously evaluating potential strategic alliances and consolidation opportunities, including proposed privatizations and acquisitions, as well as other methods that offer potential opportunities either to increase our market share or to improve our efficiency. In addition to focusing on value and asset quality, we consider the potential operating synergies, opportunities for cross selling, acquisition of know how and other advantages of a potential alliance or acquisitions. The analysis of potential opportunities is grounded on their potential impact on our results.

Investments

Our main investments between 2007 and 2009 are described in "Item 5.B. Liquidity and Capital Resources Capital expenditures."

4.B. Business Overview

We organize our operations in two main areas: (i) banking services and (ii) insurance services, private pension plans and certificated savings plans. See note 27 to our consolidated financial statements in Item 18. Financial Statements for additional segment information.

As of December 31, 2009, according to the sources cited in parentheses below, we were:

- one of the largest banks among private sector banks in savings deposits, with 14.1% of savings deposits in Brazil and R$45.1 billion on deposit ("Central Bank");

- the largest provider of insurance, public pension plans and certificated savings plans, with R$26.3 billion in net premiums written and revenues from supplementary pension plans and certificated savings plans ("SUSEP" and "ANS");

- the leader among the largest on lender banks in BNDES loans targeting micro , small and medium sized companies for the 7th consecutive year ("BNDES"), with 45.7% of all loans being disbursed by us and having a presence in 94.9% of operations targeted at micro, small and medium sized companies;

- one of the leaders in Brazilian leasing operations, with R$21.5 billion outstanding ("ABEL");

- one of the leaders in the placement of debt instruments in Brazil, during 2009 ("ANBIMA");

- one of the largest private sector fund and portfolio administrators and managers in Brazil, with R$247.7 billion in total third party assets under administration and management, representing over 16.6% of the total Brazilian market ("ANBIMA");

- one of the largest credit card issuers in Brazil, with 79.6 million credit cards (Visa, American Express, MasterCard and private label cards) with a total credit card revenue of R$55.3 billion (Bradesco, Fidelity National Information Services, Inc., which we call "Fidelity National"; *Leader S.A. Administradora de Contas de Crédito*, which we call "Leader Card"; American Express, *Deib Otoch S.A.*, which we call "Lojas Esplanada"; *Lojas Colombo S.A. Comércio de Utilidades Domésticas*, which we call "Lojas Colombo"; and *GBarbosa Comercial Ltda.*, which we call "GBarbosa");

28

- one of the largest debit card issuers in Brazil, with 53.3 million debit cards issued;

- the leader in bank collection services in Brazil, with a market share of 29.7% ("Central Bank");

- the leader among private banks in number of client registrations in the Pre Authorized Direct Debit (DDA) program, with 549,000 registrations;

- the leader in marketing of consortium quotas in the following three segments: real estate with 146,201 quotas; automobile with 225,792 quotas; and trucks and tractors with 23,618 quotas ("Central Bank");

- one of the leaders in car loan customer financing, with a market share of 19.6% ("Central Bank"); and

- the leader among private sector banks in benefit payments under the *Instituto Nacional do Seguro Social* (the National Social Security Institute), known as "INSS," social security program, having service payments to more than 5.3 million retirees, beneficiaries and pensioners of the "INSS", accounting for 19.6% of the total number of INSS beneficiaries.

Furthermore, Bradesco was classified as one of the most profitable bank in Latin America and the United States by consulting firm Economática and it was also considered one of the ten best companies and the best bank to work for in Brazil in the category of large companies by *Guia Você S/A Exame* magazine. It was also elected Company of the Year, best bank, best Insurance and Private Pension Company and best Health Insurance Company according to a survey by *IstoÉ Dinheiro* magazine. Bradesco Seguros e Previdência was classified by *Anuário Valor 1000* magazine as the largest insurer group in Brazil and for the second consecutive time was elected the best insurance company in South America by the World Finance magazine. Bradesco was the first Brazilian company to receive the Golden Peacock Global Award for Excellence in Corporate Governance 2009, sponsored by the Institute of Directors, which recognizes actions toward transparency and excellence in corporate governance.

Main subsidiaries

The following is a simplified chart of our principal material subsidiaries in the financial and insurance services businesses and our voting and ownership interest in each of them as of December 31, 2009 (all of which are consolidated in our financial statements in Item 18. Financial Statements). With the exception of Banco Bradesco Argentina, which is incorporated in Argentina, all of these material subsidiaries are incorporated in Brazil. For more information regarding the consolidation of our material subsidiaries, see note 1(a) to our consolidated financial statements in Item 18. Financial Statements.

Table of Contents

Revenues per business segment

The following table summarizes our gross revenues by business area for the periods indicated.

The sum of the segments shown in the table below may not correspond to the amounts shown on a consolidated basis, as they do not take into account immaterial activities or inter segment transactions.

	For the Years Ended December 31,		
	2007	2008	2009
	(R$ in millions)		
Banking:			
Loan operations:			
Housing loans	R$ 323	R$ 528	R$ 662
Rural loans	862	1,014	846
Leasing	908	2,393	3,447
Other loans(1)	20,515	29,727	27,753
Total	**22,608**	**33,662**	**32,708**
Fees and commissions:			
Asset management fees	743	758	733
Collection fees	859	959	984
Credit card fees	1,273	1,696	1,972
Fees charged on checking account services	2,108	1,794	1,497
Fees for receipt of taxes	237	219	235
Interbank fees	321	387	42
Financial guarantees	197	330	559
Consortium administration	256	318	351
Other services	1,000	1,422	1,998
Total	**6,994**	**7,883**	**8,371**
Insurance and pension plans:(2)			
Insurance premiums:			
Health	4,246	5,259	6,099
Life and personal accidents	1,822	2,799	3,145
Automobile, property and liability	2,775	2,905	3,277
Total	**8,843**	**10,963**	**12,521**
Pension plan income	**R$ 555**	**R$ 710**	**R$ 607**

(1) Includes industrial loans, financing under credit cards, overdraft loans, trade financing and foreign loans.

(2) This does not include private pension investment contracts. See " Insurance, pension plans and certificated savings plans."

We do not break down our revenues by geographic regions within Brazil, and less than 10.0% of our revenues come from international operations. For more information on our international operations, see "International banking services."

Banking activity

We have a diverse client base that includes individuals and small, midsized and large companies in Brazil. Historically, we have cultivated a stronger presence among the broadest segment of the Brazilian market, middle and low income individuals. In 1999, we built our corporate department to serve our corporate clients with annual revenues of R$350 million or more, and our private banking department to serve our individual clients with minimum net assets of R$2 million. In 2002, we created Bradesco Empresas (Middle Market), responsible for corporate clients that have an annual income of between R$30 and R$350 million, with the goal of expanding our business in the middle corporate market sector. In May 2003, we launched Bradesco Prime, which offers services to individual clients who either have a monthly income of at least R$6,000 or have R$70,000 available for immediate investment. Bradesco Varejo ("Bradesco Retail") is our division responsible for the corporate clients that have an annual income lower than R$30 million and the individual clients that have a monthly income lower than R$6,000. For more information, see "Distribution channels and Specialized distribution of products and services."

Table of Contents

The following diagram shows the breakdown of our banking activities as of December 31, 2009:

The sum of the segments shown in the table below may not correspond to the amounts shown on a consolidated basis, as they do not take into account immaterial activities or inter segment transactions.

The following table sets forth selected financial data for our banking segment for the periods indicated:

	Year ended December 31,					
	2007		2008		2009	
	(*R$ in millions*)					
Income statement data:						
Net interest income[1]	R$	17,188	R$	19,054	R$	25,551
Provision for loan losses		(4,617)		(6,651)		(10,822)
Non interest income[1]		12,884		10,564		15,721
Non interest expense		(18,751)		(20,620)		(21,554)
Income before income taxes [1]		6,704		2,347		8,896
Income tax and social contribution		(1,877)		1,970		(2,733)
Net income before attribution to noncontrolling interest[1]		4,827		4,317		6,163
Net income attributed to noncontrolling interest		(28)		(42)		(6)
Parent Company`s net income	**R$**	**4,799**	**R$**	**4,275**	**R$**	**6,157**
Balance sheet data:						
Total assets	R$	275,400	R$	373,908	R$	418,926
Selected results of operations data:						
Interest income:						
Interest on loans	R$	22,608	R$	33,662	R$	32,708
Interest on securities		2,445		5,576		4,660
Interest on federal funds sold and securities purchased under agreements to resell		3,202		6,465		7,701
Deposits from financial institutions		441		706		506
Brazilian Central Bank compulsory deposits		1,207		1,489		1,434
Others		37		38		35
Interest expense:						
Interest on deposits		(5,560)		(9,636)		(11,446)
Interest on federal funds purchased and securities sold under agreements to repurchase		(5,553)		(9,619)		(9,179)
Interest loans		(1,639)		(9,627)		(868)
Net Interest Income		17,188		19,054		25,551
Fee and commission income	R$	6,994	R$	7,883	R$	8,371

(1) Includes income from related parties outside of the banking segment.

We have a segmented customer base and we offer the following range of banking products and services in order to meet the needs of each segment:

- deposit taking activities, including checking accounts, savings accounts and time deposits;

- credit operations (individuals and companies, real estate financing, microcredit, onlending of BNDES resources, rural credit, leasing, among others);

- credit cards, debit cards and pre paid cards;
- management of receipts, payments, human resources, and administrative support;
- asset management;
- services related to capital markets and investment banking activities;
- intermediation and trading services;
- custody, depositary and controllership services;
- international banking services; and
- consortiums.

Table of Contents

Deposit taking activities

We offer a variety of deposit products and services to our customers through our branches, including:

- checking accounts, which do not bear interest;
- investment deposit accounts;
- traditional savings accounts, which currently earn the Brazilian reference rate, the *taxa referencial*, known as the "TR," plus 6.2% in annual interest;
- time deposits, which are represented by *certificados de depósito bancário* (Bank Deposit Certificates, or "CDBs"), and earn interest at a fixed or floating rate; and
- deposits exclusively from financial institutions, which are represented by *certificados de depósito interbancário* (Interbank Deposit Certificates, or "CDIs"), and earn the interbank deposit rate.

As of December 31, 2009, we had 20.9 million checking account holders, 19.7 million of which were individual account holders and 1.2 million of which were corporate account holders. On that same date, we had 37.7 million savings accounts. In the same period, our deposits (excluding deposits from financial institutions) totaled R$170.4 billion and we had a 14.1% share of the Brazilian savings deposit market, according to the Central Bank.

The following table sets forth a breakdown by product type of our deposits at the dates indicated:

	December 31,					
	2007		**2008**		**2009**	
	(R$ in millions, except %)					
Deposits from Customers:						
Demand deposits	R$ 29,423	29.9%	R$ 28,612	17.4%	R$ 35,664	20.8%
Reais	29,222	29.7	28,246	17.2	35,126	20.5
Foreign currency	201	0.2	366	0.2	538	0.3
Savings deposits	32,813	33.4	37,768	23.0	44,162	25.8
Reais	32,813	33.4	37,768	23.0	44,162	25.8
Time deposits/certificates of deposit	35,733	36.3	97,423	59.2	90,537	52.9
Reais	33,658	34.2	90,561	55.1	85,221	49.8
Foreign currency	2,075	2.1	6,862	4.1	5,316	3.1
Total deposits from customers	**97,969**	**99.6**	**163,803**	**99.6**	**170,363**	**99.5**
Deposits from financial institutions	372	0.4	698	0.4	752	0.5
Total	**R$ 98,341**	**100.0%**	**R$ 164,501**	**100.0%**	**R$ 171,115**	**100.0%**

We offer our clients some additional special services, such as:

- the "Easy Checking Account," a combination checking account and savings account in which, after the lapse of a pre set period (the length of which is determined by regulation), deposited funds earn interest at the same rate as our savings accounts, unlike our ordinary checking accounts, which earn no interest;

- "identified deposits," which allow our clients to identify deposits made in favor of a third party through the use of a personal identification number; and

- real time "banking transfers" from a checking, savings or investment account to or between another checking, savings or investment account, including accounts at other banks.

Credit operations

The following table sets forth a breakdown by product type of our credit operations in Brazil, at the dates indicated:

	December 31, 2007	2008	2009
		(*R$ in millions*)	
Loans outstanding by product type:			
Loans to individuals	R$ 40,672	R$ 36,734	R$ 39,208
Real estate financing	3,205	5,308	6,841
Banco Nacional de Desenvolvimento Econômico e Social ("BNDES") onlendings	12,824	14,480	16,014
Other local commercial loans	31,556	47,736	46,872
Rural credit	9,032	10,459	11,661
Leasing	8,097	20,096	19,787
Credit cards	2,330	2,501	3,452
Import and export financings	17,521	27,480	21,961
Foreign loans	2,529	2,769	2,958
Public sector loans	94	94	88
Total	**127,860**	**167,657**	**168,842**
Non performing loans	5,277	7,178	11,092
Total	**R$ 133,137**	**R$ 174,835**	**R$ 179,934**

The following table sets forth a summary of the concentration of our outstanding loans by borrower size at the dates indicated.

	December 31, 2007	2008	2009
Borrower size:			
Largest borrower	0.7%	1.3%	1.0%
10 largest borrowers	5.5	6.5	6.5
20 largest borrowers	9.0	10.4	9.8
50 largest borrowers	15.6	16.9	16.2
100 largest borrowers	20.6%	22.1%	20.6%

Credit operations and discounted loans

Our credit operations and discounted loans, which consist mostly of consumer credit operations, loans to companies and credit cards, totaled R$179.9 billion as of December 31, 2009.

Consumer credit operations

We provide a significant volume of loans to individual customers. This allows us to diminish the impact of individual loans on the performance of our portfolio and helps to build customer loyalty. Such loans consist primarily of:

- short term loans, extended by our branches to holders of our checking accounts and, within certain limits, through our ATM network. These short term loans have an average maturity of four months and an average interest rate of 6.2% per month as of December 31, 2009;

- automobile financing loans, which have an average maturity of fifteen months and an average interest rate of 1.9% per month as of December 31, 2009; and

- overdraft loans on checking accounts (which we call "Cheque Especial"), which are, on average, repaid in one month and have interest rates varying from 7.6% to 8.2% per month as of December 31, 2009.

We also provide revolving credit facilities and traditional term loans. As of December 31, 2009, we had outstanding advances, automobile financings, consumer loans and revolving credit loans in an aggregate amount of R$39.208 billion, representing 21.8% of our credit portfolio as of that date. On the basis of loans outstanding at that date, we had a 12.8% share of the Brazilian consumer loan market, according to information published by the Central Bank.

In April 2008, *Banco Finasa S.A.* was dissolved as a consequence of its merger into *Banco Finasa BMC S.A.* and all of its assets and liabilities were transferred to *Banco Finasa BMC S.A. In* April, 2008, the merger of Banco Finasa S.A. into Banco Finasa BMC S.A. was approved by the Central Bank.

In 2009 we repositioned the "Finasa" and "BMC" brands as "Bradesco Financiamentos" and "Bradesco Promotora," respectively.

Bradesco Financiamentos, our financing subsidiary, has two business lines:

- payroll deductible loans to (i) INSS retirees and pensioners, (ii) employees of companies controlled by federal, state and municipal governments and (iii) employees of private sector companies. Currently, it operates with correspondent banks in all Brazilian states, which also offer value added products (credit cards, insurance, funding, consortium and others) and operate in partnership with Bradesco branches to directly prospect clients in the market; and

- financing and leasing of vehicles with solutions in CDC, leasing and others with its own funds as well as onlending to Bradesco clients and non clients, working in partnership with 22,639 resellers and dealers across the country in the segments of light vehicles, motorcycles and heavy vehicles.

Real estate financing

As of December 31, 2009, we had 43,231 outstanding real estate loans. As of December 2009, we financed 22.6% of the residential units constructed by the civil construction sector, according to information published by the Central Bank. As of December 31, 2009, the aggregate outstanding amount of our real estate loans amounted to R$6.841 billion, representing 3.8% of our loan portfolio.

Our real estate loans are granted by the *Sistema Financeiro Habitacional* (the National Housing System), which we call the "SFH" or by the *Carteira Hipotecária Habitacional* (Housing Mortgage Portfolio), which we call the "CHH," or by the *Carteira Hipotecária Comercial* (Commercial Mortgage Portfolio), which we call the "CHC." Loans from SFH or CHH are made at annual interest rates that vary between 8.9% to 11.9% plus TR, and 14% from CHC. Loans from SFH for pre fixed installments are made at annual interest rates of 12.9%.

Residential SFH and CHH loans have stated maturities of up to thirty years and commercial loans have stated maturity of up to ten years.

Our construction loans granted to individuals have a maturity of up to 30 years, with 24 months for the termination of the construction, 2 month grace period and the remainder for loan return. Payments are made on a floating rate basis of TR plus an annual interest rate of 10.9% for the SFH loans, and 12.9% fixed interest rates for properties evaluated at up to R$500,000.

We also extend financing to corporate plan under the SFH. These loans are for construction purposes and typically have a maturity of up to 36 months for the completion of the construction and repayment begins within 36 months after the approval of the construction. We make these loans on a floating rate basis of TR plus an annual interest rate of 12% during the construction stage for SFH loans, and TR plus an annual interest rate of 15% for CHH loans.

Central Bank regulations require us to provide an amount of residential real estate financing equal to at least 65% of the balance of our savings accounts. In addition to direct residential real estate loans, mortgage notes and charged off residential real estate loans, other financings can be used to satisfy this requirement. We generally do not finance more than 80% of the purchase price or the market value of a property, whichever is lower.

Micro credit

We extend micro credit to low income individuals and small companies, in accordance with Central Bank regulations requiring that banks direct 2% of their cash deposits to provide such loans. We began extending such micro credits in August 2003. As of December 31, 2009, we had 42,785 micro credit loans outstanding, totaling R$22.947 million.

36

In accordance with Central Bank regulations, most micro credit loans have a maximum effective interest rate of 2% per month. However, micro credit loans for business directed towards a specific production have a maximum effective interest rate of 4.0%. The CMN requires that the maximum amount loaned to a borrower be limited to (i) R$1,000 for individuals in general, (ii) R$3,000 for individuals developing certain professional, commercial or industrial activities or for micro companies, and (iii) R$10,000 for micro companies with pre defined production. In addition, terms of micro credit loans cannot be shorter than 120 days, and the loan granting fee must vary from 2.0% to 4.0% of the value of the credit raised.

BNDES onlendings

The Brazilian government has a program to provide government funded long term loans with below market interest rates to sectors of the economy that it has targeted for development. We borrow funds under this program from either (i) BNDES, which is a Brazilian development bank wholly owned by the federal government, or (ii) *Agência Especial de Financiamento Industrial* Finame, which we call "Finame," the equipment financing subsidiary of BNDES. We then on lend these funds to borrowers in targeted sectors of the economy. We determine the spread on the loans based on the borrowers' credit. Although we bear the risk for these onlending transactions before BNDES and Finame, they are always secured.

According to BNDES, in 2009, we disbursed R$8.880 billion, 45.7% of which was loaned to micro , small and medium sized companies. Our onlending portfolio was R$16.014 billion as of December 31, 2009, representing 8.9% of our credit portfolio at that date.

Other local commercial loans

We provide traditional loans for the ongoing needs of our corporate clients. We had R$46.872 billion of outstanding commercial loans, accounting for approximately 26.0% of our credit portfolio as of December 31, 2009. We offer a range of loans to our Brazilian corporate clients, including:

- short term loans of twenty nine days or less;
- working capital loans to cover our customers' cash needs;
- guaranteed checking accounts and corporate overdraft loans;
- discounting of trade receivables, promissory notes, checks, credit cards receivables and suppliers, and a number of other receivables;
- financing for purchase and sale of goods and services;
- corporate real estate loan;
- investment lines for acquisition of assets and machinery; and
- guarantees.

These lending products generally bear an interest rate of between 1.4% and 7.2% per month.

Rural loans

We extend loans to the agricultural sector by financing demand deposits, BNDES onlendings and our own resources, in accordance with Central Bank regulations. As of December 31, 2009, we had R$11.661 billion in outstanding rural loans, representing 6.5% of our credit portfolio. In accordance with Central Bank regulations, we extend loans using funds from our reserve requirements at a fixed rate. The annual fixed rate was 6.8% as of December 31, 2009. The maturity of these loans generally matches agricultural cycles and the principal becomes due at the time a crop is sold, except BNDES rural onlendings, which are valid for up to a five year term and require repayments on a semi-annual or annual basis. As security for such loans, we generally obtain a mortgage on the land where the agricultural activities being financed are conducted.

Since November 2008, Central Bank regulations require us to use at least 30% of our checking account deposits to provide loans to the agricultural sector. If we do not meet the 30% threshold, we must deposit the unused amount in a non interest bearing account with the Central Bank.

Leasing

According to ABEL, as of December 31, 2009, the value of our outstanding leases was one of the largest among private companies in Brazil. According to this source, the aggregate discounted present value of the leasing portfolios of leasing companies in the country as of December 31, 2009 was R$110.3 billion, of which we had a market share of 19.4%.

As of December 31, 2009, we had 793,970 outstanding leasing agreements totaling R$19.787 billion, representing 11.0% of our credit portfolio.

The Brazilian leasing market is dominated by large banks and both domestic and foreign owned companies affiliated with vehicle manufacturers. Brazilian lease contracts generally relate to motor vehicles, computers, industrial machinery and other equipment.

Most of our leases are financial (as opposed to operational). Our leasing operations primarily involve the leasing of cars, trucks, material handlers, aircraft and heavy machinery. As of December 31, 2009, 85.9% of our outstanding leases were automobile leases; in the Brazilian leasing market as a whole, 86.9% were automobile leases.

We conduct our leasing operations through our primary leasing subsidiary, Bradesco Leasing and also through Bradesco Financiamentos (formerly Banco Finasa BMC).

We obtain funding for our leasing operations primarily through the issuance of debentures and notes in the domestic market. As of December 31, 2009, Bradesco Leasing had R$46.334 billion of debentures outstanding in the domestic market. These debentures will mature in 2025 and bear monthly interests at the CDI rate.

Terms of leasing agreements

Financial leases represent a source of medium and long term financing for Brazilian customers. Under Brazilian law, the minimum term of financial leasing contracts is 24 months for transactions with respect to goods with an average life of five years or less, and 36 months for transactions with respect to goods with an average useful life greater than five years. There is no legally imposed maximum term for leasing contracts. As of December 31, 2009 the remaining average maturity of contracts in our lease portfolio was 47 months.

Credit cards

We issued Brazil's first credit cards in 1968, and as of December 31, 2009, we were one of Brazil's largest credit card issuers, with 79.6 million credit cards and private label cards issued. We offer Visa, American Express, MasterCard and Private Label credit cards to our clients. As of December 31, 2009, our credit cards were accepted in over 200 countries.

In April 2010 Bradesco and Banco do Brasil signed a non-binding memorandum of understanding for the preparation of a business model, involving: (i) the integration of part of their card operations; (ii) the launch of a Brazilian brand of credit, debit and pre-paid cards for account-holders and nonaccount-holders and (iii) the joint creation of new businesses for private label cards (cards offered to non-account-holder clients through partner merchants).The conclusion of the operation is subject to technical, legal and financial studies, the satisfactorynegotiation of the final documents and compliance with the applicable legal and regulatory requirements.

Our partnership with the American Express Company has permitted us to successfully operate their credit cards and other related activities in Brazil. Notable amongst these operations are the exclusive offers of the Centurion line of cards, which includes the Membership Rewards Program, and management of the network of establishments under contract with Amex Cards.

In addition, through Fidelity *Processadora e Serviços S.A.*, a partnership we entered into with Fidelity National and *Banco ABN AMRO Real*, in 2006 for providing credit card services, we currently rank as one of Brazil's largest service providers of processing, customer services management and support activities.

We earn revenues from our credit card operations through:

- fees on purchases carried out in commercial establishments;
- issuance fees and annual fees;
- interest on credit card balances;
- interest and fees on cash withdrawals through ATMs;
- interest on cash advances to cover future payments owed to establishments that accept credit cards; and
- several fees charged from cardholders and affiliated commercial establishments.

We offer our customers the most complete line of credit cards and related services, including:

- cards issued, and restricted for use, in Brazil;
- credit cards accepted nationwide and internationally;
- credit cards directed toward high net worth customers, such as "Gold," "Platinum" and "Infinite/Black" Visa, American Express and MasterCard. The highlights are the benefits of the Fidelity Programs, including the Membership Rewards Program ;
- cards that combine the features of credit and debit cards in a single card. Holders of these cards can use them to carry out traditional banking transactions as well as to purchase goods;
- for greater security, we are issuing chip embedded credit cards for our entire client base, which allows holders to use passwords instead of signatures;
- corporate credit cards accepted nationwide and internationally;
- co branded credit cards, which we offer through partnerships we have with traditional companies, such as airlines, retail stores, newspapers, magazines, automobile companies and others;
- "affinity" credit cards, which we offer through civil associations, such as sport clubs and non governmental organizations;
- "*CredMais*" credit cards for employees of our payroll processing clients, which have more attractive revolving credit fees, and "*CredMais INSS*" credit cards for pensioners and other beneficiaries of INSS with lower

financing interest rates;

- private label credit cards, which exclusively target retail clients in efforts to leverage our business and the loyalty of individual clients, and which may or may not have a brand for use outside the commercial establishment;

- "GiftCard," which is a prepaid card sold as a gift to individuals;

- SMS Bradesco Message Service, which allows the credit card holder to receive a text message on their mobile phone informing them that a transaction with their respective credit card has been made;

- CPB Bradesco Ticket Card, a virtual card focused on the management and control of plane ticket expenses for corporations;

- Bradesco Transportation Card, aimed at transportation companies, shipping companies, risk management companies and truck drivers, with both prepaid and debit card functionality;

- "Blue Credit Cards," a credit card with a modern shape, offering special benefits for American Express clients with upscale lifestyles;

- "FixCard," with a reduced fee that enables the card user to plan his/her monthly expenditure payment;

- Flex Car Visa Vale Card is a prepaid card that offers the client more practical payment options for vehicle related expenses, such as fuel, parking, among others, allowing the company to determine the maximum credit available to each employee;

- payment of invoice in up to 12 fixed installments, with specific charges per type of card;

- "*Seguro Proteção Desemprego Bradesco*" (Bradesco Unemployment Protection Insurance) settles or amortizes the amount due on the participant's credit card in the event of involuntary unemployment (for employed professionals) or permanent or temporary physical disability (for self employed workers or professionals). Coverage varies by plan;

- "*Seguro Cartão Super Protegido Premiável Bradesco*" (Bradesco Unauthorized Purchase Protection Insurance) settles or amortizes the amount due on the participant's credit card, excluding cash withdrawals, resulting from loss, robbery or theft of the credit card. This protection encompasses a 7 consecutive day period (168 hours) prior to the notification of the event, up to the credit card limit, with ceiling of R$50,000;

- "Purchase with Change," a cash back service provided by Bradesco, Banco do Brasil and Banco Real, which allows the client to request cash back when purchasing with the card;

- "Contactless" branded card, which allows the client to simply place the card close to the reader for the payment to be processed;

- "Bradesco Corporate Checking Account Card," which allows access to checking account funds for small daily expenses, providing advanced technology and making transfers easier, faster and much safer for companies;

- "Gold Cards" with differentiated services in harmony with Bradesco's customer segmentation strategy, offering competitive products that bring profitability to the Bank and benefits to clients; and

- "FIFA 2010 World Cup Visa Credit Card," a special edition focusing on the 2010 World Cup in South Africa targeted at individuals, clients or non clients.

We are authorized to accredit establishments under the Visa, American Express and Mastercard systems in our branches, in addition to providing transfers to the branch where the holder maintains its accounts.

In 1993, we launched the *SOS Mata Atlântica* card, which allocates a portion of its revenues to environmental causes, and in 2007, we entered into an agreement with the State of Amazonas to donate R$70 million to *Fundação Amazonas Sustentável* (Sustainable Amazonas Foundation) within five years. A portion of this project will be funded through the allocation of some of the revenues generated by our social purpose credit card operations. In 2008, we launched the *Amazonas Sustentável*credit card, the first credit card made of recycled plastic, which part of its revenues will be transferred to *Fundação Amazonas Sustentável*.

In June 2009, we announced the partial sale of our interest in the capital stock of "*Companhia Brasileira de Meios de Pagamento"* (VisaNet), currently called "Cielo," as part of its secondary share offering, which generated a pre tax profit of R$2 billion.

In July 2009, we announced an additional sale of our interest in Cielo's capital stock as part of an overallotment option to the underwriters, generating a pre tax profit of R$410 million. After these sales we still maintained a total of approximately 362.4 million Cielo common shares, which corresponds to 26.6% of its capital stock.

In September 2009 the Central Bank authorized the acquisition of the shareholding control of Ibi Participações, which is an important credit card issuer with a strong position in the private label segment.

As of December 31, 2009, we had more than 69 partners with whom we offered co branded, affinity and private label/hybrid credit cards. These relationships have allowed us to integrate our relationships with our clients, thereby offering our credit card customers banking products, such as financing and insurance services.

The following table sets forth a breakdown of credit cards we issued in Brazil for the years indicated:

	2007	**2008**	**2009**
		(*millions*)	
Card base:			
Credit	28.5	35.3	79.6
Debit	43.2	48.0	53.3
Total	**71.7**	**83.3**	**132.9**
Revenue R$:			
Credit	**38,746**	**46,704**	**55,294**
Number of transactions:			
Credit	**506.3**	**607.4**	**722.6**

Debit cards

We began to issue debit cards in 1981 under the name *Bradesco Instantâneo* . *In* 1999 we started converting all of our *Bradesco Instantâneo* debit cards into new cards called *Bradesco Visa Electron* . Customers who hold Bradesco Visa Electron debit cards can use them to make purchases at establishments and withdraw cash at Bradesco customer service network in Brazil and the Visa Plus network worldwide. The amount paid is withdrawn from the cardholder's Bradesco account, eliminating the inconvenience and bureaucracy of a check.

Prepaid cards

In 2009, together with other card issuers and Visa International, we actively participated in the distribution of VisaVale cards.

Management of receipts, payments, human resources, and administrative support

Management of receipts and payments

In order to meet the cash management needs of our clients, both in the public and private sectors, we offer many electronic solutions for receipt and payment management, supported by a vast network of branches, correspondent banks and electronic channels, all of which aim to improve the speed and security of information and the transfer of resources of customers.

These solutions include: (i) the collection and payment services and (ii) on line resource management with a system which allows our clients to pay suppliers, salaries, taxes and other contributions due to governmental or public entities.

These solutions, which can also be customized, facilitate our clients' day to day tasks as well as contribute to generating other businesses for the Bank.

We also earn revenues through the payment of fees on collection services and payment processing services, as well as upon transfers of funds received until their availability to the beneficiary.

Global cash management

The global cash management concept provides solutions regarding the cash management of multinational companies operating in Brazil and/or domestic companies operating abroad.

Bradesco's Global Cash Management provides payment, deposits and treasury management functions to companies aiming at regionally or globally centralizing their cash, by means of partnerships with banks present in several locations worldwide.

Charging and other receivables solution

In 2009, we processed 616.9 million receivables through our collection system, checks custody service, deposits at tellers (identified deposits) and credit orders via our teleprocessing system (credit order by teleprocessing or OCT), a 4.0% increase as compared with the same period in 2008.

Tax collection solutions

In 2009, we processed payments of 413.9 million documents related to taxes and other contributions due to governmental or public entities, an 8.0% increase as compared with the same period in 2008.

Check custody services

Under the post dated check system, our clients pay for goods and services with bank checks dated with a future date. Sellers deposit the post dated check on the future date, effectively extending the time in which the payment must be made. We hold such checks in custody for our clients to facilitate the control of the document in the period between when the check is written and when it is deposited in the recipient's account.

Solutions for payment of suppliers, salaries and taxes

In 2009, we processed over 256.6 million transactions, a 19.8% increase as compared with the same period in 2008.

Productive chain solutions

In the current market, we believe that is essential that the companies, besides operating together in an industry segment, work together for better results. In this context, we have worked to become a "Production Chain Bank," attempting to be present in all stages of the production process, coming up with solutions, products, services and partnerships that meet the needs of all members of the production chain, whether they are suppliers, distributors, clients or other.

Public authority solutions

Public administration also requires agility and technology in its every day activities. In order to serve this market, we have a specific area and offer specialized services to entities and bodies of the Executive, Legislative and Judiciary branches, at the federal, state and municipal levels, in addition to independent governmental agencies, public foundations, state owned and mixed companies, the armed forces (Army, Navy and Air Force) and the auxiliary forces (Federal, Military and Civil Police) and notary officers and registries, identifying business opportunities and structuring customized solutions.

An exclusive website was developed for these clients and presents the federal, state and municipal governments with corporate payments, receipts, human resources and treasury solutions, meeting the needs and expectations of the Executive, Legislative and Judiciary Branches. The portal also has an exclusive place for public employees and military policemen with all the products and services we make available for these clients.

The relationship occurs by means of exclusive service platforms located nationwide, with specialized relationship managers to provide services to these clients, creating a closer relationship to conquer new business and establishing a consolidated presence with the Public Authority.

Management of human resources and administrative support

We offer our corporate clients several electronic solutions for management of human resources and administrative services, including payroll processing, employee checking accounts and the "company card" for the payment of business trips and other company related expenses. Once employees receive their salaries through this system, they may take advantage of special credit lines, special conditions for rates, fees, products and services and access our broad ATM network.

Asset management

We manage third party assets by means of:

- mutual funds;
- individual and corporate investment portfolios;
- pension funds, including assets guaranteeing the technical reserves of *Bradesco Vida e Previdência*;
- insurance companies, including assets guaranteeing the technical reserves of Bradesco Seguros; and
- FIDCs.

As of December 31, 2009, we had R$247.7 billion of assets under management, R$174.6 billion of which were managed by Bradesco Asset Management and R$73.1 billion of which were in third party funds related to the fiduciary administration, custody and controllership services of *BEM Distribuidora de Títulos e Valores Mobiliários Ltda.*, which we call "BEM DTVM."

In the same period we offered 960 funds and 209 portfolios to over 3.2 million investors. We also offer a range of fixed asset, variable income, money market and other funds. Currently we do not offer investments in highly leveraged funds.

The following tables show the distribution of managed assets, the number of investors, and the number of investment funds and customer portfolios managed as of the dates indicated.

	Distribution of Assets As of December 31	
	2008	**2009**
	(R$ in millions)	
Investment Funds:		
Fixed income	155,365	201,012

Variable income	10,797	23,999
Third party share funds	4,857	5,641
Total	**171,019**	**230,652**
Managed Portfolios:		
Fixed income	8,484	8,590
Variable income	6,881	7,552
Third party share funds	767	906
Total	**16,132**	**17,048**
Overall Total	**187,151**	**247,700**

	As of December 31			
	2008		2009	
	Number	Quota holders	Number	Quota holders
Investment Funds	807	3,281,540	960	3,169,464
Managed Portfolios	209	568	209	486
Overall Total	**1,016**	**3,282,108**	**1,169**	**3,169,950**

The increase of investment funds occurred in 2009 was mainly due to an increase in fixed income investment funds, which have lower management fees compared to variable income investment funds.

Our products are distributed through our branch network, our telephone banking services and our Internet based investment site ShopInvest.

Services related to capital markets and investment banking activities

In February 2006, we incorporated *Banco Bradesco BBI S.A.*, which we call "Bradesco BBI," to be our investment bank and operate in the capital markets, mergers and acquisitions, project financing, structured operations and private equity areas. In 2009 we coordinated the placement of R$24.064 billion in primary and secondary operations of shares and debt instruments, representing 38.6% of the volume of the issuances registered with the CVM during the period.

Along with these activities, Bradesco BBI is the controlling company for the operations of *Bradesco Corretora de Títulos e Valores Mobiliários*, *Ágora Corretora de Títulos e Valores Mobiliários*, BRAM Bradesco Asset Management and Bradesco Securities Inc.

Variable income

Bradesco BBI coordinates and places public offerings of shares in the local and international capital markets, as well as intermediates public tender offers. In 2009 we participated in several Initial Public Offerings (IPOs) and follow ons of our clients' shares. As of December 2009, according to a ranking set by ANBIMA, Bradesco BBI ranks third in volume distributed in variable income with a market share of 12.2% and volume of R$4.5 billion, and ranks fifth in number of operations.

Fixed income

During 2009, Bradesco BBI was one of the main players in the fixed income market, ranking third in ANBIMA's ranking of origination and distribution disclosed in December 2009, based on volume in fixed income in the domestic market. We participated in important transactions, totaling more than R$10.3 billion in transaction volume with approximately 21.5% of market share.

Structured operations

Banco BBI develops structures used to segregate credit risks through securitization, using SPEs, loan assignments with shared risk and medium and long term financing, based on receivables and/or other collateral.

Mergers and acquisitions

Bradesco BBI advises important clients on mergers, acquisitions, asset sale, joint ventures, corporate restructuring and privatization operations. We are among the leaders in this sector, ranking first in the closing number of merger and acquisition transactions and in the number and volume of corporate restructuring operations (OPA transactions), according to ANBIMA, in December 2009.

Project finance

Bradesco BBI plays the role of financial advisor and financial structurer for several projects in the project and corporate finance categories, always seeking the best financing solution for projects in several sectors of the economy. BBI has an excellent relationship with several different promotion agencies, such as BNDES, Inter-American Development Bank (BID), International Finance Corporation (IFC) and *Banco do Nordeste do Brasil*(BNB).

In 2009, Bradesco BBI was involved in the funding of various projects in Brazil, such as the financing of hydropower plants of the Madeira Complex (Santo Antônio and Jirau), with a volume of third party funds exceeding R$13.0 billion.

Intermediation and trading services

Through our wholly owned subsidiary *Bradesco S.A. Corretora de Títulos e Valores Mobiliários*, which we refer to as "Bradesco Corretora," we trade futures, options and corporate and Brazilian government securities on behalf of our customers. The clients of Bradesco Corretora include high net worth individuals, large companies and institutional investors.

During 2009, Bradesco Corretora traded more than R$77.809 billion in the BM&FBovespa equities market and, according to BM&FBovespa, was ranked eleventh in Brazil in terms of total trading volume.

In addition, in the same period, Bradesco Corretora traded approximately 3,466,477 futures, swaps, options and other contracts, with a total amount of R$364.238 billion, on the BM&FBovespa. According to the BM&FBovespa, in 2009, Bradesco Corretora was ranked 23rd in the Brazilian market, in terms of the number of options, futures and swaps contracts executed.

With more than 40 years of tradition and efficiency in capital markets, Bradesco Corretora was the first brokerage firm to make available to its clients the DMA Direct Market Access, an innovative computer order routing service, which allows the investor to carry out asset purchase and sale operations directly in BM&FBovespa's market.

BM&FBovespa, through its Operational Qualification Program, awarded the 5 Qualification Seals (Agro Broker, Carrying Broker, Execution Broker, Retail Broker and Web Broker) to Bradesco Corretora in September 2009, indicating excellence in futures transactions.

Bradesco Corretora has sixty brokers covering retail investors and assisting our branch managers, twelve brokers dedicated to Brazilian and foreign institutional investors, and ten brokers dedicated to BM&FBovespa.

Bradesco Corretora offers its clients the ability to trade securities via the Internet through its "Home Broker" service. In 2009, trading through "Home Broker" totaled R$28.160 billion, corresponding to 6.0% of all transactions carried out through the Internet on BM&FBovespa and ranking Bradesco Corretora as the 5th largest Internet trader in the Brazilian market.

Bradesco Corretora offers its clients complete investment analysis service with coverage of the main sectors and companies in the Brazilian market, currently covering 83 companies. There are nineteen sector specialists (senior analysts and assistants) on our analyst team. They disclose their opinions to clients with follow up reports and share guides with a wide basis of projections and multiples of comparison. In addition to the analysis of our team of economists, Bradesco Corretora has a separate economic team dedicated to the specific demand of its clients, focusing on the stock market.

With *"Projeto Sala de Ações"* (Share Rooms Project), our clients have access to professionals qualified to give them advice on investments on the BM&FBovespa. Our ever expanding network of share rooms currently consists of 21 share rooms located throughout Brazil. With this service, Bradesco Corretora aims at direct customer service and a closer relationship with the client, training and certificating its employees in a range of operations, including structured operations, and attracting new clients. This channel is also very profitable and welcomed by the investor. It helps to bring together our network of branches, creating loyal clients and concentrating their funds with us. Thirty nine share rooms are estimated to be implemented by the end of 2010 and forty one by the end of 2011 in strategic locations of Brazil.

We also offer our clients the Direct Treasury Program, which allows individual clients to invest in federal public securities via the Internet by registering with Bradesco Corretora on our website.

45

Table of Contents

Bradesco Corretora also offers its services as a representative of non resident investors in transactions carried out in the financial and capital markets, in accordance with the terms of CMN Resolution 2,689, which we refer to as "Resolution 2,689." For more information regarding Resolution 2,689, see "Item 10.D. Exchange Controls."

Custody, depositary and controllership services

In 2009, we were one of the main service providers for capital markets and maintained the leadership in the domestic market of assets custody, according to the ANBIMA ranking. With a modern infrastructure and a specialized team, we offer a broad range of services such as: Qualified Custody Domestic & International Markets, Controllership of Managed Funds and Portfolios, Structured Funds, Offshore Funds, Fiduciary Administration for Investment Funds, DR Depositary Receipt, BDR Brazilian Depositary Receipt, Representation for Foreign Investors, Asset Bookkeeping, Agent Bank, Depositary (Escrow Account Trustee), and Clearing Agent.

We submit our processes to the Quality Management System ISO 9001:2008 and GoodPriv@cy certifications. Bradesco Custódia alone has ten certifications related to quality and three related to protection and data privacy.

As of December 31, 2009, Bradesco Custódia offered:

- custody, controllership and fiduciary administration for third parties, with
- R$562.919 billion in assets under custody (ANBIMA's ranking);
- R$625.092 billion in investment funds and managed portfolios (ANBIMA's ranking);
- 13 registered DR Programs with market values of R$84.652 billion; and
- R$126.230 billion in third party investment funds under fiduciary management by BEM DTVM Ltda..
- book entry assets :
- our system for book entry shares had 236 companies, with a total of 3.038 million shareholders;
- our system for book entry debentures had 93 companies with a total market value of R$126.305 billion;
- our system for book entry quotas had 124 investment funds with a market value of R$15.701 billion; and
- we administered three BDR registered programs, with a market value of R$155.223 million.

International banking services

As a private commercial bank, we offer a range of international services, such as exchange transactions, external trade financing, lines of credit and offshore banking activities. Our overseas network is made up of:

- in New York City, one branch and Bradesco Securities Inc., our subsidiary brokerage firm, which we call "Bradesco Securities U.S.;"
- in London, Bradesco Securities U.K., our subsidiary, which we call "Bradesco U.K.;"
- in the Cayman Islands, 2 branches of Bradesco as well as our subsidiary, Cidade Capital Markets Ltd., which we called "Cidade Capital Markets;"

- in the Bahamas, a branch of Bradesco;
- in Argentina, Banco Bradesco Argentina S.A., our subsidiary, which we call "Bradesco Argentina;"
- in Luxembourg, Banco Bradesco Luxembourg S.A., our subsidiary, which we call "Bradesco Luxembourg;"
- in Japan, Bradesco Services Co. Ltd., our subsidiary, which we call "Bradesco Services Japan;" and
- in Hong Kong, our subsidiary Bradesco Trade Services Ltd.

Our international operations are coordinated by our exchange department and supported by twelve operations units in Brazil, in addition to thirteen foreign exchange platforms located in Brazil's principal exporting and importing centers.

Revenues from Brazilian and foreign operations

The table below provides a breakdown of our revenues (interest income plus non interest income) arising from our operations in Brazil and overseas for the periods indicated:

	For the year ended December 31,					
	2007		2008		2009	
	R$ in millions	**%**	**R$ in millions**	**%**	**R$ in millions**	**%**
Brazilian operations	R$ 60,697	98.6%	R$ 76,215	98.4%	R$ 83,963	97.8%
Overseas operations	893	1.4	1,248	1.6	1,922	2.2
Total	**R$ 61,590**	**100.0%**	**R$ 77,463**	**100.0%**	**R$ 85,885**	**100.0%**

Foreign branches and subsidiaries

Our foreign branches and subsidiaries are principally engaged in financing Brazilian companies seeking external trade financing. Bradesco Luxemburg also provides additional services to the private banking segment. With the exception of Bradesco Services Japan and Bradesco Trade Services, our branches abroad are allowed to receive deposits in foreign currency from corporate and individual clients and extend financing to Brazilian and non Brazilian clients. Total assets of the foreign branches, excluding transactions between related parties, were R$20.4 billion, as of December 31, 2009, totally denominated in currencies other than the *real*.

In October 2007, we indirectly acquired the Grand Cayman branch of BMC, as a result of our acquisition of its former parent company. On March 27, 2009, this branch was incorporated into Bradesco Grand Cayman.

The funding necessary for import and export financing is obtained from the international financial community by means of credit lines granted by correspondent banks abroad. In addition to the traditional funding source of correspondent banks, in 2009, we raised US$1.4 billion in public and private issue of debt securities in the international capital markets. In this same year, we assumed US$1.3 billion in credit lines to finance Brazilian exports through auctions in foreign currency promoted by the Central Bank.

Bradesco Argentina. With a view to expanding our operations in Latin America, in December 1999, we established our subsidiary in Argentina, Bradesco Argentina, the general purpose of which is to extend financing, largely to Brazilian companies established in Argentina and, to a lesser extent, to Argentinean companies doing business with Brazil. In order to start its operations, we capitalized Bradesco Argentina with R$54.0 million from March 1998 to February 1999, and in May 2007, we carried out an additional capitalization of R$27.2 million. As of December 31, 2009, Bradesco Argentina recorded R$85.1 million in total assets.

Bradesco Luxemburg. In April 2002, we acquired the total control of Banque Banespa International S.A. in Luxembourg and changed its name to Banco Bradesco Luxembourg S.A. In September 2003, Mercantil Luxembourg was merged into Banco Bradesco Luxembourg and Banco Bradesco Luxembourg was the surviving entity. As of December 31, 2009, the total assets of this subsidiary were R$1.2 billion.

Bradesco Services Japan. In October 2001, we incorporated Bradesco Services Japan to provide support and specialized services to the Brazilian community in Japan, including remittances to Brazil and advice regarding investments within Brazil. As of December 31, 2009, its assets totaled over R$461,000.

Bradesco Trade Services. A non financial institution and a subsidiary of our branch in the Cayman Islands, which we formed in Hong Kong in January 2007, in partnership with the Standard Chartered Bank.

Bradesco Securities (U.S. and U.K.) - Bradesco Securities, our wholly owned subsidiary, is a broker/dealer in the United States and England.

- The focus of Bradesco Securities U.S. is on facilitating the purchase and sale of shares, primarily in the form of ADRs. The company is also authorized to deal with bonds, commercial paper and deposit certificates, among other securities, and to provide investment advisory services. Currently, we have more than thirty ADR programs for Brazilian companies traded on the New York Stock Exchange. As of December 31, 2009, Bradesco Securities U.S. had assets of R$44.2 million; and

- Bradesco Securities U.K.'s focus is the intermediation of variable and fixed income operations of Brazilian companies for global institutional investors. The authorization for operation was granted to Bradesco Securities U.K. in May 2008. As of December 31, 2009, Bradesco Securities U.K. had equity of R$10.2 million.

Cidade Capital Markets. In February 2002, Bradesco, through BCN, acquired Cidade Capital Markets in Grand Cayman, as part of the acquisition of its parent company in Brazil, Banco Cidade. As of December 31, 2009, Cidade Capital Markets had R$65.8 million in assets.

Banking operations in the United States

In January 2004, the United States Federal Reserve Bank granted us permission to operate as a financial holding company in the United States. As a result, we are permitted to operate in the United States market, directly or through a subsidiary, and, among other things, may sell insurance and certificates of deposit, provide underwriting services, assist with private placements, portfolio management and merchant banking services and manage mutual fund portfolios.

Import and export financing

Our Brazilian import and export activities consist primarily of financing export and import transactions.

We provide foreign currency payments on behalf of the importer directly to foreign exporters, attached to the receipt of a local currency payment by Brazilian importers. Exporters usually receive an advantage in local currency upon the closing of the export contract, in exchange for an assignment of a foreign currency receivable due on the contract maturity date. Financing of imports done prior to the shipment of the goods is called *Adiantamento Sobre Contrato de Câmbio* (Advances on Exchange Contracts, or "ACC"), whereby the funds obtained are used in the production of the goods that will be exported. Financing done after the shipment of the goods, when the exporter is awaiting payment, is called *Adiantamento Sobre Contrato de Exportação* (Advances on Export Contracts, or "ACE").

Other types of financing for exports include, among others, the pre payment of exports, BNDES EXIM onlending, advance discounts, exports credit notes and exports credit certificates.

Our foreign trade portfolio is funded primarily by credit lines with banking correspondents. We maintain relationships with various North American, European, Asian and Latin American financing institutions for this purpose, relying on our network of approximately 1,000 banking correspondents abroad, 83 of which granted funding facilities at the end of 2009.

As of December 31, 2009, the balance of our export financing transactions was R$18.1 billion and the balance of our import financing transactions was R$3.8 billion. The volume of our foreign exchange contracts for exports reached US$37.9 billion, an 11.7% decrease over 2008. In 2009, the volume of our foreign exchange contracts for imports reached US$24.7 billion, a 10.3% increase over 2008. In 2009, based on information made available by the Central Bank, we had a 25.2% market share in the Brazilian export market, and an 18.4% market share in the Brazilian import market.

The following table sets forth the composition of our foreign trade asset portfolio at December 31, 2009:

	December 31, 2009 (*R$ millions*)
Export financing:	
Advance on foreign exchange contracts undelivered bills	4,838
Advance on foreign exchange contracts delivered bills	539
Export prepayment	7,151
Onlending of funds borrowed from BNDES/EXIM	2,665
NCE/CCE (Exports Credit Note/Exports Credit Certificates	2,944
Total export financing	**18,137**
Import financing:	
Import financing foreign currency	2,659
Exchange discounted in advance for import credit	1,165
Total import financing	**3,824**
Total foreign trade portfolio	**21,961**

Foreign exchange products

In addition to import and export financing, we offer our customers other exchange services and products, such as:

- purchasing and selling of traveler´s checks and foreign currencies;
- cross border money transfers;
- exports advanced receipt;
- bills of clients domiciled abroad in domestic currency;
- transfer of available funds to our customers' bank accounts located abroad;
- collecting import and export receivables;
- cashing checks that are denominated in foreign currency; and
- structuring transactions in foreign currency by means of our units abroad.

Consortiums

In Brazil, persons or entities that wish to acquire certain goods can form a group, known as a "consortium," in which the members pool their resources to assist each other with the purchase of certain consumer goods. The purpose of a consortium is to acquire goods, and Brazilian law forbids the formation of consortiums for investment purposes.

In January 2003, our subsidiary Bradesco Consórcios initiated the sale of consortium memberships, known as "quotas," to our clients. Since May 2004, Bradesco Consórcios has been the leader in the real estate segment and, since December 2004, it has also been the leader in the vehicle segment. In October 2008, Bradesco Consórcios became the leader in the segment of trucks/tractors, thereby achieving leadership in all three segments. As of December 31, 2009, Bradesco Consórcios registered total sales of over 395,611 active quotas in the three segments, with a total billed amount of approximately R$18.6 billion and a net profit income of R$207.3 million. Bradesco Consórcios acts as the administrator for the consortiums, which are formed to purchase real estate, automobiles and trucks/tractors.

49

Insurance, pension plans and certificated savings plans

The following diagram shows the principal elements of our insurance, pension plans and certificated savings plans segment as of December 31, 2009:

The following table sets forth selected financial data for our insurance, pension plans and certificated savings plans segment for the periods indicated. The total amounts per segment may not correspond to the amounts shown on a consolidated basis, as they do not take into account immaterial activities or inter segment transactions.

50

	As of and for the year ended December 31, 2007	2008	2009
		(*R$ in millions*)	
Income statement data:			
Net interest income[1]	R$ 6,577	R$ 6,295	R$ 7, 569
Non interest income[1]	11,412	12,977	15,900
Non interest expense	(14,069)	(14,946)	(18,775)
Income before income taxes [1]	3,920	4,326	4,694
Income tax and social contribution	(1,287)	(1,545)	(1,661)
Net income before attribution to noncontrolling interest[1]	2,633	2,781	3,033
Net income attributed to noncontrolling interest	(19)	(89)	(26)
Parent Company`s net income[1]	**R$ 2,614**	**R$ 2,692**	**R$ 3,007**
Balance sheet data:			
Total Assets	R$ 73,028	R$ 69,197	R$ 90,173
Selected results of operations data			
Insurance premiums:			
Premiums of life insurance and personal accidents	1,822	2,799	3,145
Health insurance premiums	4,246	5,259	6,099
Automobile and basic line insurance premiums	2,775	2,905	3,277
Total	**R$ 8,843**	**R$ 10,963**	**R$ 12,521**
Pension plan income	555	710	607
Interest income from insurance, pension plans, certificated savings plans and pension investment contracts	6,577	6,295	7,569
Changes in technical provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(4,981)	(4,225)	(6,008)
Insurance claims	(6,012)	(7,391)	(8,329)
Pension plan operating expenses	R$ (478)	R$ (482)	R$ (410)

(1) Includes income from related parties outside the segment.

Insurance products and services

We offer insurance products through a number of different entities, which we refer to, collectively, as Grupo Bradesco de Seguros e Previdência. Grupo Bradesco de Seguros e Previdência is the largest insurer group in Brazil, based on total revenues and technical provisions, according to information published by SUSEP and ANS. The Group provides a wide range of insurance products, both to individuals and to corporate clients. Its products include health, life, accident, automobile and basic line insurance.

According to the annual publication of Fundacion Mapfre in Spain, Grupo Bradesco de Seguros e Previdência was the largest insurance and pension plan group in Latin America in 2008.

Life and personal accident insurance

We offer life, personal accident and random events insurance through our subsidiary Bradesco Vida e Previdência. As of December 31, 2009 Bradesco Seguros had 19 million life insurance policyholders.

Health insurance

Health and dental insurance

The health and dental insurance policies cover medical/hospital coverage and dental care expenses, respectively. We offer our health and dental insurance policies through our subsidiary Bradesco Saúde to small, medium or large companies.

As of December 31, 2009, Bradesco Saúde and its subsidiaries had more than 4.310 million policyholders, including holders of corporate insurance plans and individual/family plans. Approximately 35,000 companies in Brazil have health insurance policies underwritten by Bradesco Saúde and its subsidiaries, including 41 of the country's 100 largest companies.

Bradesco Saúde and its subsidiaries currently have one of the largest health and dental insurance networks in Brazil. As of December 31, 2009, it included 10,440 laboratories, 12,367 specialized clinics, 15,774 physicians, 3,348 hospitals, 3,235 dental clinics and 9,646 dentists located throughout the country.

Automobiles, basic lines and liability insurance

We provide automobile, basic lines and liability products through our subsidiary Bradesco Auto/RE. Our automobile insurance covers policyholders' losses resulting from vehicle theft, damage to vehicles, personal injury and injury to third parties. Basic line insurance is geared towards individuals, particularly those with residential and/or equipment related risks and small and medium sized companies, the assets of which are covered by corporate multi risk insurance.

Among mass basic insurance lines for individual clients, the residential ticket is a product that has a relatively affordable cost and high profitability. For corporate clients, Bradesco Auto/RE offers *Bradesco Seguro Empresarial*, which is tailored to meet our clients' needs in accordance with their business. For corporate basic and liability insurance lines, Bradesco Auto/RE has an exclusive highly specialized team that provides large business groups with services and products that are tailor made to the specific needs of each policyholder. In this segment, the transportation, engineering and operational risks and oil insurance policies are the most traded lines.

As of December 31, 2009, Bradesco Auto/RE had 1.429 million insured automobiles and 1.163 million basic line policies and tickets, making it one of the main insurers in Brazil.

Other Information

Sales of insurance products

We sell our insurance products through exclusive brokers in our branch network, as well as through non exclusive brokers throughout Brazil. Bradesco Seguros pays brokers' fees on a commission basis. As of December 31, 2009, 24,004 brokers offered our insurance policies to the public. We also offer certain automobile, health, basic lines insurance products directly through our website.

Pricing

The pricing of collective health and dental insurance in Brazil is based on historical experience (i) of medical, hospital and dental care costs, as well as (ii) the frequency of utilization per procedure. Actuarial studies for pricing health insurance also take into consideration the distribution and frequency of claims according to age brackets of the insured population and geographical areas, along with the insurance coefficients adopted according to the best actuarial practices.

The price for life insurance is usually determined based on the life expectancy of individual policyholders and, in a few cases, the frequency of claims and the average premium payments for the Brazilian population. Any amount exceeding the limit of the reinsurance agreement is automatically transferred to IRB Brasil Resseguros S.A., known as "IRB."

The price determination of automobile insurance is influenced by the frequency and severity level of an individual's claims, and takes into consideration many factors, such as place of use of the vehicle and its specific characteristics. In accordance with market practice, we consider the client profile in the price determination of an automobile insurance policy.

The profitability of personal automobile insurance partially depends on the identification and correction of the disparity between premium levels and the expected claim costs. The premiums charged for damage insurance to vehicles considers, among other factors, the value of the insured automobile. Consequently, the premium levels partially reflect the sales volume of new automobiles.

Pricing in the basic lines insurance business is driven by claim frequency and average claim amount, as well as the specific characteristics of the insured party's location. In the corporate basic lines, insurance prices are determined in accordance with each covered risk. In case of atypical type of coverage and/or covered amounts, we must consult IRB to obtain the basic terms of the contract.

Reinsurance

Brazilian regulations set retention limits on the amount of risk insurance companies may underwrite without having to purchase reinsurance. In accordance with such regulations, Grupo Bradesco de Seguros e Previdência reinsures with the IRB all the risk it underwrites for which the insured amounts exceed the retention limits. In addition, Grupo Bradesco de Seguros e Previdência also reinsures all risk for which reinsurance is recommended by technical/actuarial decisions, in order to minimize the risks of our portfolio.

On January 15, 2007, the Brazilian Congress enacted Supplementary Law 126, which extinguished the monopoly of IRB by opening the reinsurance market to competition in Brazil.

On December 17, 2007, CNSP issued rules regarding the requirements to be met by reinsurance companies for receiving reinsurance assignments originated in Brazil. CNSP established these rules through (i) Resolution 168, rules applicable to reinsurance, retrocession and intermediation activities; (ii) Resolution 169, minimum capital required for the authorization of local reinsurance companies to operate; (iii) Resolution 170, requirements for additional capital in accordance with underwriting risks for local reinsurance companies; (iv) Resolution 171, rules and procedures for the recording of the technical provisions for local reinsurance companies; (v) Resolution 172, retention limits of such companies; and (vi) Resolution 173, provisions applicable to reinsurance brokerages. Resolution CNSP no. 170 was replaced by Resolution CNSP no. 188 of April 29, 2008.

CMN Resolution no. 3,525 of December 20, 2007 authorized insurance companies, reinsurance companies and reinsurance brokers to open and maintain a foreign currency bank account for the purpose of receiving and paying premiums, claims, recovery of credit and other amounts stated in the insurance, reinsurance, retrocession and co insurance contracts made in foreign currency.

In addition, CNSP Resolution 168, which became effective 120 days after December 19, 2007, authorized IRB to continue to exercise its reinsurance and retrocession activities, without government requirement or authorization. This Resolution qualified it as a local reinsurance company and granted it an additional 180 day term to comply with the provisions set forth in Resolution 168. CNSP Resolution 189, published on October 8, 2008, extended this term to December 12, 2008 and there was no further extension after this date.

With Decree 6,499 of July 1, 2008, the President of Brazil established maximum assignment limits to eventual reinsurance companies by local insurance companies (10%), as well as to local reinsurance companies (50%), of premiums awarded in reinsurance in each calendar year. CNSP Resolution no. 203 of April 27, 2009 expanded to 25% the transfer limit by the insurance companies in the case of guarantee of public obligations and oil risks. This same resolution also extended the period for contracting the reinsurance transactions from 180 days to 270 days from the coverage start date.

CNSP Resolution no. 194 of December 16, 2008 outlined the requirements for the registration of a reinsurance company specializing in nuclear risk and established a maximum transfer limit of up to 100% of the total amount of premiums awarded in reinsurance. CNSP Resolution no. 206 of December 17, 2009 stated that in the specific case of these risks, the deadline for the market to adapt to the open market reinsurance rules will be extended to December 31, 2014.

As stated in art. 15 of CNSP Resolution no. 168/2007, the preferential offering to local reinsurance companies will be reduced from 60% to 40% after January 16, 2010.

Up until December 31, 2009, SUSEP granted the right to operate in the Brazilian market to 75 reinsurance companies, including Lloyd's, with 93 labor unions. Approximately 34 reinsurance brokerage firms are also authorized to intermediate reinsurance and retrocession operations.

In 2009, Grupo Bradesco de Seguros e Previdência reinsured approximately R$223 million in insurance risk. Although reinsurance companies are liable for any risk they reinsure, the insurance companies remain primarily responsible as the direct insurers on all reinsured risk.

Pension plans

We have managed individual and corporate pension plans since 1981 through our wholly owned subsidiary Bradesco Vida e Previdência, which is now the leading pension plan manager in Brazil, as measured by pension plan contributions, investment portfolio and technical provisions, based on information published by Fenaprevi and SUSEP.

Bradesco Vida e Previdência offers and manages a range of individual and group pension plans. Our largest individual plans in terms of contributions are VGBL and PGBL and are exempted from withholding taxes on income generated by the fund portfolio.

As of December 31, 2009, Bradesco Vida e Previdência accounted for 32.1% of the supplementary pension plan market and the VGBL market in terms of contributions, according to Fenaprevi. Also according to this source, managed pension funds accounted for 34.0% of VGBL, 20.4% of PGBL and 33.6% of traditional pension plans in Brazil. As of December 31, 2009, Bradesco Vida e Previdência accounted for 36.3% of all supplementary pension plan assets under management, 36.5% of VGBL, 24.2% of PGBL and 51.3% of traditional private pension plan, according to Fenaprevi.

Brazilian law currently permits the existence of both "open" and "closed" private pension entities. "Open" private pension entities are those available to all individuals and legal entities who, by means of a regular contribution, wish to subscribe to a benefit plan. "Closed" private pension entities are those available to discreet groups of people such as employees of a specific company or a group of companies in the same sector, professionals in the same field, or members of a union. Private pension entities grant benefits upon periodic contributions from their members, their respective employers or both.

Our revenues from pension plan management and VGBL have risen by an average of 12.8% over the past five years, in large part due to increased sales of our products through our branch network.

We manage pension plans and VGBL covering more than 2 million participants, 68.8% of whom are members of individual plans, and the remainder of whom are individual members of corporate plans. Corporate plans account for approximately 26.7% of our technical reserves.

Under VGBL and PGBL plans, participants are allowed to make contributions either in installments or in lump sum payments. Participants in pension plans may deduct the amounts contributed to PGBL up to 12% of the participant's taxable income. Under applicable law, the redemption and the benefits realized are subject to a withholding tax. VGBL participants may not deduct their contributions from their income taxes. Should the benefits be redeemed and/or deposited, the taxation will be levied on these benefits, pursuant to current legislation.

Companies in Brazil can establish VGBL and/or PGBL plans for the benefit of their employees. In 2009, Bradesco Vida e Previdência managed R$35,131 million in VGBL and R$11,779 million in PGBL plans. Bradesco Vida e Previdência also managed R$19,194 million in supplementary pension plans.

In accordance with US GAAP, we consider VGBLs, PGBLs and FAPIs to be pension investment contracts. During the accumulation phase of the pension investment contracts, when the policyholders bear the investment risk, the contracts are treated as investment contracts. During the annuity phase, the contract is treated as an insurance contract with mortality risk. Funds related to pension investment contracts where the policyholders bear the investment risk are equal to the account value. Account values are not actuarially determined; they are increased as deposits are received and interest is credited (based on contractual provisions) and reduced by redemptions at the participant s option.

Bradesco Vida e Previdência also offers pension plans to its corporate customers, most of these plans are tailored to the needs of a specific corporate customer.

Bradesco Vida e Previdência earns revenues primarily from:

- pension plans contributions and PGBL, premiums of life insurance, personal accidents and VGBL; and

• revenues from management fees which are charged from the participants in accordance with mathematic provisions.

Certificated savings plans

Bradesco Capitalização offers its clients certificated savings plans with the option of making either one contribution or monthly payments. Each plan varies in accordance with value (from R$8.00 to R$20,000), form of payment, contribution term and periodicity of drawings of cash premiums of up to R$2 million. Clients are granted interest at a rate of TR plus 0.5% per month over the value of the mathematical provision. The certificated savings plans are redeemable by the holder at the end of a grace period of 12 months. As of December 31, 2009, we had around 5.3 million "traditional" certificated savings plans and around 11 million incentive certificated savings plans. Given that the purpose of the incentive certificated savings plans is to add value to the product of the partner company or even to provide an incentive for the non delinquency of its clients, the bonds have a reduced effectiveness term and grace period and a low unit value of commercialization. As of December 31, 2009, Bradesco Capitalização issued approximately 16.3 million certificated savings plans, which are held by around 2.5 million clients.

Quality management system

Bradesco Capitalização was the first certificated savings plans company in the country to receive the ISO 9001 certification. In 2009, it maintained its quality management system in the updated NBR ISO 9001:2008 certification with respect to our certificated savings plans management. This certification, granted by Fundação Vanzolini, attests to the quality of its internal processes, confirming the principle grounded in our certificated savings plans: good products and services and permanent evolution.

Rating

Standard & Poor's maintained Bradesco Capitalização's rating of "brAAA/Stable" and it is currently the only company in the certificated savings plans segment with such a rating. Bradesco Capitalização's results are mostly driven by the solid financial condition and equity protection standards that Bradesco Capitalização ensures to its clients.

Treasury activities

Our treasury departments enter into transactions, including derivative transactions, mainly for economic hedging purposes (known as the "macro hedge"). They enter into these transactions in accordance with limits set forth by our management, under guidelines established by our risk management area, utilizing a value at risk methodology (VaR). For more information about our risk methodology (VaR), see "Item 11. Quantitative and Qualitative Disclosures About Market Risks Risk and risk management" and "Item 11. Quantitative and Qualitative Disclosures About Market Risks Market risk.

Distribution channels

We have the largest private sector banking network in Brazil. In 2009, we opened 95 new branches. Our branch network is complemented by other distribution channels such as ATMs, telephone banking services, and Internet and mobile banking. In introducing new distribution systems, we have focused on enhancing our security as well as increasing efficiency.

In addition, in order to foster stronger ties with our corporate clients, in 2009, we established an additional 374 banking service posts on the premises of selected corporate clients, reaching a total of 4,112 banking service posts as of December 31, 2009. We offer the same products and services at these special posts as we offer in our branches.

We also offer banking services in 6,067 Brazilian post offices (Correios) and through our 20,200 banking correspondent offices. For further information about this distribution channel, see "Item 4.A. History, Development of the Company and Business Strategy Other Strategic Alliances Banco Postal."

Table of Contents

For information on our international branches as of December 31, 2009, see International banking services."

Specialized distribution of products and services

As part of our distribution system, we have five areas that offer a range of different products and services on an individualized basis to companies and individuals throughout all specified segments of our client base. By focusing on specified segments of our client base, we are able to provide different levels of attention according to the profile of each client and, as a result, improve our efficiency in services.

Bradesco Retail

Bradesco Retail provides banking services to the population at large, mainly assisting individuals with monthly incomes of up to R$6,000, and companies with annual revenues of up to R$30.0 million. As of December 31, 2009, we rendered services to more than 20 million clients carrying out millions of daily transactions at our 3,090 Retail Branches and over 4,471 other service locations and points. We reward our biggest clients in this segment by providing them with personalized services.

Bradesco Corporate

Bradesco Corporate was created in 1999 and targets companies which have annual revenues of more than R$350 million per year. We currently have 124 relationship managers offering a range of traditional as well as tailor made products to these customers.

Bradesco Corporate is ISO 9001:2008 certified for all its corporate structure, and provides customer service specialists for our corporate customers.

Bradesco Empresas Middle Market

Bradesco Empresas was implemented with the aim of attending to the needs of companies with revenues of R$30 million to R$350 million per year, through its 68 exclusive branches in major Brazilian capital cities and strategically distributed throughout Brazil, as follows: Southeast (41), South (16), Mid West (4), Northeast (5) and North (2).

Bradesco Empresas strives to offer excellent business management with respect to loans, financings, investments, foreign commerce, hedging operations, cash management and structured transactions, seeking both the satisfaction of its clients and good results for the organization.

The Bradesco Empresas team has 375 chief managers who take part in ANBIMA's Certification Program, as well as 145 assistant managers. Bradesco Empresas´ team assists an average of 37 economic groups representing 12,067 economic groups in various industries.

Bradesco Empresas manages assets in the amount of R$58.4 billion through loan operations, deposits, funds and charging.

The Bradesco Empresas department acquired NBR ISO 9001:2008 certification in *Gestão do Relacionamento com Clientes do Segmento Bradesco Empresas* (Client Relations Management Bradesco Empresas segment) granted by Fundação Carlos Alberto Vanzolini.

Bradesco Empresas received the *Prêmio Paulista de Qualidade em Gestão* (São Paulo Quality in Management Award) in 2008, in which the *Instituto Paulista de Excelência e Gestão* (IPGE) recognized the Bank's commitment to customer service quality and client satisfaction.

Bradesco Private Banking

Bradesco Private Banking was created in 2000 to manage our relationship with high net worth individuals, with over R$1 million in net financial assets for investments, which was raised to R$2 million as of July 2008. Bradesco Private Banking seeks the most appropriate financial solution for each client by providing a tailor made concept for each client focusing on asset allocation assessment, tax and estate planning. Bradesco Private Banking is certified by ISO 9001:2008 as well as by "GoodPriv@cy Data Protection Label" (2007 edition), granted by the International Quality Network. In January 2009, the Bank was recognized by the Euromoney Magazine as the best private banking in Brazil for the second consecutive year.

Bradesco Prime

Bradesco Prime was created in May 2003 and operates in the high income client segment and was created to provide services to individuals with either monthly incomes of at least R$6,000 or investments worth at least R$70,000. Its mission is to be the primary bank of such clients focusing on high quality client relationships, and on providing appropriate solutions to their needs with well prepared teams, adding value to shareholders and employees within our ethical and professional standards. Bradesco Prime's segment value is based on the following assumptions:

- personalized services provided by relationship managers who manage a small number of portfolios and are constantly working on their qualifications in order to provide high standards of financial advisory service;

- differentiated products and services, such as the "Bradesco Prime Loyalty Program," that offers increasing benefits to clients and promotes the relationship between clients and Bradesco through the offer of such benefits;

- exclusive branches specifically designed to provide comfort and privacy; and

- relationship channels such as: an exclusive internet banking portal, with online chat capabilities that enable financial advisors to interact with clients in real time; an exclusive call center; and a broad customer service network, consisting of branches, *Bradesco Dia&Noite* and *Banco24Horas* ATM machines located throughout Brazil.

Throughout its history, by investing in technology, in the improvement of the relationship with clients and in the qualification of its professionals, Bradesco Prime has achieved position of leadership in the Brazilian market of banking services to high income clients and has been consolidated as the largest banking service provider to these clients in terms of network, with 259 branches strategically positioned to provide service for more than 419,000 clients.

Since 2005, Bradesco Prime has been certified by Fundação Carlos Alberto Vanzolini with NBR ISO 9001:2008 in *Gestão do Segmento* (Segment Management). We were recertified in September 2008, strengthening our commitment to continuously improve and pursue our clients' satisfaction. All Bradesco Prime relationship managers are certified by ANBIMA.

Branch system

The principal distribution channel for our banking services is our branch network. In addition to offering retail banking services, our branches serve as a distribution network for all of the other products and services we offer to our customers, including our payment and collection management services, our private banking services, credit cards and our asset management products. We market our leasing services through channels operated by our branch network, as well as directly through our wholly owned subsidiaries Bradesco Leasing and Bradesco Financiamentos. Bradesco Corretora and Bradesco Consórcios also market brokerage, trading and consortium services through our branches. Bradesco Vida e Previdência sells its products through 8,460 independent agents nationwide, most of whom are based in our facilities. Compensation for these agents is commission based.

We sell our insurance products and pension plans through our website, through exclusive brokers based in our network of bank branches, and through non exclusive brokers throughout Brazil, all of whom are compensated on a commission basis. As of December 31, 2009, 24,004 brokers offered our insurance policies to the public. Our certificated savings plans are offered through our branches, the Internet, customer services, ATM machines and external distribution channels.

The table below sets forth the distribution of sales of the indicated products through our branches and outside our branches:

	2007	2008	2009
	(*% of total sales, per product*)		
Insurance products			
Sales through the branches	37.7%	35.5%	40.7%
Sales outside the branches	62.3	64.5	59.3
Pension plans products			
Sales through the branches	83.6	82.3	82.5
Sales outside the branches	16.4	17.7	17.5
Leasing products			
Sales through the branches	19.7	26.0	53.5
Sales outside the branches	80.3	74.0	46.5
Certificated savings plans			
Sales through the branches	92.3	93.2	92.3
Sales outside the branches	7.7%	6.8%	7.7%

Other distribution channels

Our clients have easy access to carry out queries, financial transactions and acquisition of products and services made available at self service channels, *Fone Fácil* (Easy Phone), Internet and *Bradesco Celular*.

Customer service network

As of December 31, 2009, Bradesco's customer service network had 30,657 ATMs located throughout Brazil and provides fast and practical access for a diverse range of products and services. Holders of cards in checking or savings accounts can also carry out withdrawals, issuance of statements, balances, loans and wire transfers between accounts at any one of 7,300 *Banco24Horas* ATMs.

Bradesco's customer service network and *Banco24horas* ATMs were used to carry out 2.1 billion transactions in 2009.

Physically challenged customers can count on Internet banking services for the blind, personalized service for the hearing impaired by digital language on *Fone Fácil*, and access for the blind and those in wheelchairs to the self service network.

Bradesco is a pioneer among banks in Brazil in using a biometric reading system. Our *Segurança Bradesco na Palma da Mão* system makes it possible to identify clients by reading a client's hand vascular pattern, which serves as a complementary password for ATM users. This technology is available in 11,071 machines and has been used 28 million times up to December 31, 2009.

Fone Fácil

"Fone Fácil Bradesco" provides telephone services seven days a week with convenience, agility and security. By means of an electronic and personalized service, the client obtains information, carries out transactions and acquires products and services related to the client's checking and savings accounts, credit cards and other products available on this channel.

The client has access to several telephone service centers with distinct phone numbers. The main centers are: Internet Banking, Net Empresa, Consortium, Private Pension Plan, Bradesco Financing and Alô Bradesco.

Hearing impaired clients have separate telephone services that use digital language technology and allow our hearing impaired clients to clarify their questions regarding products and services provided by Bradesco.

In 2009, 406.3 million calls were registered, generating 456.1 million transactions.

Internet

"Portal Bradesco" consists of a set of 68 sites of which 48 are institutional and 20 transactional that allow users to have access to various products and services from wherever they are located. Clients and companies can make secure transactions using the Bradesco Security Key system Electronic and Card. During 2009, 1.8 billion transactions were made.

"Bradesco Internet Banking" operates in the retail and prime segments, and makes available to its individual clients products and services that can be accessed at any time from any place in the world. Our Internet banking allows our clients to check their account balances and statements, pay bills, transfer funds and request document copies, among other services.

In addition, we offer our corporate customers in the retail, middle market and corporate segments the "Bradesco Net Empresa" service. In their banking transactions, customers use a digital certificate with an electronic signature and the Bradesco Safety Key. Accordingly, accredited companies optimize their businesses' financial management, and also have access to products and services such as transfers between checking and savings accounts, payments, charging and transferring files.

Bradesco also has exclusive sites for certain niches such as Bradesco Universitários, Bradesco Nikkei, Bradesco Poder Público and Cidadetran, an exclusive site for car document agents and driver's education schools.

Bradesco Celular

"Bradesco Celular" offers services including account balances, statements, scheduling and paying bills, recharging prepaid mobile phones, transfers, loans, price quotes and follow up on orders to purchase or sell shares, along with others, and also includes the "Bradesco Security Key" to confirm debit transactions.

In addition, Bradesco Celular offers *"Recarga Direta Bradesco"* (Bradesco Direct Recharge), a service that allows customers to recharge prepaid cell phones from the phone itself, even if the phone has no credit.

This channel was used to register 5.5 million transactions in 2009.

Bradesco Celular also offers Serviço de Mensagens Bradesco (the Bradesco messaging service), which allows registered customers to receive text information on their cell phones about banking transactions.

Mail services

In August 2001 we won a public bid organized by *Empresa Brasileira de Correios e Telégrafos* (the government owned postal company, or ECT) to offer banking services in post offices under a project in which their national offices shall be used to supplement the national financial system.

According to an agreement executed in September 2001, we have the right to offer banking services in more than 7,500 ECT units, both their own or franchises. The services offered include forwarding proposals to open accounts, credit operations, deposits and withdrawals, collection and payment orders. All decisions referring to credit and the opening of accounts are made by our employees.

In March 2002, we opened the first branch in the State of Minas Gerais. As of December 31, 2009 we had opened 6,067 correspondent offices in more than 5,000 municipalities. Of the 6,067 correspondent offices, around 1,800 were opened in areas that did not have prior access to banking services.

These clients are subject to our credit policy and limits.

Banking units in retail chains

We have also entered into partnerships with retail chains, supermarkets, drug stores, grocery stores, etc., to provide correspondent office banking services (mostly to pay bills, withdraw cash from checking and savings accounts, and receive pension payments). These offices are staffed with employees of our partner, but all credit decisions are made by our employees.

Risk management and compliance

In order to improve the corporate governance structure and keep it in line with the best market practices, in December 2009, the Risk Management and Compliance Department was split, creating two new units: the Integrated Risk Control Department and the Internal Controls and Compliance Department.

This decision was made in order to strengthen the independence of and put a greater focus on, corporate risk management activities (quantitative models), as well as on internal controls and compliance (qualitative models).

Integrated risk control

The Integrated Risk Control Department (DCIR) is responsible for the following activities:

Risk management

We consider risk management to be fundamental to all of our activities and use it as a means to add value to our business by providing support to commercial areas in the planning of their activities, maximizing the utilization of our own resources, as well as that of others, and benefiting stakeholders and society.

Risk management activity is highly relevant, due to the increasing complexity of services and products offered and the globalization of our business, which is why we are always improving our risk management related processes based on the best international practices, local regulation and the recommendations of the New Basel Capital Accord.

Within this context we have a corporate governance process and a management structure that make it possible for the risks inherent to our business to be effectively identified, measured, mitigated, monitored and reported in an integrated manner, with the involvement of upper management.

Credit risk management

Credit risk deals with the possibility of occurring losses associated with the borrower's or counterparty's failure to comply with its financial obligations as agreed, as well as with the depreciation of loan operations resulting from a deterioration in the borrower's risk, reduced gains or remunerations, advantages granted in renegotiations, recovery costs and other related amounts.

We work constantly to mitigate potential credit risks by monitoring loan activities, developing, enhancing and preparing inventories of credit risk models, monitoring credit concentration and identifying previously unknown credit risks.

In addition, we have focused our efforts on the utilization of advanced risk measuring models and on the continuous improvement of the processes. The benefits that we have achieved from these efforts are reflected in the quality and performance of our loan portfolio.

Credit risk is corporately controlled by means of a process that includes meetings called "Follow up on Credit Portfolio and Recovery." These meetings count on the participation, every month, of the board of executive officers and officers of the key managerial areas, and by the executive committee on credit risk management, which has the following functions:

- to evaluate and recommend risk measurement strategies, policies, norms and methodologies to the integrated risk management and capital allocation committee;
- to follow up on and assess the credit risk and the actions taken to mitigate risks;
- to follow up on and assess the alternatives to mitigate credit concentration risks;
- to follow up on the implementation of credit risk corporate management methodologies, models and tools;

- to assess the sufficiency of the allowance for loan losses for coverage of incurred losses on credit operations;

- to follow up on the credit market moves and development, analyzing the implications, risks and opportunities for the Organization; and

- to regularly report to the chief executive officer and to the integrated risk management and capital allocation committee its activities and make the recommendations it deems important.

The key activities of credit risk management, include:

- back testing and gauging of models used to assess credit portfolio risks;

- active participation in the process of improving client risk rating models;

- follow up on major risks, such as periodic monitoring of the major events of default;

- follow up on the provisioning against expected and unexpected losses;

- continuously revising our internal processes, including roles and responsibilities capacity building and information technology demands; and

- participation in risk assessment, during the creation or revision of products and services.

The whole process of managing credit risk involves creating action plans that are responsive to the best market practices and the requirements of the New Basel Capital Accord. Aiming to improve the management process, all ongoing actions are monitored so as to identify and solve new gaps or needs which might arise.

Our improvement processes and projects are in line with the requirements of the Basel II IRB Advanced approach.

Market risk management

Market risk is the possibility of loss from fluctuating market prices and rates caused by mismatched maturities, currencies and indexes of the organization's assets and liabilities portfolios We believe our market risk management policies follow both the best international practices and the New Basel Capital Accord, allowing us to make strategic decisions with agility and confidence.

Risk limit proposals are validated by specific business committees and submitted for approval by the Integrated Risk Management and Capital Allocation Committee, pursuant to the limits established by the Board of Directors considering the operation's characteristics. Such limits are classified as follows:

- trading portfolio: comprised of all operations involving financial instruments and goods (including derivatives) held to be traded or allocated to hedge others in the trading portfolio, and which are not limited to its availability to be traded. Operations held to be traded are those destined to resell, to obtain benefits from actual or expected price variations or to arbitration; and

- banking portfolio: comprised of the operations not classified in the trading portfolio. They consist of structural operations arising from our several business lines and their respective hedges.

Compliance with these limits is monitored daily by the market risk group. In addition, management reports to control the positions are made available for management and Senior Management.

Market risk measurement and control is done by "VaR", "EVE", stress test and sensitivity analysis methodologies, as well as the management of results and financial exposure limits.

In order to determine the trading portfolio risk, we use the "Parametric VaR" methodology for one day, which has a reliability level of 99%. Volatilities and correlations are calculated from statistical methods, with recent returns given more importance. The measurement of interest rate risk is made based on the "EVE" methodology, which determines the economic impact on positions according to scenarios prepared by our economic area, which seeks to determine positive and negative movements that may occur in interest rate curves on our investments and funding. The models used are confirmed through back-testing.

For more information on how we evaluate and monitor the market risk, see "Item 11. Quantitative and Qualitative Disclosures about Market Risk."

Operational risk management

Operational risk is the possibility of loss resulting from internal processes, human error, inadequate or faulty systems and external events that may or may not result in the partial or total interruption of basic activities. This definition includes legal risk, but does not consider strategic and image risks.

Operational risk control

Operational risk management is based on elaborating and implementing methodologies, criteria and tools that standardize the way historical data on losses is gathered and handled, and it is aligned with Central Bank regulations, BIS (Bank for International Settlements) recommendations, and the best market practices.

Operational risk management is supported by a corporate system, called ROCI, and has the advantage and capacity of keeping and integrating in a single data base operational risk (quantitative standards) and internal controls (qualitative standards) information, and meeting the requirements established in Section 404 of US Sarbanes Oxley Act.

The ROCI system will be added to our operational risk management process, as it enables us to calculate capital allocation related to standardized methodologies and primarily improves the activities of capture, classification and monitoring as well as strengthening the loss analysis, measurement and mitigation processes carried out by the Operational Risk area. It also meets the requirements in Resolutions 2,554/98, 3,380/06 and 3,490/07 of the CMN for the implementation of internal controls systems, operational risk management structures and Required Reference Shareholders' Equity (PRE), respectively; and with Circular Letters 3,078/03, 3,383/08 and 3476/09 of the Central Bank governing the internal controls system in consortium management companies and the calculation of capital allocation installment for operational risk, respectively, as well as the recommendations included in the New Basel Capital Accord.

Operational risk management, carried out in a centralized and standardized manner within the facilities, encompasses all of the Organization's activities, including those of Grupo Bradesco de Seguros e Previdência. This strategy has made it possible to obtain synergies through an equitable distribution of resources, with the compliance with the "Basel II" and "Solvency II" concepts, together with the Organization's policies, which follow Resolution 3,380 of the CMN and Circular Letter no. 3,383 of the Central Bank, with respect to consolidated financial statements.

Standardized approach to operational Risk

In April 2008, the Central Bank published Circular 3,383 and Circular Letters 3,315 and 3,316 describing the procedures to calculate the portion of PRE related to POPR. For purposes of operational risk management and the respective capital allocation, the concepts required by the Central Bank include the following approaches:

- Basic Indicator (BIA Basic Indicator Approach);
- Standardized Alternative; and

- Simplified Standardized Alternative.

Methodology adopted by the organization

Pursuant to Circular Letter 3,383/08 of the Central Bank, the Organization adopted the Standardized Alternative Methodology for calculation of PRE installments related to POPR.

The standardized alternative methodology, as well as the business lines and the process documentation that support this approach, provide greater knowledge of our products and services and convergence of concepts adopted by other risks (credit and market). These processes and methods were validated by the Operational Risk Management Executive Committee in May 2008 and approved by the Board of Directors and reported to the Central Bank in the same month, in accordance with Notice 16,913.

Furthermore, as of June 2010, capital allocation shall begin to include the Consolidated Financial Statement as stated in Circular Letter no. 3,476/09, to which we are prepared to consider in this installment.

Advanced operational risk approach

Based on the recommendations of the New Basel Capital Accord, the rules promulgated by Resolution 3,380 of the CMN and the loss information stored in our database, we are engaged in building proprietary models for capital allocation management and calculation using the AMA Advanced Measurement Approach.

In 3Q08, we concluded the process of associating with the operating loss database global consortium, known as the Operational Risk Data Exchange Association, or ORX. The Organization was approved as a member. In 1Q09, we sent the information containing the cost cutting line starting at 20,000. The information made available by the ORX will help our scenario analysis calculations and comparisons of the Organization's positioning an operational risk against large global players in relation to operational risk events.

PCN Business Continuity Plan

The structuring and maintenance of a Business Continuity Plan (PCN) aims at mitigating the possibility of business interruption by protecting the business process, primarily those dedicated to client relationships and services.

GCN Business continuity management

The business continuity management process is dealt with on a corporate basis and encompasses the Organization's essential activities. The responsibilities and duties are defined and divided into three levels: strategic, tactical and operational. The Board of Executive Officers operates at the strategic level, represented by the Operational Risk Management Executive Committee, which created the PCN management area, acts at the tactical level; and the Organization's departments and related companies act at the operational level.

On the corporate level, the Organization has divided business continuity into two aspects. First, contingency, a temporary solution to maintain the critical processes of a business area when the systems supporting such areas fail or are inaccessible. Second, continuity, the preventive development and respective maintenance of a set of strategies and action plans aimed at ensuring that the essential services are duly identified and preserved after a disaster occurs and until the normal operations are restored, mitigating or preventing losses both for the Organization and its clients.

Management model and business continuity control

Business continuity management is based on the preparation of the respective plans for several of the Organization's essential activities using methodologies and tools that unify the collection and handling of data as well as the documentation of PCN processes.

Methodology

The methodological approach applied to the development of the internal work is supported by rules and recommendations extracted from major national and international institutes, namely:

- NBR 15999 1 Brazilian Rule on Business Continuity Management;
- BCI The Business Continuity Institute GRB; and
- DRII Disaster Recovery Institute International USA.

63

Integrated risk management

Integrated risk management aims to have better understanding, control and dimension of risks inherent to the Organization's business on a consolidated basis, as well as to ascertain the capital necessary to support the activities striving to maximize shareholders' return and contributing to society.

In order to assist the main areas in the process and efficacy of integrated risk management, there is an area exclusively focused on risk management at DCIR, called Integrated Risk Superintendence.

The main duties of this Superintendence are to:

- advise the Integrated Risk Management and Capital Allocation Committee;
- determine the economic and regulatory capital in view of risks;
- follow up on risk exposure limits;
- contribute in the definition of scope and relevance of various risks;
- determine the concentrations and correlations among risks;
- contribute in the standardization of information, methodologies and indicators;
- carry out simulations to optimize results in view of risks; and
- monitor changes of risk profiles in light of new processes, activities or products and services.

Management of internal controls and compliance

The Internal Controls and Compliance Department, which reports to an Executive Officer, and such officer to the CEO, brings together the areas and respective activities described below:

Internal control area

Based on a policy defined and approved by the Board of Directors, we keep all components of the internal controls system up to date, so as to mitigate potential losses generated by our risk exposure and to strengthen our existing corporate governance policies. We have also adopted additional methodologies and criteria for identification, classification, evaluation and monitoring risks and their controls.

The area is responsible for the preparation and disclosure of technical instructions, criteria and procedures related to internal controls and compliance with all Compliance Agents in our departments and related companies.

Compliance agents are responsible for executing activities for identification, classification, assessment and monitoring of risks and controls as well as performing adherence tests and preparing action plans, according to models defined by the internal controls and compliance area.

The reports with diagnoses on the effectiveness of the internal controls system are regularly submitted to the evaluation of the Audit and Internal Controls and Compliance Committees at meetings. On a half year basis, the Committees issue an opinion on the effectiveness of the internal controls system maintained by the Organization and submit it to the Board of Directors' approval, at a specific meeting on the matter.

Our dedicated staff and our investments in technology, training and recycling courses for our personnel have allowed us to create internal controls and compliance management that are effective and consistent with international standards in order to comply with foreign and Brazilian legal requirements.

We exercise all encompassing management of our main risks based on a methodology that gathers its eight major activities arranged in a logical sequence of execution which, when concluded, enables it to assert that its internal controls system is effective. For operational processes, such methodology is in line with the ERM Enterprise Risk Management structure of COSO Committee of Sponsoring Organizations, of COBIT Control Objectives for Information and Related Technology for the information technology environments and the requirements of ELC 9 Entity Level Controls), established by PCAOB *Public Company Accounting Oversight Board* for aspects focused on Corporate Governance. All are compliant with the regulations of the Central Bank and to the principles recommended by the Basel Committee and Section 404 Sarbanes-Oxley.

The Methodology of Risk and Control Management encompasses the following activities:

- **Activity 1 Formalize the Process** document the flow of operational processes related to products, services and activities;

- **Activity 2 Identify Risk Events** identify the potential risk events, generated either by external or internal activities, or both;

- **Activity 3 Assess Risks/Answer on Risks/Assess Controls** classify and measure exposure to inherent risks, establish the respective type of answer (Accept, Avoid, Mitigate or Transfer the risk), identify the existence and adequacy of the layout and effectiveness of associated control;

- **Activity 4 Act on Risks (Execute)** identify gaps, prepare and follow up on the implementation of action plans to correct anomalies or improve existing controls;

- **Activity 5 Monitor** monitor the process layout and the behavior of its risks and controls, in view of associated losses;

- **Activity 6 Perform Adherence Tests** ensure, by means of formal execution of adherence tests, that the control definition is adequate and that the activity of controlling has been exercised effectively;

- **Activity 7 Apply Corporate Self Evaluation** apply questionnaires to the Organization's employees to evaluate levels of knowledge, understanding and compliance with issues involving integrity, ethical and moral values, policies and rules inherent to risk and internal control management; and

- **Activity 8 Report** report evaluation results and risk and control behaviors to the appropriate levels of management.

It is also the responsibility of the Internal Controls Area to coordinate and/or participate in the development of actions for strengthening the employees' ethical culture according to guidelines given by Bradesco organization's Ethical Conduct Committee.

Anti money laundering and terrorist financing division

- we maintain specific policies, processes and systems so as to prevent, detect and combat the utilization of our structure, products and services for money laundering and terrorist financing purposes. We train our employees in various ways, such as brochures, e learning and classroom courses. A permanent multi departmental committee evaluates the pertinence of reporting suspicious transactions to regulatory agencies;

- strategic guidelines and follow up on the effective adherence to the program for the prevention and combating of these types of illicit acts are under the responsibility of the "executive committee on prevention and combating of money laundering and terrorist financing," which meets at least on a quarterly basis to assess the status of the works and the need to adopt new measures so as to align this program with the best international practices and to the rules of regulatory agencies; and

- we have instituted measures to prevent and combat money laundering in conformity with best corporate governance practices and which are based on the policies "know your client" and "know your employee." Training and awareness programs are provided to all employees. We are also constantly improving the technology with which to monitor financial movement in order to help identify transactions which could be, directly or indirectly, related to crimes preceding money laundering, defined in Law no. 9,613/98.

Area of independent validation of models

Using internal models to provide support in making business decisions is an increasingly frequent practice. Whether they are created based on statistical data or based on specialists' knowledge, these models make it easier to structure critical issues, create and improve processes and standardize and streamline decisions in the context in which they are inserted, in addition to being an important means of retaining knowledge.

On the other hand, internal models also bring an inherent risk when they are inadequately designed, developed, implemented, used, maintained, or updated.

Therefore, along with the activities of development, follow up, and improvement of the models, market practices propose to complement them by creating a process called Independent Validation that critically analyzes the internal models and revises the systems of measuring, monitoring, and the applicability and technological surrounding of the internal models on a timely basis and independently from the application context.

We created an internal area named Independent Validation of Models in order to support and respond for this process. The purpose of this new area is to assess how much Internal Models are lined up with their objectives and it has the following main responsibilities:

- manage the inventory of models;
- define the methodology for carrying out independent validation considering the model and market practices;
- define and demand the information needed for carrying out the independent validation and the proof program;
- carry out activities of predefined validation independently from the developer and user;
- present to the model manager a report on the independent validation and recommend actions to improve the models; and
- make the reports and materials used in the model's independent validation process available for internal auditing.

Corporate security

The Corporate Security Department was created in September 2009 in order to strengthen actions to prevent fraud and safeguard Information Security and the systems that support the business while reporting to the general manager. Its main purpose is to operate strategically and corporately in the security of the self service network channels, information and systems, proposing improvements that prevent incidents or vulnerabilities for us, becoming key to the issuance of technical reports on strategic security aspects, and to our implementation of products, services or processes.

Below are some of the main "Corporate Security Global Vision" items:

- information security management, based on the corporate policy on information security and on a set of rules and controls, aims at protecting client information, consubstantiating in the document entitled "Privacy Guidelines," and our information assets, addressing the aspects of secrecy, integrity and information availability. These activities are complemented by awareness and training actions, targeted at all of the Organization's employees;

- prevention of fraud in the electronic channels, involving the analysis of security incidents, vulnerabilities and attack trends, identifying and proposing opportunities to improve products and services in order to prevent and protect both the client's and the Organization's information; and

- orientation for IT security management at the organizational strategic level in order to protect the access to systemic resources as well as work alongside the business and technology units in order to identify acceptable risk levels, establishing processes for helping protect the information.

Credit policy

Our credit policy is focused on:

- ensuring the safety, quality, liquidity and diversification levels in the allocation of assets;

- searching for flexibility and profitability in our business; and

- minimizing the risks inherent to credit operations.

Our credit policy defines the criteria we use for setting operational limits and extending credit. Credit limits are set by the Executive Credit Committee, which is comprised of our vice presidents, the managing directors responsible for our operational area and our credit director. The Executive Credit Committee updates our credit limits in accordance with changes in our internal policy and the Brazilian market in general. Our Executive Directors also approve the assessment systems that our branches and departments use for each type of loan in assessing credit applications.

Our businesses are diversified, non selective and focused on individuals and companies that demonstrate ability to pay and credit worthiness, and care is taken to ensure that the underlying guarantees are sufficient to support the obligations considering the reasons and terms of the credit granted, besides risk classification the loan would receive, under our classification of risk system. In Brazil, the risk rating system is divided into nine categories ranging from "excellent" to "uncollectible," based on financial and economic considerations such as the credit profile and payment capacity of the borrower. See "Item 4.B. Business Overview Regulation and Supervision Bank regulations Treatment of credit operations."

We have several approval levels for loan requests for individuals as well as for corporate entities. These approval levels range from the individual branch general managers to our Executive Credit Committee. Our branches have defined limitations on their authority to grant credit based on the size of the branch and guarantee offered at the time of the transaction. However, they have no authorization to approve an application for credit from any borrower who:

- is rated less than "acceptable" under our internal credit risk classification system;

- does not have an updated record;

- whose personal data reveals any material credit restrictions; or

- who is in default on any of his or her existing credit obligations.

We have credit limits for each type of loan. We pre approve credit limits for our individual and corporate clients and presently extend credits to the public sector only under very limited circumstances. In all cases, funds are only granted once the appropriate body has approved the credit line.

We review the credit limits of our large corporate clients every 180 days. Credits extended to other customers, including individuals, small and midsized corporations, are reviewed every 90 days.

If a loan payment is in default, the manager of the branch or department that authorized the credit is responsible for taking the initial steps to determine if the default can be remedied. If the loan remains in default after exhaustion of extra-judicial collection strategies, the manager of the branch or department refers the case to the Credit Collection Department.

Consumer credit operations

For individual customers, depending on the proposed credit support and the size of the relevant branch, loans of up to R$50,000 are approved at the branch level. If the credit support offered is not within the limits established for approval at the branch level, the approval of the loan is submitted to the Credit Department and, if necessary, higher levels of authority. The following table sets out the limits within which branch managers may approve individual loans, depending on the amount and the type of credit support offered.

	Total Risk Amount	
	Loan with no real guarantee	**Loan with real guarantee**
	(*R$ in thousand*)	
Decision making authority:		
Manager of very small branch[1]	R$ 0 to 5	R$ 0 to 10
Manager of small branch[2]	0 to 10	0 to 20
Manager of average branch[3]	0 to 15	0 to 30
Manager of large branch[4]	R$ 0 to 20	R$ 0 to 50

(1) Branch with total deposits equal to or below R$1,999,999.

(2) Branch with total deposits equal to or between R$2,000,000 and R$5,999,999.

(3) Branch with total deposits equal to or between R$6,000,000 and R$14,999,999.

(4) Branch with total deposits equal to or above R$15,000,000.

We use a specialized credit scoring evaluation system to analyze these loans, allowing us to build a level of flexibility and accountability, besides standardizing the procedures in the process of analyzing and deferring loans.

We provide our branches with tools that allow them to analyze credits for individual clients in a rapid, efficient and standardized manner and to produce the corresponding loan contracts automatically. With these tools, our branches can respond quickly to clients, keep costs low and control the risks inherent to consumer credit in the Brazilian market.

The following table sets out the range within which each decision making authority approves loans to individuals above R$50,000, irrespective of the type of credit support offered:

	Total Risk Amount	
	Minimum	**Maximum**
	(*R$ in thousand*)	
Decision making authority:		
Credit department	R$ 51	R$ 8,000
Credit director	8,001	10,000

Executive credit committee (Daily Meeting)	10,001	R$ 35,000
Executive credit committee (Plenary Meeting)	Over R$ 35,000	

Corporate credit operations

For corporate customers, depending on the proposed credit support and the size of the relevant branch, loans of up to R$400,000 are approved at the branch level. If the credit support offered is not within the limits established for approval at the branch level, the approval of the loan is submitted to the Credit Department and, if necessary, higher levels of authority. The following table sets out the limits within which branch managers may approve commercial loans, depending on the amount and the type of credit support offered:

	Total Risk Amount	
	Loans with no real guarantees	Loan with real guarantees
	(*R$ in thousand*)	
Decision making authority:		
Manager of very small branch(1)	R$ 0 to 10	R$ 0 to 60
Manager of small branch(2)	0 to 20	0 to 120
Manager of average branch(3)	0 to 30	0 to 240
Manager of large branch(4)	0 to 50	0 to 400
Manager of Bradesco Company branch(5)	R$ 0 to 100	R$ 0 to 400

(1) Branch with total deposits equal to or below R$1,999,999.

(2) Branch with total deposits equal to or between R$2,000,000 and R$5,999,999.

(3) Branch with total deposits equal to or between R$6,000,000 and R$14,999,999.

(4) Branch with total deposits equal to or above R$15,000,000.

(5) Branch with exclusive middle market companies.

The following table sets out the range within which each of our decision making authorities approves loans for corporate customers above R$400,000, irrespective of the type of security offered:

	Total Risk Amount	
	Minimum	Maximum
	(*R$ in thousand*)	
Decision making authority:		
Credit department	R$ 401	R$ 8,000
Credit director	8,001	10,000
Executive credit committee (Daily Meeting)	10,001	35,000
Executive credit committee (Plenary Meeting)	Over R$ 35,000	

With the purpose of meeting the clients' needs in the shortest possible term and with greater security, the credit department breaks down its analyses, using different methodologies and instruments for credit analysis in each segment, paying special attention to:

- in the "Retail", "Prime" and "Private Individuals" segments, we consider the individual's reputation and credit worthiness, the professional category/activity, the monthly income, the assets (personal and real property, eventual burdens and stakes in companies), the bank indebtedness and the history of their relationship with the

Bradesco organization, paying attention, in the loan operations, to terms and current fees and to the guarantees involved;

- in the "Corporate Retail Segment," in addition to the points above, we take into account whether the company's activities get mixed with its owners, and, if so, we also consider the period of activity and the monthly revenues; and

- In the "Empresas" and "Corporate" segments, the management ability, the company/group's positioning in the market, the size, the economic financial evolution, the cash generating ability, and the business perspectives, our analysis always encompassing the proponent, its parent company/subsidiaries, and the industry in which it is inserted.

Deposit taking activities

Our principal source of funding is deposits from Brazilian individuals and businesses. As of December 31, 2009, our total deposits were R$171.1 billion, representing 38.0% of our total liabilities.

We provide the following types of deposit and registration accounts:

- checking accounts;

- deposit accounts for investments;

- savings accounts;

- time deposits;
- deposits from financial institutions;
- savings integrated to the investments account; and
- accounts for salary record.

The following table sets forth our total deposits, by type and source, as of the dates indicated:

	As of December 31, 2007	2008	2009	% of total deposits 2009
	(*R$ in millions, except %*)			
From customers:				
Demand deposits	R$ 29,423	R$ 28,612	R$ 35,664	20.8%
Savings deposits	32,813	37,768	44,162	25.8
Time deposits	35,733	97,423	90,537	52.9
From financial institutions	372	698	752	0.5
Total	**R$ 98,341**	**R$ 164,501**	**R$ 171,115**	**100.0%**

According to regulations of the monetary authority, we must place a percentage of the demand deposits, savings deposits and time deposits we receive from our clients and deposits from leasing companies with the Central Bank as compulsory deposits, as follows:

- Demand Deposits and deposit accounts for investments: We are required to deposit 42% of the average daily balance of our demand deposits and deposit accounts for investment in excess of R$44.0 million with the Central Bank on a non interest bearing basis;

- Savings deposits: Each week we are required to deposit in an account with the Brazilian Central Bank an amount in cash equivalent to 20% of the total average balance of our savings account deposits during the prior week. The account bears interest annually at TR plus interest rate of 6.2%; and

- Time funds: We deposited in the Central Bank 15% of the average balance of our time deposits and CDIs from leasing companies out of the R$30 million installment (percentage applicable as of April 9, 2010, after changes in reserve requirement rules published in February 2010. Up to that moment, the percentage was 13.5%). The liability determined shall be collected in cash.

In addition, we are required to deposit each week in an account with the Brazilian Central Bank an additional amount corresponding to (a) 8% on the average time deposits balance and 8% of the average balance of demand account deposits (percentages applicable as of March 22, 2010, after changes in reserve requirement rules published in February 2010) during the prior week plus (b) 10% of the average balance of our saving account deposits during the prior week. This additional amount is settled in cash, and the SELIC rate applies to any excess deposits. Central

Bank regulations prohibit any deductions from the Bank's adjusted shareholders equity value for purposes of determining compulsory deposit requirements.

Present Central Bank regulations require that we:

- allocate a minimum of 30.0% of cash deposits to providing rural credit (if we do not do so, we must deposit the unused amount in a non interest bearing account with the Central Bank);

- allocate 2.0% of checking deposits received to micro credit transactions; and

- allocate a minimum of 65.0% of the total amount of deposits in savings accounts to finance residential real estate or housing construction. Amounts that can be used to satisfy this requirement include direct residential real estate financings, mortgage notes, charged off residential real estate or housing construction loans and certain other financings, all as specified in guidance issued by the Central Bank.

Savings deposits in Brazil typically only pay interest on a floating basis of TR plus 6.2% per year, after funds have been left on deposit for at least one calendar month by individuals and non profit entities, and 90 days by profit corporations. Earnings in individual savings accounts are free from income tax.

CDBs pay either a fixed or a floating rate, which is typically a percentage of the interbank interest rate. The breakdown between CDBs at pre fixed rates and floating rates varies from time to time, depending on the market's interest rate expectations.

Demand deposits, investment deposits, savings accounts deposits, term deposits with or without issue of certificate, mortgage notes, bills of exchange, housing bonds, mortgage notes and deposits kept in accounts not movable through checks, aimed at recording and controlling the flow of resources referring to the rendering of salary payment and other compensations, pension and other similar services are guaranteed, by the Credit Guarantee Fund, known as "FGC," up to R$60,000 per client or deposits account, in the event of a bank's liquidation.

We issue CDIs to other financial institutions. Trading in CDIs is restricted to the interbank market. CDIs have a pre or post fixed rate for one day or longer terms.

Other funding sources

Our other funding sources include capital markets operations, import/export operations and onlending.

The following table sets forth the source and amount of our other funding sources as of the dates indicated:

	As of December 31,		
	2007	**2008**	**2009**
	(*R$ in millions*)		
Funding Sources:			
Import/export financing	R$ 6,073	R$ 10,958	R$ 4,761
Internal funds onlending	14,087	19,095	20,908
Leasing obligations	874	1,042	988
Capital markets:			
Federal funds purchased and securities sold under agreements to repurchase	69,015	74,730	108,357
Euronotes	810	217	237
Mortgage backed securities	867	771	899
Subordinated debt	15,850	19,249	22,795
Debentures (non convertible)	2,595	1,220	740
Securitization of credit card receivables	2,497	5,305	4,220
Commercial paper	1,915	2,890	3,214
Foreign currency loans	1,335	356	30
Others	1	1	1
Total	**R$ 115,919**	**R$ 135,834**	**R$ 167,150**

Our capital markets operations act as a source of funding for us through our transactions with financial institutions, mutual funds, fixed and variable income investment funds and foreign investment funds.

As of December 31, 2009, 2008 and 2007, federal funds purchased and securities sold under agreements to repurchase represented 64.8%, 55.0% and 59.5% of our funding sources, respectively. These amounts include securities pledged under repurchase agreements mainly comprising Brazilian government securities and corporate debt securities. This type of operation is usually a short-term operation and has volatility in terms of volume since they are directly impacted by market liquidity.

In order to provide our customers with loans through onlending, including the extension of credit lines for import and export financing, we maintain credit relationships with various United States, European, Asian and Latin American financial institutions.

We conduct onlending operations where we act as the transfer agent for development agency funds, granting credits to third parties, which are in turn funded by development organizations. BNDES, the IBRD (International Bank of Reconstruction and Development) and the IDB (Interamerican Development Bank) are the principal providers of these funds. The lending criteria, the decision to lend and the credit risk are our responsibility and subject to certain limitations set by the bodies supplying the funds.

Processing systems

The organization's data processing and communication systems are located in Cidade de Deus in a building called Information Technology Center (CTI). This 9,575 square meter facility was built especially to shelter our Information Technology (IT) infrastructure, and has all the requirements for class 4 certification from Uptime Institute, which ensures its availability 99.995% of the time.

Data is continuously replicated in a Processing Center located at Alphaville, in the city of Barueri, featuring equipment with enough capacity to take over the main system's activities in case of a problem at CTI. All the branches and ATMs have telecommunications services that work with either of the two processing centers.

Alphaville's IT infrastructure also shelters all the activities focused on the development of application systems.

Should the public energy supply be interrupted, both centers have sufficient energy capacity to operate independently for seventy two hours.

The IT structure is backed by processes implemented in light of the ITIL (IT Infrastructure Library and applies renowned practices in IT services management.

Seasonality

We believe that seasonality does not materially affect our business.

Competition

We face significant competition in all of our principal areas of operation, as the Brazilian market for financial and banking services is highly competitive and has gone through an intensive consolidation process in the past years.

In 2009, Banco do Brasil concluded the acquisition of the share control of Banco Nossa Caixa S.A., which was held by the São Paulo State government, and the establishment of a strategic partnership by means of which it became the holder of 49.9% in the voting capital and 50.0% in the total capital stock of Banco Votorantim, becoming, once again, the largest Brazilian bank in terms of total assets.

In 2008, there were two large mergers and acquisitions in the Brazilian market:

- Banco Santander's acquisition of the ABN AMRO Real Conglomerate's Brazilian operations, making Santander the fourth largest bank in Brazil; and

- The merger of *Banco Itaú* and *Unibanco*, resulting in the second largest Brazilian bank in terms of assets.

As of December 31, 2009, Public Financial Institutions held 42% of the national financial system's assets, followed by the national private financial institutions (including the Financial Conglomerates) with a 40% share by foreign financial institutions, with an 18% share.

Public sector financial institutions perform an important role in the banking sector in Brazil. Essentially, they operate within the same legal and regulatory framework applied to private sector financial institutions, except that certain banking transactions involving public entities must be exclusively made through public sector financial institutions (including, but not limited to, receiving deposits made by the federal government or judicial deposits).

As of December 31, 2009, there were 137 financial conglomerates comprised of multiple service and commercial banks (including *Caixa Econômica Federal*), providing a full range of commercial banking activities, such as consumer finance, investment banking, brokerage services, leasing, savings and loans and other financial services in Brazil. For further information of the risks related to competition, see "Item 3.D. Risk Factors Risks Relating to Bradesco and the Brazilian banking industry An increasingly competitive environment in the banking and insurance segments in Brazil could negatively affect the prospects of our business."

Credit cards

The Brazilian credit card market is highly competitive, with approximately 136 million credit cards issued as of December 31, 2009, according to ABECS. Our primary competitors are Banco do Brasil, Banco Itaú, Unibanco, Citibank and Santander. Management believes that the primary competitive factors in this area are interest rates, annual fees, card distribution network and the relative benefits the cards offer.

Other competition for credit cards exists in the form of post dated checks, a popular means of term payment in Brazil in which customers pay for merchandise and services with future dated bank checks, effectively allowing payment in installments over a longer term. Because of their convenience and growing acceptance, we believe that credit cards will gradually replace post dated checks.

Leasing

In general, the Brazilian leasing market is dominated by companies affiliated with vehicle and equipment producers and large banks. We currently enjoy certain competitive advantages, as we have the largest service network among our private sector competitors.

Asset management

Brazilian investment funds closed 2009 with R$1.366 trillion in assets, a 22.2% nominal growth as compared to 2008. The variation was mainly due to:

- share price recovery in view of the appreciation of the Bovespa index by 82.6%, which contributed to a 46% growth in equity funds;
- substantial net funding of R$35 billion observed in multimarket funds;
- year round growth in funding for open pension plans, which closed 2009 at positive R$23 billion; and
- consolidation of the structures investment funds market, such as FIDCS (Receivables), private equity and real estate funds.

The investment fund segment saw a year of recovery both in terms of return as well as in terms of funding. Deposits, however, were more significant in the segments of institutional and private clients and less in the retail segment due to good earnings offered by savings accounts. Our main competitors are Banco do Brasil, Banco Itaú/Unibanco, Caixa Econômica Federal and Santander.

Insurance, pension plans and certificated savings plans

Insurance sector

Grupo Bradesco de Seguros e Previdência, the leading insurance company in the Brazilian market with a 24.4% market share, faces increased competition from a number of Brazilian and multinational corporations in all of its insurance operations.

As of December 31, 2009, our primary competitors were Cia. de Seguros Aliança do Brasil, Itaú Unibanco Seguros S.A., Sul América Cia. Nacional Seguros, Porto Seguros Cia. de Seguros Gerais, Santander Seguros, Caixa Seguros and HSBC Seguros, which represent in total approximately 57.0% of the total premiums generated in the market, according to information from SUSEP. Although national companies underwrite the majority of insurance business, we also face competition from local and regional companies primarily in the health insurance segment, where they are able to operate at a lower cost, or specialize in providing coverage to particular risk groups.

Competition in the Brazilian insurance industry has changed dramatically in the past few years as foreign companies have begun to form joint ventures with Brazilian insurance companies that have expertise in the Brazilian market. For example, in 2002, the Dutch Group ING acquired an interest in one of the companies of the Sul América Group. Hartford operates in Brazil through a joint venture with the Icatu Group. AXA, Allianz, ACE, Generalli, Tokio Marine and other international insurers offer insurance products in Brazil through their own local facilities.

We believe that the principal competitive factors in this area are price, financial stability, name recognition and service. At the branch level, we believe that competition is primarily based on the level of service, including claims handling, the level of automation and the development of long term relationships with individual clients. We believe that our ability to distribute insurance products through our branch network gives us a competitive advantage over most other insurance companies. Because most of our insurance products are offered through our retail bank branches, we benefit from certain cost savings and marketing synergies compared with our competitors. This cost advantage could become less significant over time, however, as other large private banks begin using their own branch networks to offer insurance products through dedicated agents.

Pension plan sector

The monetary stability process that accompanied the implementation of the *Real* Plan stimulated the pension plan sector, attracting to the Brazilian market new international players, such as Principal, which created Brasilprev in association with Banco do Brasil; Hartford, through a joint venture with the Icatu Group; ING, through a partnership with Sul América; MetLife; Nationwide and others.

In addition to monetary stability, favorable tax treatment and the prospect of fundamental reform of Brazil's social security system contributed to the increase in competition.

Bradesco Vida e Previdência is currently the leader of the pension plan market, accounting for 36.3% of total assets under management in the sector, according to Fenaprevi.

We believe that the Bradesco brand name, together with our extensive branch network, strategy, pioneer work and product innovation, are our competitive advantages.

Certificated savings plans sector

The certificated savings plans market has been competitive since 1994, when exchange rates became more stable and inflation was reduced. As of December 31, 2009, Bradesco Capitalização was second in the industry ranking with 19.7% of the market on certificated savings plans and 20.2% in technical provisions, according to SUSEP.

Our primary competitors in the certificated savings plans sector are Brasilcap Capitalização S.A., Itaú Unibanco Capitalização S.A., Caixa Capitalização S.A, Santander Capitalização, Icatu Hartford Capitalização S.A., Sul America Capitalização and HSBC Capitalização S.A. Offering low cost products with a high number of drawings for prizes, financial stability and safety and brand recognition are the principal competitive factors in this industry.

REGULATION AND SUPERVISION

The basic institutional framework of the Brazilian Financial System was established in 1964 by Law No. 4,595, known as the "Banking Reform Law." The Banking Reform Law deals with the Policy and Monetary, Banking and Credit Institutions, and created the Central Bank and the Brazilian Monetary Council (CMN).

Principal financial institutions

As of December 31, 2009, 13 financial conglomerates operated in Brazil. They were composed of public sector commercial and multiple service banks controlled by federal and state governments, (including Caixa Econômica Federal) and 124 financial conglomerates composed of commercial and multiple service banks owned by the private sector. For purposes of Brazilian regulations, insurance companies, private pension plans and certificated savings plans providers are not considered financial institutions.

Public sector financial institutions

The Brazilian federal and state governments control various commercial banks and financial institutions. The primary purpose of these institutions is to foster economic development. Government owned banking institutions play an important role in the Brazilian banking industry. These institutions hold a significant portion of the banking system's total deposits and total assets and are the major lenders of government funds to industry and agriculture. In the last ten years several public sector multiple service banks have been privatized and acquired by Brazilian and foreign financial groups.

The primary government controlled banks include:

- *Banco do Brasil*, a federal government controlled bank which provides a full range of banking products to the public and private sectors. Banco do Brasil is the largest multiple service bank in Brazil and the primary financial agent of the federal government;

- *BNDES*, a development bank wholly owned by the federal government, which grants medium and long term financing to the Brazilian private sector. BNDES's activities include managing the federal government's privatization program; and

- *Caixa Econômica Federal*, a multiple service bank wholly owned by the federal government which acts as the principal agent of the government regulated system for providing housing financing. Caixa Econômica Federal is ranked first among Brazilian banks in terms of savings accounts and housing financing.

Private sector financial institutions

As of December 31, 2009, the Brazilian financial private sector included:

- 124 financial conglomerates (including commercial, investment and multiple service banks), that provide a full range of commercial banking, investment banking (including securities underwriting and trading), consumer financing and other services including fund management and real estate finance; and

- 58 consumer credit companies, 125 securities dealerships, 150 brokerage companies, 33 leasing companies, 8,811 investment funds and 16 savings associations and real estate credit companies.

Principal regulatory agencies

CMN

CMN, the highest authority responsible for Brazilian monetary and financial policy, is responsible for the overall supervision of Brazilian monetary, credit, budgetary, fiscal and public debt policies. CMN is responsible for:

- regulating credit operations engaged in by Brazilian financial institutions;

- regulating the issuance of Brazilian currency;

- supervising Brazil's reserves of gold and foreign exchange;
- determining Brazilian saving, foreign exchange and investment policies; and
- regulating the Brazilian capital markets.

In December 2006, CMN mandated the creation of a risk monitoring model by the CVM, the "Supervision System Based on Risk - (SBR). SBR's purpose is to: (i) identify market risks; (ii) evaluate and rank these risks in order of their potential effects; (iii) establish mechanisms for mitigating these risks and the harm that they might cause; and (iv) control and monitor the occurrence of risk events. Additional measures necessary to implement SBR must be enacted by CMN.

Table of Contents

Central Bank

The Central Bank is responsible for:

- implementing the currency and credit policies established by the CMN;
- regulating and supervising public and private sector Brazilian financial institutions;
- controlling and monitoring the flow of foreign currency to and from Brazil; and
- overseeing the Brazilian financial markets.

The president of the Central Bank is appointed by the president of Brazil for an indefinite term of office, subject to approval by the Brazilian Senate.

The Central Bank supervises financial institutions by:

- setting minimum capital requirements, compulsory reserve requirements and operational limits;
- authorizing corporate documents, capital increases and the establishment or transfer of principal places of business or branches (in Brazil or abroad);
- authorizing shareholder changes of control of financial institutions;
- requiring the submission of annual and semiannual audited financial statements, quarterly revised financial statements and monthly unaudited financial statements; and
- requiring full disclosure of credit and foreign exchange transactions, import and export transactions and other directly related economic activities.

CVM

The CVM is responsible for regulating the Brazilian securities markets in accordance with the securities and exchange policies established by CMN.

The CVM is responsible for the supervision and regulation of variable income mutual funds. In addition, since November 2004, the CVM has had the authority to regulate and supervise fixed income asset funds. For more information, please see "Regulation and Supervision Asset management regulation."

Bank regulations

Principal limitations and restrictions on activities of financial institutions

Under applicable laws and regulations, a financial institution operating in Brazil:

- may not operate without the prior approval of the Central Bank and, in the case of foreign banks, authorization by presidential decree;

- may not invest in the equity of any other company above the regulatory limits;

- may not lend more than 25.0% of its adjusted net worth to any single person or group;

- may not own real estate, except for its own use; and

- may not extend credit to or render guarantees for:

- any individual that controls the institution or holds, directly or indirectly, more than 10.0% of its share capital;

- any entity that controls the institution or with which it is under common control, or any officer, director or member of the fiscal council and of the Audit Committee of such entity, or any immediate family member of such individuals;

- any entity that, directly or indirectly, holds more than 10.0% of its shares (with some exceptions);

- any entity that it controls or of which it directly or indirectly holds more than 10.0% of the share capital;

- any entity whose board of executive officers is made up of the same or substantially the same members as its own executive committee; or

- its executive officers and directors (including their immediate families) or any company controlled by its executive officers and directors or their immediate families or in which any of them, directly or indirectly, holds more than 10.0% of the share capital.

The restrictions with respect to transactions with related parties do not apply to transactions entered into by financial institutions in the interbank market.

Capital adequacy and leverage

Brazilian financial institutions are subject to a capital measurement and standards methodology based on a weighted risk asset ratio. The framework of such methodology is similar to the international framework for minimum capital measurements as adopted in the Basel Accord. The Basel Accord requires banks to have a minimum capital to risk weighted assets ratio of 8.0%. At least half of total capital must consist of Tier I capital. Tier I, or core, capital includes shareholders' equity capital less certain intangibles. Tier II capital includes asset revaluation reserves, general loan loss reserves and subordinated debt, subject to some limitations. Tier II capital is limited to the amount of Tier I capital.

The requirements imposed by the CMN differ from the Basel Accord in a few respects. Among other differences, the CMN:

- requires minimum capital of 11.0% of risk weighted assets;

- does not permit contingency reserves to be considered as capital;

- imposes a deduction from capital corresponding to fixed assets held in excess of limits imposed by the Central Bank;

- requires an additional amount of capital with respect to off balance sheet interest rate and foreign currency swap transactions as well as with respect to certain credit transactions utilizing third party resources;

- for determination of adjusted net worth allows financial institutions to deduct from their net worth costs, including taxes, incurred in connection with swap transactions put in place to hedge long positions associated with investments outside Brazil; and

- assigns different risk weights to certain assets and credit conversion amounts, including a risk weighting of 300.0% on income and social contribution tax credits, except for loans arising from temporary differences which are 100.0% weighted.

In October 2009, the Central Bank decreased the minimum capital requirements from 11% to 5.5% on loans to micro and small companies that are backed by one of the two reserve funds, with resources of R$4 billion, created by the government in 2009.

For further discussion see "Item 5.B. Liquidity and Capital Resource Capital Compliance."

Financial institutions are also required to maintain their net worth at a certain level. The adjusted net worth of a financial institution is represented by the sum of its Tier I and Tier II capital and is used in determining its operational limits. For purposes of CMN adjustments, financial institutions may deduct costs, including taxes, incurred in connection with swap transactions to hedge long positions associated with investments abroad. In July 2008, the Central Bank issued certain rules to include the operational risk of financial institutions amongst the factors to be considered in the calculation of adjusted net worth. In December 2009 the Central Bank established a single indicator for calculating the portion of capital that should be maintained by financial institutions to cover, when needed, the operational risk of a non financial company belonging to the conglomerate.

Financial institutions, excepting credit unions, must keep consolidated accounting registers (for purposes of calculating their capital requirements) of their investments in companies whenever they hold, directly or indirectly, individually or with partners, a controlling participation in such companies. When their participation does not result in control of a company, financial institutions can opt to account for the holding as equity in earnings of unconsolidated companies instead of consolidation.

Under certain conditions and within certain limits, financial institutions are able to include subordinated debt in the determination of their capital requirements for purposes of calculating their operational limits, *provided that* such subordinated debt complies with the following requirements:

- it must be previously approved by the Central Bank;
- it cannot be secured by any type of guaranty;
- its payment must be subordinated to the payment of other liabilities of the issuer in case of dissolution;
- it cannot be redeemed by action of the holder;
- it must have a clause allowing postponement of the payment of interest or redemption in case these would cause the issuer to fail to comply with minimum levels of adjusted net worth or other operational requirements;
- it must be nominative when issued in Brazil, and, when issued abroad, may be in any other form permitted by local legislation;
- when issued abroad, it must contain a clause of choice of venue;
- it must have a minimum term of five years before redemption or amortization;
- it must be paid in cash; and

- its payment cannot be secured by any type of insurance that obliges or permits payments between the issuer and the borrowing institution or any instrument that compromises the subordinated debt condition.

Brazilian financial institutions may elect to calculate their capital requirements on either a consolidated or unconsolidated basis.

Table of Contents

Reserve requirements

The Central Bank imposes compulsory reserve and related requirements upon Brazilian financial institutions from time to time. The Central Bank uses reserve requirements as a mechanism to control the liquidity of the Brazilian financial system. Historically, the reserves imposed on demand deposits, savings deposits and time deposits have accounted for substantially all amounts required to be deposited with the Central Bank. For a summary of the current compulsory reserve requirements applicable for demand deposits, savings deposits and time deposits, see " Deposit taking activities."

The total consolidated exposure of a financial institution in foreign currencies and gold cannot exceed 30.0% of its adjusted net worth. In addition, if its exposure is greater than 5.0% of its adjusted net worth, the financial institution must hold additional capital at least equivalent to 100.0% of its exposure. Since July 2, 2007, the amount internationally offset in opposite exposures (purchases and sales) in Brazil and abroad by institutions of the same conglomerate is required to be added to the respective conglomerate's net consolidated exposure.

In the past, the Central Bank has imposed restrictions on other types of financial transactions. These compulsory deposit requirements are no longer in effect, but they may be re imposed in the future, or similar restrictions may be instituted. At the beginning of 2008, the Central Bank determined a new compulsory deposit requirement relating to deposits of leasing companies. Our leasing company invests most of its cash available for immediate investment in interbank deposit accounts with us. For more information on Central Bank restrictions see "Item 3.D. Risk Factors Risks relating to Bradesco and the Brazilian banking industry."

Asset composition requirements

Brazilian financial institutions may not allocate more than 25.0% of their adjusted net worth to loans (including guarantees) to the same client (including client's parent, affiliates and subsidiaries) or in securities of any one issuer, and may not act as underwriter (excluding best efforts underwriting) of securities issued by any one issuer representing more than 25.0% of their adjusted net worth.

Permanent assets (defined as property and equipment other than commercial leasing operations, unconsolidated investments and deferred assets) of Brazilian financial institutions may not exceed 50.0% of their adjusted net worth.

CMN issued rules in October 2008 requiring financial institutions to record: (i) vested rights on assets used for maintaining the institution's activities, including rights resulting from transactions that have transferred the benefit, risks and control of these assets to the institution, except for lease operations assets for fixed assets; and (ii) the restructuring expenses that effectively result in an increase in income of more than one fiscal year and do not constitute merely a reduction in costs or greater operational efficiency for deferred assets. A subsequent rule further defined intangible assets, such as vested rights on assets used for maintaining the institution's activities, including those corresponding to payroll services, income, salary, wages and retirement and pension payments, among others.

Repurchase transactions

Repurchase transactions are subject to operational capital limits based on the financial institution's shareholders' equity, as adjusted in accordance with Central Bank regulations. A financial institution may only hold repurchase transactions in an amount up to 30 times its adjusted net worth. Within that limit, repurchase operations involving private securities may not exceed five times the amount of the financial institution's adjusted net worth. Limits on repurchase operations involving securities backed by Brazilian governmental authorities vary in accordance with the type of security involved in the transaction and the perceived risk of the issuer as established by the Central Bank.

Onlending of funds borrowed abroad

Financial institutions and leasing companies are permitted to borrow foreign currency denominated funds in the international markets (through direct loans or the issuance of debt securities) in order to on lend such funds in Brazil. These onlendings take the form of loans denominated in *reais* but indexed to the U.S. dollar. The terms of the onlending transaction must mirror the terms of the original transaction. The interest rate charged on the underlying foreign loan must also conform to international market practices. In addition to the original cost of the transaction, the financial institution may only charge an onlending commission.

Furthermore, the amount of loan in foreign currency should be limited to the sum of external operations of the financial institution to which loan funds must be directed. Lastly, pursuant to the Central Bank's Circular Letter 3,434, the total loan operations made from these funds are given as collateral to the Central Bank as a condition for the release of the amount to the financial institution.

Foreign currency position

Transactions in Brazil involving the sale and purchase of foreign currency may only be conducted by institutions authorized by the Central Bank to operate in the foreign exchange market.

Since March 2005, the previously existing Commercial and Floating Markets were unified under a single foreign currency exchange regime (the "Exchange Market"), in which all foreign exchange currency transactions are concentrated. The unified Exchange Market allows the liquidation in foreign currency of any commitments in *reais* that are contracted between individuals and/or legal entities resident in Brazil and individuals or legal entities resident abroad, upon the presentation of the relevant documentation.

Access to the Exchange Market may be granted by the Central Bank to commercial banks, multiple banks, investment banks, development banks, savings and loans entities, financing and investment associations, foreign exchange brokers, securities brokers and dealers, travel agencies and to tourist lodging accepting foreign currency. Entities that were authorized to operate in the old Commercial and Floating Markets as of March 4, 2005 have been automatically authorized to operate in the new Exchange Market.

The Central Bank currently does not impose limits on exchange long positions (*i.e.*, where the aggregate amount of the purchases of foreign currency is greater than the amount of the sales) of banks authorized to operate in the Exchange Market. Since December 2005, the Central Bank ceased imposing limits on exchange short positions (*i.e.*, when the aggregate amount of purchases of foreign currency is less than the amount of sales) for banks authorized to operate in the Exchange Market.

Pursuant to CMN regulations, the investment abroad of available funds in foreign currency must be limited to (i) securities issued by the Brazilian government; (ii) securities issued by foreign governments; (iii) securities issued by financial institutions, or entities under their responsibility; and (iv) time deposits in financial institutions.

In March 2010, the Central Bank continued with the process of simplifying foreign exchange rules by consolidating existing rules and revoking others. These changes were designed to provide further transparency and standards for cross-border foreign exchange transactions, and can be divided into three main categories:

i) Consolidation of rules on foreign capital: recording of direct investment flows, foreign credits, royalties, transfer of technology and leasing abroad. Financial transfers from and to foreign countries will follow the general rules applicable to the Brazilian foreign exchange market, including the principles of legality, economic rationale and document support. Additionally, there is no need for specific authorizations or prior statements from the Central Bank and there is no need to provide information that the Central Bank can obtain elsewhere.

ii) Rules to sell depositary receipts abroad: companies that issue depositary receipts have the option of maintaining income from these sales abroad. This option, however, does not apply to financial institutions. Therefore, our procedures on this issue remain unchanged.

iii) Simplification of foreign exchange rules: several changes have been implemented to expand the competition in international transfer of funds and the offer of banking services.

Registration of cross border derivatives transactions and hedge operations

In December 2009, the Central Bank introduced specific rules that were to become effective February 1, 2010, requiring Brazilian financial institutions to register their cross border derivative transactions with a clearinghouse regulated by the Central Bank and by the CVM. Specifically, cross border derivative transactions must: (i) be registered within 2 business days and (ii) include information regarding underlying assets, values, currencies involved, terms, counterparties, means of settlement and parameters used.

In February 2010, registration rules were extended to cross-border over-the-counter (OTC) and exchange-traded hedging transactions.

Treatment of credit operations

According to the Central Bank, financial institutions are required to classify their loans into nine categories, ranging from AA to H, on the basis of their risk. These credit classifications are determined in accordance with Central Bank criteria relating to:

- the conditions of the debtor and the guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, delay in payments, contingencies and credit limits; and

- the conditions of the transaction, such as its nature and purpose, the type, the level of liquidity, the sufficiency of the collateral and the total amount of the credit.

In the case of corporate borrowers, the nine categories that we use are as follows:

Rating	Our Classification	Bradesco Concept
AA	Excellent	First tier large company or group, with a long track record, market leadership and excellent economic and financial concept and positioning.
A	Very Good	Large company or group with sound economic and financial position that is active in markets with good prospects and/or potential for expansion.
B	Good	Company or group, regardless of size, with good economic and financial positioning.
C	Acceptable	Company or group with a satisfactory economic and financial situation but with performance subject to economic variations.
D	Fair	Company or group with economic and financial positioning in decline or unsatisfactory accounting information, under risk management.

A loan may be upgraded if it has credit support or downgraded if in default.

Collection of doubtful loans is classified according to the loss perspective, as shown below:

Rating	Bradesco Classification
E	Deficient
F	Bad
G	Critical
H	Uncollectible

In the case of transactions with individuals, we have a similar nine category ranking system. We grade credit based on data including the individual's income, net worth and credit history, as well as other personal data.

Financial institutions must make monthly loan loss provisions to match contingencies for regulatory purposes. In general, banks review loan classifications annually. However, a review is made every six months in the case of transactions that are extended to a single client or economic group whose aggregate loan amount exceeds 5.0% of the financial institution's adjusted net worth. A past due loan is reviewed monthly.

Financial institutions should maintain a credit risk management structure compatible with the nature of their transactions and with the complexity of products and services offered, which should also be proportional to the institution's credit risk exposure.

For past due loans, the regulations establish maximum risk classifications, as follows:

Number of Days Past Due [1]	**Maximum Classification**
15 to 30 days	B
31 to 60 days	C
61 to 90 days	D
91 to 120 days	E
121 to 150 days	F
151 to 180 days	G
More than 180 days	H

(1) These time periods are doubled in the case of loans with maturities in excess of 36 months.

Financial institutions are required to determine, on a monthly basis, whether any loans must be reclassified as a result of these maximum classifications. If so, they must adjust their regulated accounting provisions accordingly.

The regulations specify a minimum provision for each category of loan, which is measured as a percentage of the total amount of the credit operation, as follows:

Classification of Loan	**Minimum Provision (%)**
AA	
A	0.5
B	1.0
C	3.0
D	10.0
E	30.0
F	50.0
G	70.0
H[1]	100.0

(1) Banks must write off any loan six months after its initial classification as an H loan.

Loans of up to R$50,000 may be classified by the financial institution's own evaluation method or according to the payment delay criteria described above.

Financial institutions must make their lending and loan classification policies available to the Central Bank and to their independent accountants. They are also required to submit to the Central Bank information relating to their loan portfolio, along with their financial statements. This information must include:

- a breakdown of lending activities and the nature of the borrowers;
- maturities of their loans;
- amounts of rolled over, written off and recovered loans;

- loan portfolio diversification in accordance with the loan classification; and
- overdue loans.

The Central Bank requires that authorized financial institutions prepare and submit their information about the loan portfolio in accordance with several requirements. The Central Bank may admit discrepancies in these statements up to 5% per risk level and 2.5% in the reconciled amount.

Brazilian clearing system

The Brazilian clearing system was regulated and restructured under legislation enacted in 2001. These regulations are intended to increase the responsiveness of the system through the adoption of multilateral settlement and the safety and soundness of the system by reducing the risk of systemic default and the credit risk and liquidity of financial institutions.

The systems comprising the Brazilian clearing system are responsible for maintaining safety mechanisms and rules for controlling risks and contingencies, for loss sharing among market participants and for direct execution of custody positions of agreements and foreclosure of collateral held under custody. In addition, clearing houses and settlement service providers considered important to the system are obligated to set aside a portion of their assets as an additional guarantee for the settlement of transactions.

Currently, responsibility for the settlement of a transaction is assigned to the clearinghouses and settlement service providers responsible for it. Once a financial transaction has been submitted for clearing and settlement, it generally becomes obligation of the relevant clearing house and/or settlement service provider to clear and settle it, and it is no longer subject to the risk of bankruptcy or insolvency on the part of the market participant that submitted it for clearing and settlement.

Financial institutions and other institutions chartered by the Central Bank are also required under the new rules to create mechanisms to identify and avoid liquidity risks, in accordance with certain procedures established by the Central Bank. Under these procedures, institutions are required to:

- maintain and document criteria for measuring liquidity risks and mechanisms for managing them;

- analyze economic and financial data to evaluate the impact of different market scenarios on the institution's liquidity and cash flow;

- prepare reports to enable the institution to monitor liquidity risks;

- identify and evaluate mechanisms for unwinding positions that could threaten the institution economically or financially and for obtaining the resources necessary to carry out such unwinds;

- adopt system controls and test them periodically;

- promptly provide to the institution's management available information and analysis regarding any liquidity risk identified, including any conclusions or remedies adopted; and

- develop contingency plans for handling liquidity crisis situations.

Financial institutions were positively affected by a restructuring of the Brazilian clearing system. Under the old system, in which transactions were processed at the end of the day, institutions could carry a balance, positive or negative, a situation which is no longer allowed. Payments must now be processed in real time, and amounts over R$5,000 may be covered by electronic transfers between institutions in immediately available funds. In case they are covered by checks, an additional bank fee will be charged.

After a period of tests and gradual implementation, the new Brazilian clearing system entered into operation in April 2002. The Central Bank and CVM have the power to regulate and supervise the Brazilian payments and clearing system.

Dissolution of financial institutions

In February 2005, the "New Bankruptcy Law" was approved, replacing the previous regime that had been in effect since 1945. The main goal of the New Bankruptcy Law is to prevent the liquidation of viable companies for being incapable of fulfilling their debt obligations. The New Bankruptcy Law seeks to accomplish this by providing greater flexibility in designing reorganization strategies while increasing safeguards for secured creditors. It also seeks to improve creditors' ability to recover through the judiciary system by promoting an agreement between the company and a commission comprised of creditors. The New Bankruptcy Law is not currently applicable to financial institutions, and, accordingly, Law 6,024/74 governing intervention in and administrative liquidation of financial institutions is still applicable to us.

Intervention

The Central Bank will intervene in the operations and management of any financial institution not controlled by the federal government if the institution:

- suffers losses due to bad management, putting creditors at risk;
- has recurrent violations of banking regulations; or
- is insolvent.

Intervention may also be ordered upon the request of a financial institution's management.

Intervention may not exceed twelve months. During the intervention period, the institution's liabilities for overdue obligations, maturity dates for pending obligations contracted prior to the intervention and liabilities for deposits in the institution existing on the ruling date are suspended.

Administrative liquidation

The Central Bank will liquidate a financial institution if:

- the institution's economic or financial situation is at risk, particularly when the institution ceases to meet its obligations as they fall due, or upon the occurrence of an event that could indicate a state of bankruptcy;
- management commits a material violation of banking laws, regulations or rulings;
- the institution suffers a loss which subjects its unsecured creditors to severe risk; or
- if, upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within 90 days, or, if initiated, the Central Bank determines that the pace of the liquidation may harm the institution's creditors.

As a consequence of administrative liquidation:

- lawsuits asserting claims over the assets of the institution are suspended;
- the institution's obligations are accelerated;
- the institution may not comply with any liquidated damage clause contained in unilateral contracts;
- interest does not accrue against the institution until its liabilities are paid in full; and
- the statute of limitations with respect to the institution's obligations is tolled.

Temporary special administration regime

The temporary special administration regime, known as "RAET," is a less severe form of Central Bank intervention in financial institutions, which allows institutions to continue to operate normally. RAET may be ordered in the case of an institution which:

- enters into recurrent operations which are against economic or financial policies set forth in federal law;
- faces a shortage of assets;
- fails to comply with the compulsory reserves rules;

- has reckless or fraudulent management; or
- has operations or circumstances, which call for an intervention.

Repayment of creditors in liquidation

In the case of liquidation of a financial institution, employees' wages, indemnities and tax claims have the highest priority among claims against the bankrupt institution. In November 1995, the Central Bank created the FGC (Deposit Guarantee Fund) to guarantee the payment of funds deposited with financial institutions in case of intervention, administrative liquidation, bankruptcy, or other state of insolvency. Members of the FGC are financial institutions that accept demand, time and savings deposits as well as savings and loans associations. The FGC is funded principally by mandatory contributions from all Brazilian financial institutions that work with customer deposits.

The FGC is a deposit insurance system that guarantees a certain maximum amount of deposits and certain credit instruments held by a customer against a financial institution (or against member financial institutions of the same financial group). The liability of the participating institutions is limited to the amount of their contributions to the FGC, with the exception that in limited circumstances, if FGC payments are insufficient to cover insured losses, the participating institutions may be asked for extraordinary contributions and advances. The payment of unsecured credit and customer deposits not payable under the FGC is subject to the prior payment of all secured credits and other credits to which specific laws may grant special privileges.

In September 2006, CMN increased the maximum amount of the guarantee provided by the FGC from R$20,000 to R$60,000. In addition, it reduced the ordinary monthly FGC contribution from 0.025% to 0.0125% over the balance of banking accounts that are covered by FGC insurance.

Internal compliance procedures

All financial institutions must have in place internal policies and procedures to control:

- their activities;
- their financial, operational and management information systems; and
- their compliance with all applicable regulations.

The board of executive officers of the financial institution is responsible for implementing an effective structure of internal controls by defining responsibilities and control procedures and establishing corresponding goals and procedures at all levels of the institution. The board of executive officers is also responsible for verifying compliance with all internal procedures.

Our bylaws include a provision for an internal controls and compliance committee composed of up to 12 members appointed by our Board of Directors.

Restrictions on foreign banks and foreign investment

The Brazilian constitution prohibits foreign financial institutions from establishing new branches in Brazil, except when duly authorized by the Brazilian government. A foreign bank duly authorized to operate in Brazil through a branch or a subsidiary is subject to the same rules, regulations and requirements that are applicable to any other Brazilian financial institution.

The Brazilian constitution permits foreign individuals or companies to invest in the voting shares of Brazilian financial institutions only if they have specific authorization from the Brazilian government. However, foreign investors without specific authorization may acquire publicly traded non voting shares of Brazilian financial institutions or depositary receipts offered abroad representing non voting shares.

Anti money laundering regulations, banking secrecy and financial transactions linked to terrorism

Under Brazilian anti money laundering rules, which the Central Bank consolidated in July 2009 through Circular Letter 3,461, financial institutions must:

- keep up to date records regarding their customers;
- maintain internal controls and records;
- record transactions involving Brazilian and foreign currency, securities, metals or any other asset which may be converted into money;
- keep records of transactions that exceed R$10,000 in a calendar month or reveal a pattern of activity that suggests a scheme to avoid identification;
- keep records of all check transactions; and
- keep records and inform the Central Bank of any cash deposits or cash withdrawals in amounts above R$100,000.

The financial institution must review transactions or proposals whose characteristics may indicate the existence of a crime and inform the Central Bank of the proposed or executed transaction. Records of transactions involving currency or any asset that can be converted into money, records of transactions that exceed R$10,000 in a calendar month, and records of check transactions must be kept for at least five years, unless an investigation by CVM into the financial institution is in progress, in which case such five year obligation may be extended. Pursuant to Circular Letter no. 3,641, financial institutions must implement control policies and internal procedures. The policies must: (i) specify in an internal document the responsibilities of each of the organization's hierarchical levels; (ii) include the collection and registration of timely information about clients that makes it possible to identify the risks of occurrence of these crimes; (iii) define the criteria and procedures for selecting, training and following up on the economic financial status of the institution's employees; (iv) include a prior analysis of new products and services under the perspective of preventing these crimes; (v) be approved by the Board of Directors; and (vi) be broadly circulated internally.

Along with these policies, Circular Letter no. 3,641 also establishes additional norms related to keeping registration information up to date, keeping records of politically exposed individuals, records of the beginning or continuation of business relations, records of financial services and transactions, records of deposits and clearance of checks deposited in other financial institutions, the use of fund transfer instruments, pre paid card registrations, transfers greater than R$100,000 in cash, and other transactions that demand special attention.

Likewise, Circular Letter no. 3,642 set forth rules to combat money laundering in international transfers, including more detailed operational information requirements for payment orders, such as the name and identification document of the parties involved, address and banking account when applicable. Financial institutions shall also adopt measures to get to know the methods and practices used by their correspondents abroad so as to inhibit money laundering and terrorist financing practices, and report to government authorities whenever operations matching these criteria are identified.

Brazilian regulations list a number of potential money laundering transaction characteristics, such as: transactions involving amounts that are incompatible with the professional, shareholders' equity and/or earnings condition of the involved parties; operations evidencing default on behalf of third parties; transactions intended to create loss or gain with no economic grounds; transactions involving parties domiciled in jurisdictions that do not cooperate with the Brazilian financial activity control agencies; transactions paid in cash; transactions the complexity and risk level of which are inconsistent with the client's technical qualification; transactions involving non resident parties, trustees and companies, private banking clients and politically exposed individuals.

The CVM directed special attention to politically exposed individuals in January 2008 through Instruction 463 issued in January 2008 and consolidated in Circular Letter 3,641, which refer to individuals politically exposed who hold or held prominent public positions in Brazil or abroad during the past five years and their relatives and representatives. Such individuals include heads of state and government, politicians occupying high positions, government employees occupying high positions, magistrates or high level military officials, and leaders of governmental companies or political parties, among others. Financial institutions are required to adopt certain mechanisms in order to: (i) identify the final beneficiaries of each transaction; (ii) identify whether these politically exposed individuals are involved; (iii) monitor financial business transactions involving politically exposed individuals; and (iv) devote special attention to people from countries with which Brazil maintains a high number of business and financial transactions, common borders or ethnic, linguistic or political relations.

In addition, this CVM regulation contains special provisions to control and prevent the flow of funds derived from or financing terrorist activities.

Also regarding the control of politically exposed individuals' activities and taking into consideration the 2010 Brazilian elections for President, Governors, Senators, Federal and State Representatives, in March 2010 the Central Bank enacted rules that specifically address the opening, transacting with and closing demand deposit accounts for funds obtained from the 2010 election campaign. Those rules avoid the irregular use of funds and illegal donations.

Financial institutions must maintain the secrecy of their banking operations and services provided to their customers. Certain exceptions apply to this obligation, however, such as: the sharing of information on credit history, criminal activity and violation of bank regulations, or disclosure of information authorized by interested parties. Bank secrecy may also be breached by court order when necessary for the investigation of any illegal act.

Government officials and auditors from the Brazilian Internal Revenue Service may also inspect an institution's documents, books and financial registry in certain circumstances.

In October 2008, the Central Bank expanded its rules aimed at controlling financial transactions linked with terrorism, so that operations carried out on behalf of, services provided to, or access to funds, other financial assets or economic resources belonging to or directly or indirectly controlled by, the following individuals or entities were required to be immediately reported to the Central Bank: (i) Osama Bin Laden, members of the Al Qaeda organization, members of the Taliban and other individuals, groups, companies or entities connected with them; (ii) the former government of Iraq or its agencies or companies located outside of Iraq, as well as funds or other financial assets that might have been withdrawn from Iraq or acquired by Saddam Hussein or by other former Iraqi government senior official and by the closest members of their families, including asset companies or those directly or indirectly controlled by them or by individuals working for them or under their management; and (iii) individuals that practice or intend to practice acts of terrorism or who take part in the facilitation of such acts, entities owned or directly or indirectly controlled by such individuals, as well as by individuals and entities acting on their behalf or under their command.

Change of independent accounting firm

Under Brazilian regulations, all financial institutions must:

- be audited by an independent accounting firm; and

- replace periodically the technician in charge, executive officer, manager or audit team supervisor, without the need to change the independent auditor. Replacements must take place after a maximum period of five fiscal years, and the replaced professionals may be reintegrated three years after their replacement. Terms of responsible technicians, executive officers, managers or audit team supervisors begin on the day the team begins work on the audit.

Each independent accounting firm must immediately communicate to the Central Bank any event that may materially adversely affect the relevant financial institution's status.

In March 2002, an amendment to the Brazilian Corporate Law gave the members of our Board of Directors veto rights over the appointment or removal of our independent accounting firm. For more information regarding appointment of directors see "Item 10.B. Memorandum and Articles of Incorporation Organization Voting Rights."

Table of Contents

Auditing requirements

Because we are a financial institution registered with the domestic stock exchange, we are obliged to have our financial statements audited every six months in accordance with generally accepted accounting principles adopted in Brazil. Quarterly financial information filed with the CVM is subject to review by our independent accountants.

In January 2003, the CVM enacted regulations requiring audited entities to disclose information relating to its independent accounting firm's non auditing services to the entity whenever such services represent more than 5.0% of the external auditors' compensation.

The independent auditors must also declare to the audited company's management that their providing these services does not affect the independence and objectivity that is necessary to external auditing services.

In May 2003, the CMN enacted new regulations on auditing matters applicable to all Brazilian financial institutions; these regulations were revised in November 2003, January and May 2004 and December 2005. Under these regulations, we are required to appoint a member of our management to be responsible for the follow up and supervision of compliance with the accounting and auditing requirements set forth in the legislation.

Pursuant to this regulation, financial institutions which have an adjusted net worth in excess of R$1.0 billion, manage third party assets of at least R$1.0 billion or have an aggregate amount of third party assets in excess of R$5.0 billion are also required to create an audit committee made up of independent members. The number of members, their appointment and removal criteria, their term of office and their responsibilities must be set forth in the institutions' bylaws. Our audit committee has been fully operational since July 1, 2004. The audit committee is responsible for recommending to management which independent accounting firm to hire, reviewing the company's financial statements, including the notes thereto, and the auditors' opinion prior to public release, evaluating the effectiveness of the auditing services provided and internal compliance procedures, assessing management's compliance with the recommendations made by the independent accounting firm, among other things. Our bylaws were revised in December 2003 to establish the audit committee. In May 2004, our Board of Directors approved the internal regulations for the Audit Committee and appointed its first members. In October 2006, CMN enacted stricter requirements to be followed by the members of the Board of Directors. See Item 16.D. Exemptions from the listing standards for Audit Committees.

Effective July 1, 2004, we are required to publish a report of the audit committee along with our semi annual financial statements. Our audit committee's first report was related to our financial statements of the second half of 2004.

In July 2007, the CVM enacted a rule requiring publicly held companies to adopt as of the fiscal year ended in 2010 international accounting standards, pursuant to rules issued by the International Accounting Standards Board (IASB). This will represent a change in our accounting practices, since our fiscal statements are currently prepared and disclosed in accordance with Brazilian and US GAAP. A similar rule was issued by the CMN in September 2009 specifically for financial institutions, according to which consolidated financial statements must include the opinion of an independent auditing company on the compliance of such statements with the pronouncements issued by the IASB. Pursuant to Circular Letter no. 3,472, the financial statements must be published within ninety days after December 31,of the respective fiscal year and be prepared by the parent company of the group of consolidated entities.

With regards to interim consolidated financial statements, the Central Bank issued, in May 2010, a resolution determining that financial institutions organized as corporations (*sociedades anônimas*), or that are required to establish auditing committees and publish their intermediary consolidated financial statements, must observe the pronouncements issued by the International Accounting Standards Board (IASB), and must be translated into Portuguese by a Brazilian entity certified by the International Accounting Standards Committee Foundation (IASC Foundation).

In September 2009, the Central Bank issued rules establishing criteria for auditors regarding the preparation of reports on the quality and compliance of the internal controls systems, and regarding non compliance with legal and regulatory provisions. These norms, amended in January 2010, establish that in addition to their regular auditing functions, auditors must assess the following items: (i) control environment; (ii) risk identification and assessment; (iii) controls adopted; (iv) information and communication policies; (v) forms of monitoring and improvement and (vi) deficiencies identified.

Regulation of operations in other jurisdictions

We have branches and subsidiaries in several other jurisdictions, such as New York, Buenos Aires, Tokyo, the Cayman Islands, the Bahamas, Hong Kong and Luxembourg. The Central Bank supervises Brazilian financial institutions' branches, subsidiaries and corporate holdings abroad, and the prior approval of the Central Bank is necessary to establish any new branch, subsidiary or representative office. In most cases, we have had to obtain governmental approvals from local central banks and monetary authorities in foreign jurisdictions before commencing business. In all cases, we are subject to supervision by local authorities.

Asset management regulation

Asset management is regulated by the CMN and the CVM.

In August 2004, the CVM issued Rule 409/2004 consolidating all previous regulations applicable to fixed income asset funds and variable income mutual funds. Prior to this ruling, fixed income asset funds were regulated by the Central Bank, and variable income mutual funds were regulated by the CVM.

CVM Rule 409/2004 became effective on November 22, 2004. Since then, all new funds created are subject to its rules, while previously existing funds had until January 31, 2005 to enter into compliance with the new regulation.

Pursuant to the provisions of the new CVM rule, our investment funds must keep their assets invested in securities and operational assets that are available in the financial and capital markets.

These securities, operational assets and all other assets that comprise the fund's portfolio, except for interest in investment funds or in Mercosur, must be registered directly with specific custody deposit accounts opened in the name of the fund. Such accounts must be held within registration and clearance systems authorized by the Central Bank, or within certain custody institutions authorized by the CVM.

In addition to the limitations specified in each financial investment fund's charter, financial investment funds are not permitted to have:

- more than ten per cent (10.0%) of their net worth invested in securities of a single issuer, if that issuer is (i) a publicly held non financial institution, or (ii) a federal, state, or municipal entity or (iii) another investment fund, except for equity investment funds;

- more than twenty per cent (20.0%) of their net worth invested in securities issued by a financial institution (including the fund manager);

- more than five per cent (5.0%) of their shareholders' equity when the issuer is an individual or corporate entity that is not a publicly held company or financial institution authorized to operate by the Central Bank; and

- in the case of investment funds or fixed income and multimarket participation funds, more than 10.0% of their net worth invested in real estate investment funds, credit rights investment funds or credit rights participation funds.

There are no limits when the issuer is the federal government. With regard to these limits, we consider as the same issuer the parent company, the companies directly or indirectly controlled by the parent and its affiliated companies and shared control companies.

According to their equity breakdown, the investment funds and the investment funds in quotas are classified as follows:

- Short term funds These funds invest exclusively in public, federal or private bonds, which are pegged to Selic (or another interest rate) or to a price index and have a maximum maturity of 375 days and an average portfolio period of less than 60 days. Short term funds may use derivatives only to hedge their portfolios and may enter into transactions in connection with public federal bonds;

- Reference funds These funds have (1) at least 80.0% of their net worth invested solely or together in (a) bonds issued by the Brazilian National Treasury and/or the Central Bank or (b) fixed income securities of issuers having low credit risk; (2) at least 95.0% of their portfolio composed of financial assets that directly or indirectly follow the variation of a specified performance indicator (benchmark); and (3) may only use derivatives in connection with transactions that attempt to hedge cash positions, up to their limit. Additionally, the name of the fund shall identify the development index on which the financial asset structure of its portfolio is based.

- Fixed income funds These funds have at least 80.0% of their asset portfolios directly related, or synthesized through derivatives of fixed income assets;

- Share funds These funds have at least 67.0% of their portfolio invested in shares listed and traded on either over the counter markets or stock exchanges;

- Exchange funds These funds have at least 80.0% of their portfolio invested in derivatives or other funds comprised of derivatives which hedge foreign currency prices;

- Foreign debt funds These funds have at least 80.0% of their net worth invested in Brazilian foreign debt bonds of the federal government, and the remaining 20.0% in other loan securities transacted in the international market; and

- Money market funds These funds must have an investment policy that involves several risk factors, without a commitment to concentration in any particular factor or in factors different from the other classes provided for in the classifications of the funds above.

Funds for qualified investors that demand a minimum investment of R$1,000,000.00 per investor will not be subject to the concentration limitations per issuer or type of asset (with due regard for the investment parameters per type of fund described above), as long as this is provided for in their bylaws.

In addition, CVM rule 409/2004 sets forth that the funds may maintain financial assets traded abroad in their portfolios as follows: (i) for foreign debt funds and funds for qualified investors that provide for this possibility, no limit; (ii) for multimarket funds up to 20% of equity; and (iii) for the remaining funds up to 10% of equity.

Regulation of brokers and dealers

Broker and dealer firms are part of the national financial system and are subject to CMN, Central Bank and CVM regulation and supervision. Brokerage and distribution firms must be chartered by the Central Bank and are the only institutions in Brazil authorized to trade on Brazil's stock exchanges and mercantile and futures exchanges. Both brokers and dealers may act as underwriters in the public placement of securities and engage in the brokerage of foreign currency in any exchange market.

Brokers must observe rules of conduct established by BM&FBovespa and previously approved by the CVM. They must also select a director responsible for the observance of such rules.

Asset management is regulated by the CMN and the CVM.

Broker and dealer firms may not:

- with limited exceptions, execute operations that may be characterized as the granting of loans to their clients, including the assignment of rights;
- collect commissions from their clients related to transactions of securities during the primary distribution;
- acquire assets, including real estate properties, which are not for their own utilization; or
- obtain loans from financial institutions, except for: (i) loans for the acquisition of goods for use in connection with the firm's corporate purpose; or (ii) loans the amount of which does not exceed twice the firm's net worth.

Broker and dealer firms' employees, managers, partners, controlling and controlled entities may negotiate securities for their own accounts only through the relevant broker and dealer firm.

Leasing regulation

The basic legal framework governing leasing transactions is established by Law No. 6,099 of September 12, 1974, as amended (the "Leasing Law") and the regulations issued thereunder by the CMN. The Leasing Law sets forth general guidelines for the incorporation of, and the activities permitted to be performed by, leasing companies. The CMN, in its capacity as regulator of the financial system, is responsible for issuing regulations under the Leasing Law and overseeing the transactions conducted by leasing companies. The laws and regulations issued by the Central Bank with respect to financial institutions in general, such as reporting requirements, capital adequacy and leverage regulations asset composition limits and treatment of doubtful loans, are also applicable to leasing companies to the extent applicable.

Insurance regulation

The Brazilian insurance system is regulated by Executive Decree No. 73 of November 21, 1966, as amended, which created two regulatory agencies, the National Private Insurance Council, which we call the "CNSP," and SUSEP. SUSEP is responsible for implementing and overseeing CNSP's policies and ensuring compliance with such policies by insurance companies, insurance brokers and insured individuals. Insurance companies require government approval to operate, as well as specific approval from SUSEP to offer each of their products. Insurance companies may subscribe policies only through qualified brokers.

Insurance companies must set aside reserves in accordance with CNSP criteria. The investments backing up these reserves must be diversified and meet certain liquidity, solvency and security criteria. Insurance companies may invest a substantial portion of their assets in securities. As a result, insurance companies are major investors in the Brazilian financial markets and are subject to a series of rules and conditions imposed by the CMN regarding their investments and how they apply to reserve requirements.

Insurance companies are prohibited from:

- acting as financial institutions by extending credit and issuing guarantees;
- trading in securities (subject to exceptions); or
- investing outside of Brazil without specific permission from the relevant authorities.

Insurance companies must operate within certain retention limits approved by SUSEP pursuant to rules established by the CNSP. The rules take into account the economic and financial situation of the insurance companies, the conditions of their respective portfolios and the results of their operations with IRB, a quasi public corporation controlled by the Brazilian government.

Asset management is regulated by the CMN and the CVM.

On January 16, 2007, Complementary Law No. 126 created a new policy for reinsurance (whereby underwriters obtain secondary insurance for the risks that they are insuring), retro assignments and intermediation in Brazil. In practical terms, such law ended IRB's monopoly over the reinsurance and retro assignment markets. Furthermore, certain regulatory duties and activities originally attributed to IRB were transferred to CNSP and SUSEP.

Under Complementary Law No. 126, local insurance or reinsurance companies must first offer to assign their risks to local reinsurance companies when contracting reinsurance or retro assignment under the following risk percentages: (i) 60% in the first three years as of January 16, 2007 and (ii) 40% in the subsequent years. The new law also establishes more severe restrictions on the risk assignment to foreign reinsurance companies and on the contracting of insurance abroad. Insurance companies must reinsure the amounts exceeding the applicable limit on liabilities. Insurance companies must also file unaudited monthly and audited quarterly, semiannual and annual reports with SUSEP.

Insurance companies are exempt from ordinary financial liquidation procedures in case of bankruptcy, and instead follow a special procedure administered by SUSEP. Financial liquidation may be either voluntary or compulsory. The Minister of Finance institutes compulsory dissolutions of insurance companies.

As was already the case within the scope of entities subject to CMN, in December 2008 SUSEP promulgated rules regarding specific internal controls for preventing and fighting money laundering crimes. These rules include a series of provisions that address the communication of proposals for operations with politically exposed individuals and restraints on terrorist financing activities.

There is currently no restriction on foreign investment in insurance companies.

Health insurance

Private health insurance and health plans are currently regulated by Law No. 9,656, of July 4, 1998, as amended, which we refer to as the "Health Insurance Law," which determines the general provisions applicable to health insurance companies and the general terms and conditions of agreements entered into between health insurance companies and their customers. The Health Insurance Law establishes, among other things:

- mandatory coverage of certain expenses, such as those arising from preexisting conditions;
- the conditions precedent for admission to a plan;
- the geographical area covered by each insurance policy; and
- the pricing criteria plans may use.

The ANS is responsible for regulating and supervising supplemental health services provided by health insurance companies pursuant to directives set forth by the *Conselho de Saúde Suplementar* (the Supplemental Health Council).

Until 2002, SUSEP had authority over insurance companies, which were authorized to offer private pension plans on health assistance. Since 2002, pursuant to ANS regulations and supervision, only operators of private health assistance plans may offer such plans. We created Bradesco Saúde in 1999 to fulfill this requirement.

Private pension plans

Open pension plans are subject, for purposes of inspection and control, to the authority of the CNSP and the SUSEP, which are under the regulatory authority of the Ministry of Finance. The CMN, CVM and Central Bank may also issue regulations pertinent to private pension plans, particularly related to the assets guaranteeing the technical reserves.

Private pension entities must set aside reserves and technical provisions as collateral for their liabilities.

Asset management is regulated by the CMN and the CVM.

Open pension plans and insurance companies are allowed to create, trade and operate investment funds with segregated assets since January 1, 2006. Notwithstanding the above, certain provisions of Law No. 11,196 of November 21, 2005 will only become effective upon its regulation by SUSEP and CVM. For more information, see " Regulation and Supervision Asset Management Regulation."

Regulation of Internet and electronic commerce

The Brazilian Congress has not enacted any specific legislation regulating electronic commerce. Accordingly, electronic commerce remains subject to existing laws and regulation on ordinary commerce and business transactions.

There are currently several bills dealing with Internet and electronic commerce regulation in the Brazilian congress. The proposed legislation, if enacted, would recognize the legal effect, validity and enforceability of information in the form of electronic messages, allowing parties to enter into an agreement, make an offer, or accept one through electronic messages.

CVM approved new regulations limiting Internet brokerage activities, which may be carried out only by registered companies. Brokers' web pages must contain detailed information about their systems, fees, security and order processing. They must also contain information about how the market functions generally and the risks involved with each type of investment offered.

Brokers that carry out transactions over the Internet must guarantee the security and operability of their systems, which must be audited at least on a half year basis.

Taxation

CPMF (Provisional Contribution on the Turnover or Transfer of Amounts and Credits of a Financial Nature)

Until December 31, 2007, the CPMF was levied at a rate of 0.38% for any checking account entry related to funds kept in Brazil. Despite having been originally instituted as a temporary tax, the term of effectiveness of the CPMF was systematically extended from October 1996 until December 2007. In 2007, there were extensive discussions in the Brazilian National Congress about a Constitutional Amendment proposal that would extend the CPMF again, but the government did not obtain the required number of votes. Therefore, as of January 1, 2008, this tax was no longer levied.

The CPMF was levied on any debt entry in any checking account held in Brazil, except for under specific circumstances.

Certain transactions, however, were exempt from the CPMF, such as:

- financial transactions executed by financial institutions in the ordinary course of business;
- operations carried out on the stock market; and

- operations of acquisition of shares in public offerings filed with the CVM and conducted off the stock market, so long as the issuer was registered for trading shares on a stock exchange.

Moreover, from October 1, 2004 until the CPMF was no longer applicable, its rate was reduced to 0% on debit entries in checking accounts for investment deposits, opened and handled exclusively to conduct fixed variable income financial investments of any nature, including in savings accounts; and on debit entries in special demand deposit accounts, held by low income account holders, subject to maximum transaction limits and to other conditions set forth by CMN and the Brazilian Central Bank.

IOF (Tax on Financial Transactions)

The *Imposto Sobre Operações Financeiras*, known as the "IOF," is a tax on foreign exchange, securities, credit and insurance transactions. The Minister of Finance sets the rate of the IOF subject to a 25.0% ceiling set forth by law. Although the taxpayer is the one conducting the financial operation subject to taxation, the tax is collected by the financial institution involved.

In January 2008, the Brazilian government raised the IOF rate on certain operations, to offset losses from the abolishment of the CPMF.

IOF may be imposed on a variety of exchange transactions, including the conversion of Brazilian currency into any foreign currency. This pertains to the payment of dividends and repatriation of capital invested in our ADSs. Even though the general IOF rate on exchange transactions is 0.38%, it is 0% on exchange transactions of an interbank nature and in foreign exchange operations regarding the payment of dividends and interest on shareholders' equity to foreign investors. The IOF rate was also reduced to 0% on exchange operations of fund entrances in, and exits from, the country referring to funding conducted as of October 2008 as foreign loans and financings.

In October 2009, as a measure to contain the rising value of the *real*, the Brazilian government raised the IOF rate on fund entrance exchange transactions from 0% to 2%, for foreign investors with investments in the Brazilian financial and capital markets. Exchange operations of fund exits from the country continue to have a rate of 0%.

In addition to investments in financial and capital markets, the main foreign currency exchange transactions subject to IOF and respective rates are the following:

- a 5.38% rate applies to conversions of foreign loans into Brazilian currency with a term of less than 90 days;

- a 2.38% rate applies to foreign exchange transactions for the acquisition of goods with credit cards; and

- a 0.38% rate applies to foreign exchange transactions pertaining to import of services or export of goods and services.

The IOF may also be levied on issuances of bonds or securities, including transactions carried out on Brazilian stock, futures or commodities exchanges. The IOF rate levied on operations with preferred shares in general is currently 0%. The Minister of Finance, however, has the legal authority to increase the rate to a maximum of 1.5% per day of the amount of the taxed transaction during the period the investor holds the securities, but only to the extent of the gain realized on the transaction, and only from the date of its increase or creation.

In November 2009, the Brazilian government made use of this prerogative and increased the IOF rate from 0% to 1.5% on assignment transactions involving shares of any type (including preferred shares) that are traded on a stock exchange located in Brazil, with the specific purpose of guaranteeing the issuance of ADSs.

The IOF is levied on all types of loan transactions, including overdraft loans, at a rate of 0.0041% per day on the amount of principal. Until November 2008, the rate applicable to loans raised by corporate entities was 0.0082%. In those loan transactions in which the principal amount is not determined prior to the transaction, in addition to the principal, the IOF tax is also levied on interest and other charges at the same rate. In any case, the IOF tax is subject to a maximum rate of 1.5% during any one year.

Additionally, since January 2008, credit operations are subject to IOF at an additional rate of 0.38%, regardless of the transaction term and regardless of whether the borrower is an individual or corporate entity.

The IOF is levied on insurance transactions at a rate of:

- 0%, in the case of reinsurance or mandatory insurance pertaining to housing financing carried out by an agent of the housing financial system, credit related export transactions, international transportation of goods, rural insurance or premiums designated to fund life insurance plans containing life coverage; or

- 0.38% of premiums paid, in the case of life insurance and similar policies, for personal and labor accidents, including mandatory insurance for property damage caused by automobiles or ships or by cargo to persons both transported and not;

- 2.38% of premiums paid, in the case of private health insurance; and

- 7.38% of premiums paid, in the case of other segments of insurance.

IOF is also assessed on gains realized in transactions with terms of up to 30 days consisting of the sale, assignment, repurchase or renewal of fixed income investments or the redemption of shares of financial investment funds, variable income funds or investment pools. For more information on financial investment funds and variable income funds, see " Regulation and Supervision Asset management regulation." The maximum rate of IOF payable in such cases is 1.0% per day and decreases with the length of the transaction, reaching zero for transactions with maturities of at least 30 days, except that the rate for the following types of transactions is currently 0%:

- transactions carried out by financial institution and other institutions chartered by the Central Bank as principals;

- transactions carried out by mutual funds or investment pools themselves;

- transactions carried out in the equity markets, including those performed in stock, futures and commodities exchanges and similar entities; and

- redemptions of shares in equity funds.

Income tax and social contribution on profits

Federal taxes that are levied on a company's income include two components, an income tax known as "IRPJ" and a social contribution tax on net profits, which is known as the "Social Contribution Tax." The IRPJ is levied at a rate of 15.0%, increased by an additional income tax at a rate of 10.0%. Considering the above, the IRPJ is assessed at a combined rate of 25.0% of adjusted net income. The Social Contribution Tax is usually assessed at a rate of 9.0% of adjusted net income. However, since May 2008, financial institutions and affiliated companies are taxed at a rate of 15.0%.

For further information on our income tax expense, see note 16 to our consolidated financial statements in "Item 18. Financial Statements."

Companies are taxed based on their worldwide income rather than on income produced solely in Brazil. As a result, profits, capital gains and other income obtained abroad by Brazilian entities are computed in the determination of their profits. The Brazilian entity is allowed to deduct income tax paid abroad based on the same income (i) according to the terms and conditions of any existing income tax treaty or (ii) up to the amount of Brazilian income taxes imposed on such income, since there is reciprocal treatment between Brazil and the country where the profit or gain is obtained, such as the United States of America. Profits realized by the end of each year by an offshore entity which is a branch, controlled or affiliated to a Brazilian entity are regarded as available to the Brazilian entity and, as a consequence, are subject to the payment of income tax in Brazil.

The profits or dividends generated and paid by Brazilian entities since 1996 are not subject to withholding income tax, nor to corporate income tax or individual income tax on the person receiving the dividend either in Brazil or abroad.

However, as the payment of dividends is not tax deductible for the corporation distributing them, there is an alternative regime for shareholder compensation called "interest on shareholders' equity," which allows corporations to deduct interest paid to shareholders from net profits for tax purposes. This deduction is limited to the product of (i) the variation *pro rata die* of the long term interest rate disclosed by the Brazilian government, known as "TJLP", times (ii) the corporation's net worth calculated in accordance with generally accepted accounting principles in Brazil, and may not exceed the greater of:

- 50.0% of net income (before taking such distribution and any deductions for income taxes into account) for the year in respect of which the payment is made, as measured in accordance with generally accepted accounting principles in Brazil; or

- 50.0% of retained earnings for the year prior to the year in respect of which the payment is made, as measured in accordance with generally accepted accounting principles in Brazil.

Distributions of interest on shareholders' equity to holders of preferred shares, including payments to the depositary bank in respect of preferred shares underlying ADSs, are subject to a Brazilian withholding tax at a rate of 15.0%, except for payments to (i) people who are exempt from tax in Brazil or (ii) people situated in tax havens. In the latter case, payments are subject to income tax at a rate of 25.0%. For more information on the taxation of interest on shareholders' equity, see "Item 10.E. Taxation Brazilian tax considerations Distributions of interest on shareholders' equity."

Accumulated net operating losses of Brazilian companies can be offset with future taxable income during any one year up to 30.0% of annual taxable income.

Gains realized by Brazilian residents on any disposition of preferred shares in Brazilian stock exchanges or similar markets are generally taxed at the following rates:

- 20.0% if the transaction is "day traded" on a stock exchange; or

- 15.0% for all other transactions.

In addition, Brazilian residents who carry out transactions on stock, goods, futures and similar markets, except for day trades, are subject to a withholding income tax of 0.005% as follows:

- with respect to the futures market, the sum of the daily adjustments, if positive, refined by the closing balance, before or upon its term;

- with respect to the options market, the result, if positive, of the sum of the paid and received premiums for the same day;

- with respect to term contracts, which provide for delivery of assets on a set date, the difference, if positive, between the price on the delivery date and the cash price on the closing date;

- with respect to term contracts having solely a financial component, the amount of the closing as specified by the contract; and

- with respect to the spot market, the amount of the sale of shares, gold or other securities traded on that market.

This taxation system was created in order to make it easier for the Brazilian Internal Revenue Service to verify transactions made in the financial and capital markets. Withholding income taxes may be (i) deducted from the income tax levied on net monthly profits; (ii) offset with the income tax due in the following months; (iii) offset with the income tax annual declaration of adjustment (if there is any withheld tax accounted for in the balance); or (iv) offset with the outstanding withholding income tax due over capital gains from the sale of shares.

Brazilian residents carrying out day trade transactions on stock, commodities or futures exchanges, or similar markets, are also subject to an additional withholding tax in a similar way to that described above, but the rate is 1%. This tax can be equally (i) deducted from the income tax levied on net monthly profit or (ii) offset with income tax due in following months (if there is any withheld tax accounted for in the balance).

Gains realized on any sale of preferred shares in Brazil by investors who reside in a jurisdiction that under Brazilian law is deemed to be a "tax haven" (any country that (i) does not impose income tax, (ii) that imposes income tax at a rate of less than 20.0% or (iii) a country whose corporate law opposes confidentiality regarding the shareholders of corporate entities) are subject to the same rates applicable to holders resident in Brazil, as previously described.

Gains realized on the disposition of preferred shares in Brazil by holders who are resident overseas, in a country that, according to Brazilian laws, is not deemed to have favorable taxation, are exempted from Brazilian tax if:

- the proceeds obtained from the disposition of shares are remitted outside Brazil within five business days of the cancellation of the ADSs, which were represented by the shares sold; or

- the foreign investment in the preferred shares is registered in the Central Bank under Resolution 2,689.

Otherwise, the same treatment applicable to residents in Brazil will apply.

The income tax rate is zero over profits from transactions involving Brazilian public bonds acquired as of February 2006, except for bonds subject to resale, in accordance with the rules and conditions established by the CMN. This zero income tax rate is also applicable to income of non residents that invest in quotas of investment funds exclusively for non resident investors, which funds portfolio is composed by, at least, 98% of public securities. This zero tax rate is not applicable when the beneficiary is resident or domiciled in a country deemed to have favorable taxation.

The income tax rate is also zero, under certain conditions, on income from investments in investment funds in equity interests, investment funds in quotas of investment funds in equity interests and investment funds in emerging markets, when such income is paid, credited, delivered or remitted to individual or collective beneficiaries resident or domiciled abroad (except for countries with favorable taxation), whose investments in Brazil are in compliance with the regulations and conditions established by CMN. In addition, investments will be only subject to this zero income tax rate in case these investment funds comply with diversification limits and investment rules comprised in CVM regulation.

The income of Brazilian residents from redemption, sale or amortization of quotas of investments in investment funds in equity interests, investment funds in quotas of investment funds in equity interests and investment funds in emerging markets, including the income resulting from the settlement of the fund, is subject to an income tax rate of 15% on the positive difference between the redemption or sale value and the acquisition cost.

In December 2008, the Brazilian government created the Transition Tax Regime ("RTT") to neutralize the impact of the new accounting methods and criteria introduced in December 2008, as part of Brazil's adoption of international accounting rules. The adoption of RTT which, will be in force until the law ruling the tax effects of the new accounting methods and criteria becomes effective, was optional for 2008 and 2009 but became mandatory in 2010 fiscal year, including for purposes of determining the social contribution, PIS and COFINS. We have elected to adopt the RTT for fiscal year 2008.

In June 2010, a law was enacted setting forth thin capitalization rules, and imposing limits to the deduction of interest paid or credited by a Brazilian company to (i) an addressee domiciled abroad that a holder or not of an equity interest in the company performing such payment, and (ii) an addressee resident, domiciled or organized in a country or locality with a low or privileged tax regime.

In cases where the creditor is domiciled abroad and holds an equity interest in the Brazilian company performing the payment, the debt amount may not exceed the equivalent to two times such shareholders' interest in the total shareholders' equity of the Brazilian company. In case of a creditor domiciled abroad with no shareholding interest, the limit will be equivalent to two times the total shareholders' equity of the Brazilian company. If there is more than one creditor, the amount of the total indebtedness owed to foreign companies may not exceed the equivalent of two times the total interests of all foreign companies in the shareholders' equity of the Brazilian company. In cases where the indebtedness is exclusively related to foreign companies that do not have equity interests in the Brazilian company, the global limit will be equivalent to two times the shareholders' equity of the Brazilian company. If the creditor is domiciled in a low tax jurisdiction the debt amount may not exceed 30.0% of the shareholders' equity of the Brazilian company. Any amounts exceeding the limits above such limit may not be deducted for purposes of withholding income tax and social contributions.

Also beginning in June 2010, the tax deductions for any payment to a beneficiary resident or domiciled in a country considered a tax haven became subject to the following requirements along with any others already covered in the legislation: (i) identification of the actual beneficiary of the person domiciled abroad; (ii) proof of the ability of the person located abroad to complete the transaction; and (iii) documented proof of payment of the respective price and of receipt of the assets, rights, or utilization of service.

PIS and Cofins

Two federal taxes are imposed on the gross revenues of corporate entities: PIS and COFINS. Nonetheless, many revenues, such as dividends, equity in earnings of unconsolidated companies, revenues from the sale of fixed assets and export revenues paid in foreign currency are not included in the calculation base for PIS and COFINS. Revenues earned by corporations domiciled in Brazil are subject to PIS and COFINS taxes corresponding to interest on shareholders' equity credits.

Brazilian laws authorize certain adjustments to the calculation base of those taxes depending on the business segment and on other aspects.

Between 2002 and 2003, the Brazilian government implemented a non cumulative collection system in respect of PIS and COFINS, allowing taxpayers to determine their calculation basis by discounting credits that originate from certain transactions. In order to offset these discounts, the rates of both PIS and COFINS were substantially increased. Pursuant to the changes made to PIS and COFINS, as of May 2004, both taxes are applicable to goods and services imported from foreign countries by a company located in Brazil.

As of August 2004, PIS and COFINS rates were eliminated for financial income earned by companies subject to the non cumulative applicability of these taxes. However, taxes on payments of interest on shareholders' equity were not eliminated.

Certain economic activities are expressly excluded from the non cumulative collection system of both PIS and COFINS. Financial institutions remain subject to PIS and COFINS according to the "cumulative" method, which does not allow any credits to be discounted.

PIS is charged based on the total revenue generated by entities and is charged at a rate of 0.65% in the case of financial institutions.

Before February 1, 1999, we were not a COFINS taxpayer. On February 1, 1999, COFINS was imposed on our gross revenues at a rate of 3.0%. After September 1, 2003, this tax rate was increased to 4.0% for financial institutions. The calculation base for COFINS is the same as that for PIS.

SELECTED STATISTICAL INFORMATION

We have included the following information for analytical purposes. You should read this information in conjunction with "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements in Item 18. Financial Statements.

Average balance sheet and interest rate data

The following table presents the average balances of our interest earning assets and interest bearing liabilities, other assets and liabilities accounts, the related interest income and expense amounts and the average real yield/rate for each period. We calculated the average balances using the month end book balances, which include the related allocated interest. These average balances represent our operations.

We show liabilities in two categories: local and foreign currencies. Local currency balances represent liabilities expressed in *reais*, while foreign currency balances represent liabilities denominated in foreign currencies, primarily the U.S. dollar.

Table of Contents

We excluded non performing loans from "Loans" in determining average assets and liabilities, and classified them as non interest earning assets. Cash received on non performing loans during the period are included in interest income on loans. We do not consider these amounts significant.

We do not present interest income on a tax equivalent basis, as Brazilian tax law does not currently provide for tax exemptions for interest earned on investment securities.

Additionally, fees received from various loan commitments are included in interest income on loans. We do not consider these amounts significant.

	December 31,								
	2007			2008			2009		
	Average balance	**Interest**	**Average yield/ Interest**(a)	**Average balance**	**Interest**	**Average yield/ Interest**(a)	**Average balance**	**Interest**	**Average yield/ Interest**(a)
	(R$ in millions, except %)								
Interest earning assets(1):									
Loans	R$105,470	R$22,608	21.4%	R$146,404	R$33,662	23.0%	R$173,048	R$32,708	18.9%
Federal funds sold and securities purchased under agreements to resell	33,299	3,429	10.3	46,893	6,466	13.8	68,998	7,701	11.2
Trading assets	52,787	5,677	10.8	72,789	7,685	10.6	94,940	8,737	9.2
Available for sale securities(2)	21,760	2,843	13.1	24,727	3,248	13.1	28,650	2,591	9.0
Held to maturity securities	2,762	279	10.1	3,458	509	14.7	3,927	439	11.2
Interest bearing deposits in other banks	7,635	429	5.6	8,360	706	8.4	10,164	506	5.0
Other interest earning assets:									
Brazilian Central Bank compulsory deposits	18,858	1,207	6.4	24,590	1,489	6.1	23,967	1,434	6.0
Other assets	716	37	5.2	648	38	5.9	601	35	5.8
Interest earning assets	**243,287**	**36,509**	**15.0**	**327,869**	**53,803**	**16.4**	**404,295**	**54,151**	**13.4**
Non interest earning assets(3)									
Cash and due from bank	5,006			6,193			8,872		
Brazilian Central Bank compulsory deposits	6,868			7,338			7,299		
Available for sale securities	2,472			2,472			3,792		
Non performing loans	5,576			4,312			6,603		
Allowance for loan losses	(7,114)			(8,726)			(13,481)		
Equity investees and other investments	518			875			772		
Premises and equipment, net	2,710			3,066			4,356		
Goodwill	893			1,056			1,252		
Intangible assets	1,594			3,057			3,515		
Others	27,646			29,034			36,656		
Total non interest earning assets	**46,169**			**48,677**			**59,636**		
Total assets	**R$289,456**	**R$36,509**	**12.6%**	**R$376,546**	**R$53,803**	**14.3%**	**R$463,931**	**R$54,151**	**11.7%**

99

Table of Contents

	December 31,								
	2007			2008			2009		
	Average balance	Interest	Average yield/ Interest(a)	Average balance	Interest	Average yield/ Interest(a)	Average balance	Interest	Average yield/ Interest(a)
	(R$ in millions, except %)								
Interest bearing liabilities:									
Deposits from financial institutions:									
Domestic(3)	R$ 223	R$ 33	14.8%	R$ 404	R$ 80	19.8%	R$ 551	R$ 62	11.3%
Foreign(4)							43	5	11.6
Total	**223**	**33**	**14.8**	**404**	**80**	**19.8**	**594**	**67**	**11.3**
Savings deposits:									
Domestic(3)	28,958	2,002	6.9	34,538	2,442	7.1	39,349	2,450	6.2
Total	**28,958**	**2,002**	**6.9**	**34,538**	**2,442**	**7.1**	**39,349**	**2,450**	**6.2**
Time deposits:									
Domestic(3)	32,322	3,405	10.5	58,843	6,959	11.8	93,137	8,851	9.5
International(4)	2,066	119	5.8	3,390	155	4.6	5,982	78	1.3
Total	**34,388**	**3,524**	**10.2**	**62,233**	**7,114**	**11.4**	**99,119**	**8,929**	**9.0**
Federal funds purchased and securities sold under agreements to repurchase	**51,384**	**5,540**	**10.8**	**74,139**	**9,169**	**12.4**	**92,759**	**8,704**	**9.4**
Borrowings:									
Short term:									
International(4)	6,892	(727)	(10.5)	10,252	4,899	47.8	10,798	(2,197)	(20.3)
Total	**6,892**	**(727)**	**(10.5)**	**10,252**	**4,899**	**47.8**	**10,798**	**(2,197)**	**(20.3)**
Long term:									
Domestic(3)	26,715	2,677	10.0	32,712	3,408	10.4	37,524	2,823	7.5
International(4)	5,590	(311)	(5.6)	7,733	1,320	17.1	10,676	242	2.3
Total	**32,305**	**2,366**	**7.3**	**40,445**	**4,728**	**11.7**	**48,200**	**3,065**	**6.4**
Total interest bearing liabilities	**154,150**	**12,738**	**8.3**	**222,011**	**28,432**	**12.8**	**290,819**	**21,018**	**7.2**
Non interest bearing liabilities:									
Demand deposits:									
Domestic(3)	22,185			25,991			27,724		
International(4)	126			314			447		
Total	**22,311**			**26,305**			**28,171**		
Other non interest bearing liabilities	**85,091**			**93,862**			**105,159**		
Total non interest bearing liabilities	**107,402**			**120,167**			**133,330**		
Total liabilities	**261,552**	**12,738**	**4.9**	**342,178**	**28,432**	**8.3**	**424,149**	**21,018**	**5.0**
Shareholders' equity of the parent company	**27,731**			**33,180**			**39,352**		
Noncontrolling interest on consolidated subsidiaries	**173**			**1,188**			**430**		
Total liabilities, shareholders' equity and Noncontrolling interest	**R$ 289,456**	**R$ 12,738**	**4.4%**	**R$ 376,546**	**R$ 28,432**	**7.6%**	**R$ 463,931**	**R$ 21,018**	**4.5%**

(1) Primarily denominated in *reais*.

(2) Calculated using the historical average of amortized cost. If calculated using the book value, the average yield/rate amounts would be 7.8% in 2009, 12.4% in 2008 and 12.5% in 2007.

(3) Denominated in *reais*.

(4) Denominated in foreign currency, primarily U.S. dollars.

Changes in interest income and expenses volume and rate analysis

The following table shows the effects of changes in our interest income and expense arising from changes in average volumes and average yield/rates for the periods presented. We calculated the changes in volume and interest rate based on the evaluation of average balances during the period and changes in average interest rates on interest earning assets and interest bearing liabilities. We allocated the net change from the combined effects of volume and rate proportionately to the average volume and rate, in absolute terms, without considering positive and negative effects.

Table of Contents

	December 31,					
	2008/2007			2009/2008		
	Increase/(decrease) due to changes in:					
	Average volume	Average yield/rate (a)	Net change	Average volume	Average yield/rate (a)	Net change
	(*R$ in million*)					
Interest earning assets:						
Loans	R$ 9,311	R$ 1,743	R$ 11,054	R$ 5,575	R$ (6,529)	R$ (954)
Federal funds sold and securities purchased under agreements to resell under agreements to resell	1,659	1,378	3,037	2,634	(1.399)	1,235
Trading assets	2,114	(106)	2,008	2,128	(1,076)	1,052
Available for sale securities	390	15	405	461	(1,118)	(657)
Held to maturity securities	82	148	230	63	(133)	(70)
Interest bearing deposits in other banks	44	233	277	131	(331)	(200)
Brazilian Central Bank compulsory deposits	350	(68)	282	(37)	(18)	(55)
Other assets	(4)	5	1	(3)		(3)
Total interest earning assets	**13,946**	**3,348**	**17,294**	**10,952**	**(10,604)**	**348**
Interest bearing liabilities:						
Deposits from financial institutions						
Domestic	33	14	47	23	(41)	(18)
Foreign					5	5
Total	**33**	**14**	**47**	**23**	**(36)**	**(13)**
Savings deposits:						
Domestic	394	46	440	318	(310)	8
Total	**394**	**46**	**440**	**318**	**(310)**	**8**
Time deposits:						
Domestic	3,092	462	3,554	3,460	(1,568)	1,892
International	64	(28)	36	75	(152)	(77)
Total	**3,156**	**434**	**3,590**	**3,535**	**(1,720)**	**1,815**
Federal funds purchased and securities sold under agreements to repurchase	2,724	905	3,629	2,019	(2,484)	(465)
Borrowings:						
Short term:						
International	(196)	5,822	5,626	248	(7,344)	(7,096)
Total	**(196)**	**5,822**	**5,626**	**248**	**(7,344)**	**(7,096)**
Long term:						
Domestic	621	110	731	453	(1,038)	(585)
International	(77)	1,708	1,631	369	(1,447)	(1,078)
Total	**544**	**1,818**	**2,362**	**822**	**(2,485)**	**(1,663)**
Total interest bearing liabilities	**R$ 6,655**	**R$ 9,039**	**R$ 15,694**	**R$ 6,965**	**R$ (14,379)**	**R$ (7,414)**

Net interest margin and spread

The following table shows the average balance of our interest earning assets, interest bearing liabilities and net interest income, and compares the net interest margin and net interest spread for the periods indicated:

	December 31, 2007	December 31, 2008	December 31, 2009
	(R$ in millions, except %)		
Average balance of interest earning assets	R$ 243,287	R$ 327,869	R$ 404,295
Average balance of interest bearing liabilities	154,150	222,011	290,819
Net interest income[1]	R$ 23,771	R$ 25,371	R$ 33,133
Interest rate on the average balance of interest earning assets	15.0%	16.4%	13.4%
Interest rate on the average balance of interest bearing liabilities	8.3%	12.8%	7.2%
Net yield on interest earning assets[2]	6.7%	3.6%	6.2%
Net interest margin[3]	9.8%	7.7%	8.2%

(1) Total interest income less total interest expenses

(2) Difference between the yield on the rates of the average interest earning assets and the rate of the average interest bearing liabilities.

(3) Net interest income divided by average interest earning assets.

Table of Contents

Return on equity and assets

The table below shows selected financial indices for the periods indicated:

	December 31, 2007	2008	2009
	(*R$ in millions, except % and per share information*)		
Parent Company´s net income	R$ 7,908	R$ 7,018	R$ 9,216
Average total assets	289,456	376,546	463,931
Average shareholders' equity of the parent company	R$ 27,731	R$ 33,180	R$ 39,352
Parent Company´s net income as a percentage of average total assets	2.7%	1.9%	2.0%
Total Parent Company´s net income as a percentage of average shareholders' equity	28.5%	21.2%	23.4%
Average shareholders' equity of the parent company as a percentage of average total assets	9.6%	8.8%	8.5%
Dividends payout ratio per class of shares(1)	0.36	0.37	0.31

(1) Total declared dividends per share divided by net income.

Securities portfolio

The table below shows our portfolio of trading assets, available for sale securities and held to maturity securities as of the dates indicated. The amounts below exclude our equity investees. For additional information on our equity investees and other investments, see note 9 to our consolidated financial statements included in Item 18. Financial Statements. The amounts also exclude our compulsory holdings of Brazilian government securities, as required by the Central Bank. For more information on our compulsory holdings, see note 3 to our consolidated financial statements included in Item 18. Financial Statements. We state trading assets and available for sale securities at market value. See notes 2(e), 2(f), 2(g), 2(h), 4, 5 and 6 to our consolidated financial statements included in Item 18. Financial Statements for a further description of our treatment of trading assets and available for sale securities and held to maturity securities.

	December 31, 2007	2008	2009
	(*R$ in millions, except %*)		
Trading securities:			
Mutual funds(1)	R$ 36,532	R$ 41,042	R$ 50,677
Brazilian government securities	16,741	35,727	44,101
Corporate debt securities	1,846	5,950	4,992
Brazilian sovereign bonds	36	43	35
Derivative financial instruments	1,134	2,387	1,371
Bank debt securities	956	4,490	4,839
Foreign government securities	1,901	1,756	82

Public company shares		454	
Total	**R$ 59,146**	**R$ 91,849**	**R$ 106,097**
Trading securities as a percentage of total assets	17.7%	21.1%	21.4%
Available for sale securities:			
Brazilian government securities	R$ 23,190	R$ 20,450	R$ 25,976
Brazilian sovereign bonds	438	1,777	1,472
Corporate debt securities	1,364	4,105	4,363
Bank debt securities	80	438	1,203
Foreign government securities			130
Marketable equity securities	4,581	3,185	4,090
Total	**R$ 29,653**	**R$ 29,955**	**R$37,234**
Available for sale securities as a percentage of total assets	8.9%	6.9%	7.5%
Held to maturity securities:			
Brazilian government securities	R$2,643	R$2,961	R$2,951
Brazilian sovereign bonds(2)	288	1,073	856
Foreign government securities	50	63	76
Total	**R$ 2,981**	**R$ 4,097**	**R$ 3,883**
Held to maturity securities as a percentage of total assets	0.9%	0.9%	0.8%

(1) Includes investments funds with respect to investments contracts (see Note 2(v)).

(2) See note 6 to our consolidated financial statements included in Item 18. Financial Statements.

Maturity distribution

The following table sets forth the maturity dates and weighted average yield, as of December 31, 2009, of our trading securities, available for sale securities and held to maturity securities.

As of December 31, 2009, we held no tax exempt securities in our portfolio.

	December 31, 2009											
	Due in 1 year or less	Average yield	Due after 1 year to 5 years	Average yield	Due after 5 years to 10 years	Average yield	Due after 10 years	Average yield	Unspecified maturity	Average yield	Total	Average yield
	(In millions of R$, except percentages)											
Trading securities, at fair value:												
Brazilian government securities	**34,030**	**9.9 %**	**8,985**	**9.4 %**	**1,063**	**9.3 %**	**23**	**6.3 %**			**44,101**	**11.5%**
Fixed rate	121	9.1	1,862	11. 3	39	12.3	2	6.4			2,024	12.5
Floating rate	33,909	9.9	7,123	8.9	1,024	9.2	21	6.3			42,077	11.4
Brazilian sovereign bonds			**35**	**8.9**							**35**	**8.9**
Floating rate bills of exchange			35	8.9							35	8.9
Foreign government securities	**82**	**6.1**									**82**	**6.1**
Floating rate bills of exchange	82	6.1									82	6.1
Bonds issued by non financial institutions	**2,388**	**11.0**	**1,862**	**11.3**	**710**	**11.9**	**32**	**8.7**			**4,992**	**12.7**
Floating rate bills of exchange	15	9.6	26	8.4	15	6.4	12	8.3			68	9.7
Floating rate	2,373	11.0	1,836	11.3	695	12.0	20	9.0			4,924	12.6
Financial institutions bonds	**138**	**11.3**	**4,230**	**11.9**	**455**	**12.0**	**16**	12.0			**4,839**	**12.8**
Floating rate bills of exchange	9	3.4									9	3.4
Floating rate	129	11.9	4,230	11.9	455	12.0	16	12.0			4,830	12.4
Mutual Funds[1].									**50,677**		**50,677**	
Floating rate									50,677		50,677	
Derivative financial instruments	**664**		**694**		**13**						**1,371**	
Floating rate bills of exchange	34										34	
Floating rate	630		694		13						1,337	
Marketable equity securities[1]												
Floating rate												
Total trading securities	**37,302**		**15,806**		**2,241**		**71**		**50,677**		**106,097**	
Available for sale securities at fair value:												
Brazilian government securities	**592**	**5.7**	**2,748**	**9.2**	**6,041**	**6.6**	**16,595**	**6.4**			**25,976**	**7.7**
Fixed rate			992	11.4							992	11.4
Floating rate	592	5.7	1,756	7.9	6,041	6.6	16,595	6.4			24,984	7.6

Brazilian sovereign bonds	**2**	**11.0**	**636**	**10.2**	**9**	**8.3**	**825**	**11.9**		**1,472**	**11.5**
Floating rate bills of exchange	2	11.0	636	10.2	9	8.3	825	11.9		1,472	11.5
Bonds issued by foreign governments			**130**							**130**	
Floating rate bills of exchange			130							130	
Bonds issued by non financial institutions	**268**	**11.9**	**1,189**	**11.0**	**1,670**	**8.7**	**1,236**	**9.3**		**4,363**	**10.0**
Floating rate	264	12.0	862	11.9	571	11.5	888	10.5		2,585	11.5
Floating rate bills of exchange	4	5.5	327	8.8	1,099	7.3	348	6.4		1,778	7.8
Financial institutions bonds	**70**	**12.4**	**948**	**12.4**	**102**	**8.0**	**83**	**10.2**		**1,203**	**12.4**
Floating rate bills of exchange	15	5.6	219	4.3	102	8.0	11	5.5		347	6.2
Floating rate	55	12.0	729	12.0			72	10.9		856	10.9
Marketable equity securities(1)									**4,090**	**4,090**	
Floating rate									4,090	4,090	
Floating rate bills of exchange											
Total available for sale securities	**932**		**5,651**		**7,822**		**18,739**		**4,090**	**37,234**	
Total held to maturity securities, at amortized cost											
Brazilian government securities	**14**	**9.9**	**109**	**6.5**	**182**	**6.7**	**2,646**	**6.3**		**2,951**	**7.1**
Floating rate	14	9.9	109	6.5	182	6.7	2,646	6.3		2,951	7.1
Brazilian sovereign bonds			**796**	**10.8**	**60**	**8.0**				**856**	**9.9**
Floating rate bills of exchange			796	10.8	60	8.0				856	9.9
Foreign government securities	**76**									**76**	
Floating rate bills of exchange	76									76	
Total held to maturity securities	**90**		**905**		**242**		**2,646**			**3,883**	
Overall Total	**38,324**		**22,362**		**10,305**		**21,456**		**54,767**	**147,214**	

(1) Investments in mutual funds are redeemable at any time in accordance with our liquidity needs. Average yield is not stated, as future yields are not quantifiable These trading securities were excluded from the total yield computation.

(*) The figures above are not adjusted to the exchange rate variation.

Table of Contents

The following table shows our securities portfolio by currency as of the dates indicated:

	At fair value		Amortized cost	
	Trading Securities	Available for sale Securities	Held to maturity securities	Total
	(*R$ in millions*)			
December 31, 2009:				
Indexed to *reais*	R$ 105,869	R$ 33,507	R$ 2,951	R$ 142,327
Denominated in foreign currency(1)	228	3,727	932	4,887
December 31, 2008:				
Indexed to *reais*	89,734	26,413	2,961	118,852
Denominated in foreign currency(1)	2,115	3,542	1,136	7,049
December 31, 2007:				
Indexed to *reais*	R$ 56,241	R$ 28,104	R$ 2,643	R$ 86,988
Denominated in foreign currency(1)	2,905	1,549	338	4,792

(1) Predominantly U.S. dollars.

Brazilian Central Bank compulsory deposits

We are required to either maintain deposits with the Central Bank, or purchase and keep Brazilian government securities as compulsory deposits.

The following table sets forth the amounts of these deposits as of the dates indicated:

	December 31,					
	2007		2008		2009	
	R$	% of total compulsory deposits	R$	% of total compulsory deposits	R$	% of total compulsory deposits
	(*R$ in millions, except %*)					
Total deposits:						
Non interest earning(1)	R$ 8,919	28.0%	R$ 5,591	21.2%	R$ 8,962	27.4%
Interest earning(2)	22,894	72.0	20,793	78.8	23,734	72.6
Total	**R$ 31,813**	**100.0%**	**R$ 26,384**	**100.0%**	**R$ 32,696**	**100.0%**

(1) Primarily demand deposits

(2) Primarily time and savings deposits

Credit operations

The following table summarizes our outstanding loans by category of transaction. Substantially all of our loans are with borrowers domiciled in Brazil and are denominated in *reais*. The majority of our loans are denominated in *reais* and indexed to fixed or variable interest rates. A smaller portion of them are denominated in, or indexed to, the U.S. dollar and subject to fixed interest rates.

	December 31,				
	2005	2006	2007	2008	2009
	(*R$ in millions*)				
Type of credit operations					
Commercial					
Industrial and others	R$ 28,690	R$ 32,604	R$ 44,380	R$ 62,216	R$ 62,886
Import financing	1,100	1,465	2,179	3,350	3,824
Export financing	10,067	12,934	15,342	24,130	18,137
Leasing	2,491	3,842	8,097	20,096	19,787
Construction	523	519	1,634	3,134	4,201
Individuals					
Overdraft	1,572	1,263	1,881	2,409	2,604
Real estate	832	1,326	1,571	2,174	2,640
Financing(1)	25,187	28,828	38,791	34,325	36,604
Credit card	1,830	2,652	2,330	2,501	3,452
Rural credit	6,369	7,399	9,032	10,459	11,661
Foreign currency loans	1,900	1,546	2,529	2,769	2,958
Public Sector	49	62	94	94	88
Non performing loans	2,701	4,284	5,277	7,178	11,092
Allowance for loan losses	(4,964)	(6,552)	(7,769)	(10,318)	(14,572)
Loans, net	**R$ 78,347**	**R$ 92,172**	**R$ 125,368**	**R$ 164,517**	**R$ 165,362**

(1) Constituted primarily by loans for the acquisition of vehicles and direct consumer financing.

The types of credit operations presented above are as follows:

Commercial commercial loans include loans to corporate customers, including small businesses, as well as financing imports for corporate customers. We also provide advances to corporate exporters under trade exchange contracts, which are typically short term and medium term loans;

Leasing leasing contracts consist primarily of leases of equipment and automobiles to both corporate and individual borrowers;

Construction real estate construction financing consists primarily of mortgage loans to construction companies;

Individuals loans to individuals include mortgage loans to individuals for the purchase of their own residences, which generally have long term maturities, credit cards and lines of credit provided to individuals under pre approved credit limits as a result of overdrafts on their deposit accounts. We offer individuals personal loans for various other purposes, classified as "financing," which consist of loans for the acquisition of vehicles and direct consumer financing;

Rural credit rural credit consists of loans to borrowers who operate rural businesses, mainly in the agricultural and livestock sectors;

Foreign currency loans foreign currency loans are onlending financing raised by Brazilian companies that are indexed to the U.S. dollar and are subject to foreign exchange rate variations and accrued interest;

Public sector public sector credit operations are loans to Brazilian federal, state and municipal governments or agencies;

Non performing loans we classify all loans that are sixty days or more overdue as non performing. Once the credits are classified as non performing loans, we stop accruing interest on them;

Impairment clients with significant loans whose profile indicates that they may have difficulty making their payments, or that their credit rating has declined, presenting probable losses for us. These loans are classified as "impaired" and are subject to review in accordance with ASC 310, "Accounting for Impairment of a Loan by a Creditor."

We estimate the value of impaired loans based on:

- the present value of expected future cash flows discounted at the loan's effective interest rate; and
- for collateral dependent loans, the fair value of the underlying collateral.

Through the allowance for loan losses, we establish a valuation allowance for the difference between the carrying value of the impaired loan and its estimated value, as determined above. We periodically adjust the allowance for loan losses based on an analysis of the loan portfolio.

We provision up to 100.0% of the outstanding amount of those loans, which are classified as "non performing" instead of impaired. We provision these sums up to 180 days before payments under such loans become due, depending on the credit rating of the debtor.

Homogeneous loans with small outstanding balances, such as overdraft loans, credit cards, residential mortgages and consumer credit, are considered in the aggregate for the purpose of evaluating the risk of default based on our prior experiences with default, current economic conditions, client profiles and internal risk classification.

Charge offs

Loans are charged off when they are between 180 and 360 days overdue, depending on their initial risk classification. Generally, the charge off takes place after 360 days. However, the charge off might be postponed for longer term loans (that will mature after 36 months), until they are up to 540 days overdue.

We generally carry overdue loans as non performing loans before charging them off. The allowance for loan losses related to any loan remains on our books until the loan is charged off.

There were no changes made to our loan classification system. For more information on our categorization of loans, see " Regulation and Supervision Bank regulations Treatment of credit operations."

Credit approval process

For a description of our credit approval process, see " Credit Policy."

Indexation

The majority of our loan portfolio is denominated in *reais*. However, a portion of our loan portfolio is indexed or denominated in foreign currencies, predominantly the U.S. dollar. Our loans indexed to and denominated in U.S. dollars consist of onlending of Eurobonds and export and import financing, and represented 11.2%, 14.8% and 13.2% of our loan portfolio as of December 31, 2009, 2008 and 2007, respectively. In many cases our clients hold derivative instruments to minimize exchange rate variation risk.

Maturities and interest rates of loans

The following tables show the distribution of maturities of our loans by type, as well as the composition of our loan portfolio by interest rate and maturity, as of the dates indicated:

	December 31, 2009									
	Due within 30 days or less	Due in 31 to 90 days	Due in 91 to 180 days	Due in 181 to 360 days	Due in 1 to 3 years	Due after 3 years	No stated maturity(1)	Total loans, gross	Allowance for loan losses	Total
Type of loan:	(*R$ in millions*)									
Commercial:										
Industrial and others	R$12,276	R$12,663	R$7,370	R$7,950	R$14,205	R$7,862	R$3,565	R$65,891	R$ (5,802)	R$60,089
Import financing	388	1,028	1,238	503	224	443	10	3,834	(55)	3,779
Export financing	1,453	2,738	1,895	1,942	6,675	3,434	323	18,460	(374)	18,086
Construction	16	44	121	492	2,547	980	26	4,226	(47)	4,179
Leasing	1,297	1,181	1,834	3,407	10,898	1,135	1,715	21,467	(1,889)	19,578
Individuals:										
Overdraft	2,432						568	3,000	(379)	2,621
Real estate	18	47	69	133	554	1,808	103	2,732	(251)	2,481
Financing(2)	2,936	4,617	5,195	7,519	13,048	3,047	3,832	40,194	(3,897)	36,297
Credit cards							5,115	5,115	(1,291)	3,824
Rural credit	115	897	2,029	3,531	1,627	3,412	358	11,969	(586)	11,383
Foreign currency loans	296	298	157	865	585	732	25	2,958	(1)	2,957
Public Sector	2	3	4	8	31	40		88		88
Total	**R$21,229**	**R$23,516**	**R$19,912**	**R$26,350**	**R$50,394**	**R$22,893**	**R$15,640**	**R$179,934**	**R$(14,572)**	**R$165,362**

(1) Primarily composed of non performing credit cards and loans.

(2) Primarily composed of loans for the acquisition of vehicles and direct consumer financing.

December 31, 2009							
Due within 30 days or less	Due in 31 to 90 days	Due in 91 to 180 days	Due in 181 to 360 days	Due in 1 to 3 years	Due after 3 years	No stated maturity	Total loans, gross
(*R$ in millions*)							

Types of loans to customer by maturity								
Floating or adjustable rates(1)	R$4,988	R$5,381	R$6,615	R$9,693	R$18,062	R$14,449	R$11,092	R$70,280
Fixed rates	16,241	18,135	13,297	16,657	32,332	8,444	4,548	109,654
Total	**R$21,229**	R$**23,516**	R$**19,912**	R$**26,350**	R$**50,394**	R$**22,893**	R$**15,640**	R$**179,934**

(1) Includes non performing loans.

Outstanding foreign loans

The aggregate amount of our outstanding cross border commercial loans that are denominated in foreign currencies are mainly raised in U.S. dollars by subsidiaries of Brazilian companies through our Cayman branch. These loans represented, on average, approximately 3.0% of our total assets over the last three years. We believe that there are no significant cross border risks on these transactions, since a substantial part of the related credit risk is guaranteed by the parent company in Brazil of each subsidiary. The remainder of our outstanding cross border transactions mainly includes investments in securities, which represented, on average, approximately 2.0% of our total assets over the last 3 years.

Additionally, our deposit base is primarily comprised of Brazilian residents, and the amount of deposits in our branches outside Brazil is less than 10.0% of our total deposits, and is therefore not considered significant.

Loans by economic activity

The following table summarizes our loans by borrowers' economic activity, as of the dates indicated. This table does not include non performing loans.

Table of Contents

	December 31,					
	2007		2008		2009	
	Loan portfolio	**% of loan portfolio**	**Loan portfolio**	**% of loan portfolio**	**Loan portfolio**	**% of loan portfolio**
			(R$ in millions, except %)			
Industrial:						
Food, beverages and tobacco	R$ 6,547	5.1%	R$ 9,733	5.8%	R$ 8,083	4.8%
Electric and electronic, communication equipment	812	0.6	1,196	0.7	1,094	0.6
Chemicals and pharmaceuticals	3,847	3.0	5,592	3.3	3,855	2.3
Civil construction	3,271	2.6	3,268	2.0	5,379	3.2
Basic metal industries	2,446	1.9	6,171	3.7	3,599	2.1
Textiles, clothing and leather goods	2,602	2.0	3,654	2.2	2,475	1.5
Manufacturing of machinery and equipment	1,947	1.5	2,246	1.3	2,227	1.3
Paper, paper products, printing and publishing	2,121	1.7	3,709	2.2	2,752	1.6
Automotive	2,530	2.0	3,478	2.1	3,599	2.1
Non metallic minerals	529	0.4	678	0.4	704	0.4
Rubber and plastic	1,385	1.1	1,876	1.1	1,583	0.9
Information technology and office equipment	155	0.1			196	0.1
Wood and wood products, including furniture	747	0.6	972	0.6	2,621	1.6
Extractive	1,563	1.2	1,878	1.1	1,783	1.1
Petrochemicals	270	0.2	1,951	1.2	1,145	0.7
Others	9,522	7.5	14,224	8.5	14,323	8.5
Subtotal	**40,294**	**31.5**	**60,626**	**36.2**	**55,418**	**32.8**
Individuals:						
Consumer loans	43,002	33.6	39,235	23.4	42,660	25.3
Real estate	1,571	1.2	2,174	1.3	2,640	1.5
Lease financing	251	0.2	808	0.5	938	0.6
Subtotal	**44,824**	**35.0**	**42,217**	**25.2**	**46,238**	**27.4**
Real Estate Construction	**1,634**	**1.3**	**3,134**	**1.8**	**4,201**	**2.5**
Commercial						
Retail	9,725	7.6	14,472	8.6	14,524	8.6
Wholesale	5,842	4.6	7,833	4.7	8,251	4.9
Lodging and catering services	592	0.5	1,260	0.8	1,180	0.7
Subtotal	**16,159**	**12.7**	**23,565**	**14.1**	**23.955**	**14.2**
Financial services:						
Financial institutions	1,048	0.8	1,211	0.7	2,627	1.5
Insurance companies and private pension plans	44		108	0.1	114	0.1

Subtotal	**1,092**	**0.8**	**1,319**	**0.8**	**2,741**	**1.6**
Services						
Telecommunications	1,191	0.9	811	0.5	517	0.3
Service providers	3,544	2.8	3,472	2.1	4,141	2.5
Transportation	5,559	4.4	8,927	5.3	8,473	5.0
Real estate	1,364	1.1	5,538	3.3	5,963	3.5
Health and social services	787	0.6	1,781	1.1	1,195	0.7
Leisure	824	0.6	880	0.5	932	0.5
Education	426	0.3	413	0.2	475	0.3
Public administration and defense	73	0.1			76	0.1
Other	1,057	0.8	4,515	2.7	2,856	1.7
Subtotal	**14,825**	**11.6**	**26,337**	**15.7**	**24,628**	**14.6**
Agriculture, breeding, forestry and fishing	**9,032**	**7.1**	**10,459**	**6.2**	**11,661**	**6.9**
Total	**R$ 127,860**	**100.0%**	**R$ 167,657**	**100.0%**	**R$ 168,842**	**100.0%**

Non performing loans and allowance for loan losses

The following table presents a summary of our non performing loans (comprised entirely of non accrual loans) together with certain asset quality ratios, as of the dates indicated. We aggregate small balances, of homogeneous loans, such as overdrafts, consumer installment loans and credit card financing, for the purpose of measuring impairment. We assess larger balance loans based on the risk characteristics of each individual borrower. We do not have any material restructured loans.

108

As previously noted, we classify all loans overdue for 60 days or more as non performing. Once loans are classified as non performing they no longer accrue interest.

	December 31, 2005	2006	2007	2008	2009
	(R$ in millions, except %)				
Non performing loans	R$ 2,701	R$ 4,284	R$ 5,277	R$ 7,178	R$ 11,092
Foreclosed assets, net of reserves	166	161	195	327	457
Total non performing loans and foreclosed assets	**2,867**	**4,445**	**5,472**	**7,505**	**11.549**
Allowance for loan losses	4,964	6,552	7,769	10,318	14,572
Total loans	**R$ 83,311**	**R$ 98,724**	**R$ 133,137**	**R$ 174,835**	**R$ 179,934**
Non performing loans as a percentage of total loans	3.2%	4.3%	4.0%	4.1%	6.2%
Non performing loans and foreclosed assets as a percentage of total loans	3.4	4.5	4.1	4.3	6.4
Allowance for loan losses as a percentage of total loans	6.0	6.6	5.8	5.9	8.1
Allowance for loan losses as a percentage of non performing loans	183.8	152.9	147.2	143.7	131.4
Allowance for loan losses as a percentage of non performing loans and foreclosed assets	173.1	147.4	142.0	137.5	126.2
Net charge offs for the period as a percentage of the average balance of loans (including non performing loans)	1.3%	2.4%	3.1%	2.7%	3.7%

We do not have a significant amount of foreign loans. The majority of our assets are denominated in *reais*.

Allowance for loan losses

The following table states the allowance for loan losses by economic activity for the periods indicated:

	December 31,				
	2005	**2006**	**2007**	**2008**	**2009**
	(R$ in millions, except %)				
Balance at the beginning of the period	**R$ 4,063**	**R$ 4,964**	**R$ 6,552**	**R$ 7,769**	**R$ 10,318**
Charge off from assets					
Commercial					
Industrial and others	(604)	(947)	(1,015)	(1,532)	(3,081)
Import financing				(6)	3
Export financing	(8)	(3)	(1)	(57)	(166)
Leasing	(23)	(7)	(106)	(139)	(599)
Individuals					
Overdraft	(177)	(247)	(247)	(236)	(320)
Real Estate	(26)	(47)	(61)	28	66
Financing(1)	(572)	(1,301)	(2,252)	(2,351)	(3,016)
Credit card	(153)	(257)	(596)	(1,040)	(1,113)
Rural credit	(39)	(6)	(2)	(7)	(43)
Foreign currency loans	(1)	(1)	(1)	(5)	5
Total charge off from assets	**(1,603)**	**(2,816)**	**(4,281)**	**(5,345)**	**(8,264)**
Recoveries					
Commercial					
Industrial and others	308	253	383	266	336
Leasing	42	14	13	13	15
Individuals					
Overdraft	38	39	51	299	471
Real estate	31	18	18	20	40
Financing(1)	208	281	367	557	701
Credit card	10	19	35	86	133
Rural credit	36	10	10	2	
Foreign currency loans	8	3	5		
Total recoveries	**681**	**637**	**882**	**1,243**	**1,696**
Net charge offs	**(922)**	**(2,179)**	**(3,399)**	**(4,102)**	**(6,568)**
Provision for loan losses	**1,823**	3,767	4,616	6,651	10,822
Balance at the end of the period	**R$ 4,964**	**R$ 6,552**	**R$ 7,769**	**R$ 10,318**	**R$ 14,572**
Net charge offs during the period as a percentage of average loans outstanding (including non performing loans)	1.3%	2.4%	3.1%	2.7%	3.7%

(1) Primarily composed of vehicle financing and consumer loans.

Based on information available regarding our debtors, we believe that our aggregate allowance for loan losses is sufficient to cover probable losses in our loan operations portfolio.

The following table sets forth our provision for loan losses, charge offs and recoveries included in results of operations for the periods indicated:

	Year ended December 31,			**% Change**	
	2007	**2008**	**2009**	**2008/2007**	**2009/2008**
	(R$ in millions, except %)				
Provision for loan losses expenses	R$ 4,616	R$ 6,651	R$ 10,822	44.1%	62.7%
Loan charge offs	(4,281)	(5,345)	(8,264)	24.9	54.6
Loan recoveries	882	1,243	1,696	40.9	36.4
Net Charge offs	R$ (3,399)	R$ (4,102)	R$ (6.568)	20.7%	60.1%
Provision for loan losses(1)	4.2%	4.4%	6.0%		

(1) Provision as a percentage of average loans outstanding.

Allocation of the allowance for loan losses

The tables below set forth the allocation of the allowance for loan losses for the periods indicated. The allowance amount allocated and the loan category are stated as a percentage of total loans.

110

Table of Contents

	December 31, 2005				
	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Allocated allowance as a percentage of total loans (2)	Loan category as a percentage of total loans (1)	Loan category as a percentage of total loans (2)
	(R$ in millions, except %)				
Type of loans					
Commercial					
Industrial and others	R$1,885	2.3%	2.3%	35.9%	35.6%
Import financing	24			1.4	1.3
Export financing	123	0.2	0.1	12.5	12.3
Construction	56	0.1	0.1	0.7	0.6
Leasing	105	0.1	0.1	3.1	3.0
Individuals					
Overdraft	242	0.3	0.3	2.0	2.1
Real estate	137	0.2	0.2	1.0	1.1
Financing (3)	1,832	2.3	2.2	30.7	31.4
Credit card	249	0.3	0.3	2.3	2.5
Rural credit	304	0.4	0.4	8.0	7.8
Foreign currency loans	7			2.4	2.3
Total	**R$4,964**	**6.2%**	**6.0%**	**100.0%**	**100.0%**

(1) Excludes non-performing loans.

(2) Includes non-performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

	December 31, 2006				
	Allocated allowance	Allocated allowance as a percentage of total loans(1)	Allocated allowance as a percentage of total loans(2)	Loan category as a percentage of total loans(1)	Loan category as a percentage of total loans(2)
	(R$ in millions, except %)				
Type of loans					
Commercial					
Industrial and others	R$ 2,569	2.7%	2.6%	34.8%	34.5%
Import financing	2			1.6	1.5
Export financing	101	0.1	0.1	13.8	13.2
Construction	56	0.1	0.1	0.6	0.5
Leasing	105	0.1	0.1	4.1	4.0
Individuals					
Overdraft	182	0.2	0.2	1.4	2.0

Real Estate	132	0.1	0.1	1.4	1.4
Financing(3)	2,941	3.2	3.0	29.9	30.7
Credit card	265	0.3	0.3	2.8	2.8
Rural credit	196	0.2	0.2	7.9	7.8
Foreign currency loans	3			1.7	1.6
Total	**R$ 6,552**	**7.0%**	**6.7%**	**100.0%**	**100.0%**

(1) Excludes non performing loans.

(2) Includes non performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

111

	December 31, 2007				
	Allocated allowance	**Allocated allowance as a percentage of total loans** [(1)]	**Allocated allowance as a percentage of total loans** [(2)]	**Loan category as a percentage of total loans** [(1)]	**Loan category as a percentage of total loans** [(2)]
	(R$ in millions, except %)				
Type of loans					
Commercial					
Industrial and others	R$ 2,759	2.2%	2.1%	34.7%	34.3%
Import financing	10			1.7	1.7
Export financing	79	0.1	0.1	12.0	11.5
Construction	56	0.1	0.1	1.3	1.3
Leasing	171	0.1	0.1	6.3	6.2
Individuals					
Overdraft	232	0.2	0.2	1.5	1.6
Real estate	129	0.1	0.1	1.3	1.2
Financing [(3)]	3,424	2.7	2.6	30.3	31.0
Credit card	686	0.5	0.5	1.8	2.4
Rural credit	216	0.2	0.2	7.1	6.9
Foreign currency loans	7			2.0	1.9
Total	**R$ 7,769**	**6.2%**	**6.0%**	**100.0%**	**100.0%**

(1) Excludes non performing loans.

(2) Includes non performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

	December 31, 2008				
	Allocated allowance	**Allocated allowance as a percentage of total loans** [(1)]	**Allocated allowance as a percentage of total loans** [(2)]	**Loan category as a percentage of total loans** [(1)]	**Loan category as a percentage of total loans** [(2)]
	(R$ in millions, except %)				
Type of loans					
Commercial					
Industrial and others	R$ 3,294	2.0%	1.9%	38.0%	37.4%

Import financing	15			1.2	1.1
Export financing	446	0.3	0.2	14.4	13.9
Construction	40	0.1	0.1	1.9	1.8
Leasing	641	0.4	0.4	12.0	11.7
Individuals					
Overdraft	302	0.2	0.2	1.4	1.6
Real estate	252	0.1	0.1	1.3	1.3
Financing (3)	4,088	2.4	2.3	20.4	21.4
Credit card	964	0.6	0.6	1.5	2.1
Rural credit	271	0.1	0.1	6.2	6.1
Foreign currency loans	5			1.7	1.6
Total	**R$ 10,318**	**6.2%**	**5.9%**	**100.0%**	**100.0%**

(1) Excludes non performing loans.

(2) Includes non performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

	December 31, 2009				
	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Allocated allowance as a percentage of total loans (2)	Loan category as a percentage of total loans (1)	Loan category as a percentage of total loans (2)
	(R$ in millions, except %)				
Type of loans					
Commercial					
Industrial and others	R$ 5,802	3.4%	3.2%	37.3%	36.6%
Import financing	55			2.3	2.1
Export financing	374	0.2	0.2	10.7	10.3
Construction	47	0.1	0.1	2.5	2.4
Leasing	1,889	1.0	1.0	11.7	11.9
Individuals					
Overdraft	379	0.2	0.2	1.5	1.7
Real estate	251	0.2	0.2	1.6	1.5
Financing (3)	3,897	2.3	2.2	21.7	22.3
Credit card	1,291	0.8	0.7	2.0	2.8
Rural credit	586	0.4	0.3	6.9	6.7
Foreign currency loans	1			1.8	1.7
Total	**R$ 14,572**	**8.6%**	**8.1%**	**100.0%**	**100.0%**

(1) Excludes non performing loans.

(2) Includes non performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

Average deposit balances and interest rates

The following table shows the average balances of deposits as well as the average interest rate paid on deposits for the periods indicated:

	Year ended December 31,					
	2007		2008		2009	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(R$ in millions, except %)					
Domestic deposits						
Non interest bearing deposits						

Demand deposits	**R$ 22,185**		**R$ 25,991**		**R$ 27,724**	
Interest bearing deposits						
Deposits from financial institutions	223	14.8%	404	19.8%	551	11.3%
Savings deposits	28,958	6.9	34,538	7.1	39,349	6.2
Time deposits	32,322	10.5	58,843	11.8	93,137	9.5
Total interest bearing deposits	**61,503**	**8.8**	**93,785**	**10.1**	**133,037**	**8.5**
Total domestic deposits	**83,688**	**6.5**	**119,776**	**7.9**	**160,761**	**7.1**
International deposits (1):						
Non interest bearing deposits						
Demand deposits	126		314		447	
Interest bearing deposits						
Deposits from financial institutions					43	11.6
Time deposits	2,066	5.8	3,390	4.6	5,982	1.3
Total interest-bearing deposits	2,066	5.8	3,390	4.6	6,025	1.4
Total international deposits	**2,192**	**5.4**	**3,704**	**4.2**	**6,472**	**1.3**
Total deposits	**R$ 85,880**	**6.5%**	**R$ 123,480**	**7.8%**	**R$ 167,233**	**6.8%**

(1) Denominated in currencies other than *reais*, primarily U.S. dollars.

113

Maturity of deposits

The following table shows the distribution of our deposits by maturity at the date indicated:

	December 31, 2009				
	Due in 3 months or less	Due after 3 months to 6 months	Due after 6 months to 1 year	Due after 1 year	Total
	(R$ in millions)				
Domestic deposits:					
Non interest bearing deposits					
Demand deposits (1)	**R$ 35,126**				**R$ 35,126**
Interest bearing deposits					
Deposits from financial institutions	599	**R$ 27**	**R$ 94**	**R$ 10**	730
Savings deposits (1)	44,162				44,162
Time deposits	3,865	3,966	11,313	66,077	85,221
Total interest bearing deposits	**48,626**	**3,993**	**11,407**	**66,087**	**130,113**
Total domestic deposits	**83,752**	**3,993**	**11,407**	**66,087**	**165,239**
International deposits (2):					
Non interest bearing deposits					
Demand deposits	**538**				**538**
Interest bearing deposits					
Deposits from financial institutions	2	1	19		22
Time deposits	4,435	215	145	521	5,316
Total interest bearing deposits	**4,437**	**216**	**164**	**521**	**5,338**
Total international deposits	**4,975**	**216**	**164**	**521**	**5,876**
Total deposits	**R$ 88,727**	**R$ 4,209**	**R$ 11,571**	**R$ 66,608**	**R$ 171,115**

(1) Demand deposits and savings deposits are classified as due in up to three months, without taking into account the average turnaround history.

(2) Denominated in currencies other than *reais*, primarily U.S. dollars.

The following table sets forth information regarding the maturity of outstanding time deposits with balances greater than US$100,000 (or its equivalent), by maturity, as of the date indicated:

	December 31, 2009	
	Domestic Currency	International Currency
	(*R$ in millions*)	
Maturity within 3 months	R$ 4,021	R$ 3,485
Maturity after 3 months but within 6 months	3,717	309
Maturity after 6 months but within 12 months	11,917	180
Maturity after 12 months	63,935	238
Total deposits in excess of US$100,000	R$ 83,590	R$ 4,212

Minimum capital requirements

The following table presents, for the periods indicated, the regulatory capital for purposes of calculating the capital for risk weighted assets according to the Central Bank rules.

	Overall consolidation		
	2007	2008	2009
	(*R$ in millions, except percentages*)		
Regulatory capital	R$ 41,448	R$ 47,263	R$ 55,928
Minimum Regulatory Capital required	32,641	32,318	34,509
Capital index for risk weighted assets	14.0%	16.1%	17.8%
Excess of regulatory capital over the minimum regulatory capital required	R$ 8,807	R$ 14,945	R$ 21,419

Table of Contents

Federal funds purchased and securities sold under agreements to repurchase and short term borrowings

Federal funds purchased and securities sold under agreements to repurchase and short term borrowings totaled R$116,333 million as of December 31, 2009, R$88,579 million as of December 31, 2008, and R$77,004 million as of December 31, 2007. The principal categories of short term borrowings are import and export financing and commercial paper.

The following table summarizes the federal funds purchased and securities sold under agreements to repurchase and short term borrowings for the periods indicated:

	Year ended December 31,		
	2007	2008	2009
	(*R$ in millions, except %*)		
Federal funds purchased and securities sold under agreements to repurchase			
Amount outstanding	R$ 69,015	R$ 74,730	R$ 108,357
Maximum amount outstanding during the period	69,015	92,818	113,173
Weighted average interest rate at period end	10.9%	13.6%	9.0 %
Average amount outstanding during period	51,384	74,139	92,759
Weighted average interest rate	10.8%	12.4%	9.4%
Import and export financing			
Amount outstanding	6,073	10,958	4,761
Maximum amount outstanding during the period	6,073	13,455	13,151
Weighted average interest rate at period end	4.8%	3.0%	1.9%
Average amount outstanding during period	5,159	7,866	8,101
Weighted average interest rate (1)	(18.3)%	54.9%	(28.8) %
Commercial paper			
Amount outstanding	1,915	2,890	3,214
Maximum amount outstanding during the period	2,023	3,037	3,214
Weighted average interest rate at period end	4.8%	3.2%	1.5%
Average amount outstanding during period	1,728	2,380	2,688
Weighted average interest rate	12.7%	24.5%	5.0%
Other	1	1	1
Total	**R$ 77,004**	**R$ 88,579**	**R$ 116,333**

(1) In 2009 and 2007 we have recognized negative weighted average interest rate for import and export financing, due to the impact of the appreciation of the *real* against the U.S. dollar.

4.C. Organizational Structure

We are a publicly held company controlled by Cidade de Deus Participações, a holding company owned by the Aguiar Family, *Fundação Bradesco* and another holding company, Nova Cidade de Deus Participações S.A., which we call "Nova Cidade de Deus." Nova Cidade de Deus is owned by *Fundação Bradesco* and by Elo Participações. See "Item 7.A. Major Shareholders." Our list of significant subsidiaries as of December 31, 2009 can be found in Exhibit 8.1 to this document.

4.D. Property, Plants and Equipment

As of December 31, 2009, we owned 817 properties and leased 2,543 properties throughout Brazil and eight properties abroad, all of which we used for the operation of our network of branches and our business. We own the building where our headquarters are located in Cidade de Deus, Osasco, São Paulo, State of São Paulo. Nearly all lease agreements have automatic renewal provisions and an average duration of 16 years.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

115

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. Operating Results

This discussion should be read in conjunction with our audited consolidated financial statements, the notes thereto and other financial information included elsewhere in this annual report.

Overview

Our results of operations are affected by, among others, the following factors:

Brazilian Economic Conditions

The recovery of the global economy continues consistently and quite distinctly among certain emerging countries (which present strong dynamics in their domestic markets) and developed countries (which count on the help of the foreingn sector for recovery).

Initial concern and frustration in relation to the slow speed at which global economic activity has been recovering has now taken a backseat, while concerns as to the tax credibility of developed nations, especially European countries, have become more important.

Brazilian GDP should grow in 2010, while domestic demand is expected to grow at a more accelerated pace, maily driven by household consumption and investments. This supply and demand imbalance generates significant challenges in the management of macroeconomic policy, since we have already seen pressure on external accounts and inflation.

Therefore, in order to minimize the imbalance between supply and demand, additional increases in the Selic base interest rate over the coming months are probable. However, it is important to point out three relevant aspects in relation to the increasing base interest rate: (i) it will probably not hinder expansion of the GDP; (ii) it could avert an increase in inflation greater than the target of 4.5%; and (iii) the new Selic level might be lower than the effective rate before the crisis of 13.75%.

Europe is experiencing volatility as a result of Greece's, and possibly other countries within the European Monetary Union, having difficulty meeting their sovereign debt obligations. These developments within the European Monetary Union may have ramifications outside Europe, including causing a delay in the global economic recovery, which could in turn impact Brazil. These disruptions may lead to further financial volatility and destabilization of banking systems in other countries, as well as restrictions of credit and reduction of capital flows, which may create a less favorable environment for the Bank's business and may affect the ability of some of the Bank's clients to honor their obligations and, accordingly, reduce the Bank's ability to pursue its business strategies.

The current president of Brazil will complete his second four-year term at the end of 2010. The upcoming presidential elections and political and economic transition in Brazil are not expected to result in major economic policy changes.

The following table shows Brazilian inflation measured by IGP DI, the appreciation of the *real* against the U.S. dollar, the exchange rate at the end of each year and the average exchange rate for the periods indicated:

	December 31,		
	2007	**2008**	**2009**
	(R$ in millions, except %)		
Inflation (IGP DI)	7.9%	9.1%	(1.4)%
Appreciation of the *real* against the U.S. dollar	(17.2)%	31.9%	(25.5)%
Period end exchange rate US$1.00	R$ 1.7713	R$ 2.3370	R$ 1.7412
Average exchange rate US$1.00[(1)]	R$ 1.9299	R$ 1.8334	R$ 1.9904

(1) The average exchange rate is the sum of the closing exchange rates at the end of each month in the period divided by the number of months in the period.

Sources: FGV and the Central Bank.

The following table shows the change in real GDP and average interbank interest rates for the periods indicated:

	December 31,		
	2007	2008	2009
Change in *real* GDP(1)	6.1%	5.1%	(0.2)%
Average base interest rates(2)	11.8%	12.5%	9.9%
Average interbank interest rates(3)	11.8%	12.3%	9.9%

(1) Calculated by dividing the change in real GDP during a year by the *real* GDP of the previous year.

(2) Calculated in accordance with Central Bank methodology (based on nominal rates).

(3) Calculated in accordance with Clearing and Custody Chamber ("CETIP") methodology (based on nominal rates).

Sources: The Central Bank, the Brazilian Geography and Statistics Institute and CETIP.

We believe that long term prospects for the Brazilian economy remain favorable. Both consumption and investment will likely continue to play a major role. Consumption will likely continue to grow as a result of expansion of the formal labor market and upward social mobility. Investments will include expansion of funding sources (external and internal), the 2014 World Cup, the 2016 Olympic Games and pre salt oil exploration.

Effects of the global financial crisis on our financial condition and results of operation

The global financial crisis has significantly affected the world economy since the second half of 2008. The crisis led to recession and unemployment in the largest world economies, causing a global reduction in investments and a reduction in the prices of commodities, as well as a strong decline in credit availability and in liquidity, reducing the levels of transactions seen in capital markets around the world.

Many large financial institutions, including some of the largest commercial banks, investment banks, real estate financing companies, mortgage backers and insurance companies are reportedly still undergoing significant difficulties. Many financial institutions have recorded significant losses, and several of them have sought additional capital. Central banks around the world have coordinated efforts to increase liquidity in the financial markets, increasing the amounts loaned directly to financial institutions, lowering interest rates and significantly increasing temporary reciprocal currency arrangements. Governments around the world intervened in attempts to prevent the financial crisis from deepening, more significantly, including purchasing shares in various financial institutions, announcing programs for guaranteeing the debts of financial institutions, increasing guarantees of deposits from clients and intermediating acquisitions of financial institutions in difficulty, among other measures.

The global financial crisis greatly affected Brazil in the last quarter of 2008, but since then the effects have moderated, with signs of recovery in the second half of 2009, in particular. Various small and medium sized Brazilian banks in particular suffered from the lack of credit availability, but the Brazilian financial system as a whole has not felt the same impact as financial markets in the United States and Europe. The relatively strong internal demand for merchandise and services produced by companies and banks has helped to reduce the impact of the international crisis on the Brazilian market. Some companies, however, that focused on exports in the commodities and manufacturing sectors, saw a drop in revenues due to the reduced demand from international markets. Our results of operations have been adversely affected by the global financial crisis and by the consequent effect on Brazil's economic situation.

Effects of interest rates and devaluation, appreciation on net interest income

During periods of high interest rates, our interest income increases due to increasing interest rates on our interest earning assets. At the same time, our interest expense increases as interest rates on our interest bearing liabilities also increase. Changes in the volumes of our interest earning assets and interest bearing liabilities also affect our interest income and interest expense. For example, an increase in our interest income attributable to an increase in interest rates may be offset by a decrease in the volume of our outstanding loans.

In addition, when the *real* depreciates, we incur (i) losses on our liabilities denominated in, or indexed to, foreign currencies, such as our U.S. dollar denominated long term debt and foreign currency loans, as the cost in *reais* of the related interest expense increases and (ii) gains in our assets denominated in, or indexed to, foreign currencies, such as our dollar indexed securities and loans, as the income from such assets as measured in *reais* increases. Conversely, when the *real* appreciates, as occurred from 2003 to 2007, we incur (i) losses on our assets denominated in, or indexed to, foreign currencies and (ii) gains in our liabilities denominated in, or indexed to, foreign currencies.

In 2008, our interest income increased by 47.4% as compared to 2007, from R$36,509 million in 2007 to R$53,803 million in 2008, and our interest expense increased by 123.2%, from R$12,738 million in 2007 to R$28,432 million in 2008. These increases in our interest income and expense were mainly a result of an increase in the average balance of our interest earning assets and interest bearing liabilities, and an increase in the average interest rates, mainly CDI, which increased from 11.8% in 2007 to 12.3% in 2008.

In 2009, our interest income increased by 0.6% as compared to 2008, from R$53,803 million in 2008 to R$54,151 million in 2009, and our interest expense decreased by 26.1%, from R$28,432 million in 2008 to R$21,018 million in 2009. The increase in our interest income was mainly a result of an increase in the average balance of our interest earning assets, which was partially offset by a decrease in the average interest rates, mainly CDI, which decreased from 12.3% in 2008 to 9.9% in 2009. The decrease in our interest expense was mainly a result of a decrease in the average rate of our interest bearing liabilities, and was also impacted by a lower CDI rate and a 25.5% appreciation of the *real* against the U.S. dollar.

The following table shows our foreign currency denominated and indexed assets and liabilities at the dates indicated:

		December 31,	
	2007	**2008**	**2009**
		(*R$ in millions*)	
Assets			
Cash and due from banks	R$ 508	R$ 3,473	R$ 1,438
Interest earning deposits in other banks	1,410	5,832	3,626
Federal funds sold and securities purchased under agreements to resell	3,001	711	2,415
Brazilian Central Bank compulsory deposits	11	45	373
Trading securities, at fair value	2,905	2,115	228
Available for sale securities, at fair value	1,551	3,869	4,536
Held to maturity securities, at amortized cost	338	1,136	932
Net loans	17,615	25,858	20,090
Other assets	3,270	6,095	1,159
Total assets	**30,609**	**49,134**	**34,797**
Off balance sheet accounts notional value:			
Derivatives:			
Futures	3,609	5,994	102
Forwards	2,088	4,287	7,036
Options		1,960	138
Swaps	3,387	5,312	2,114
Total	**R$ 39,693**	**R$ 66,687**	**R$ 44,187**

		December 31,	
	2007	**2008**	**2009**
		(*R$ in millions*)	
Liabilities			

Deposits	R$ 2,278	R$ 7,228	R$ 5,876
Federal funds purchased and securities sold under agreements to repurchase	2,822	54	435
Short term borrowings	7,989	13,849	7,976
Long term debt	7,063	9,207	8,340
Other liabilities	1,464	12,079	4,262
Total liabilities	**21,616**	**42,417**	**26,889**
Off balance sheet accounts notional value:			
Derivatives:			
Futures	11,859	22,709	13,462
Forward	1,191	2,848	8,043
Options		1,222	129
Swap	9,555	6,587	**3,819**
Total	**44,221**	**75,783**	**52,342**
Net exposure	**R$ (4,528)**	**R$ (9,096)**	**R$ (8,155)**

We use swaps, future contracts and other hedging instruments in order to minimize the potential impact of currency changes on us. For more information on our use of derivatives for hedging purposes, see notes 2(e), 2(f) and 24(a) to our consolidated financial statements in Item 18. Financial Statements.

As of December 31, 2007, our net exposure corresponded to 1.4% of our total assets, 2.1% as of December 31, 2008 and 1.6% as of December 31, 2009.

Lending and treasury activities

Our provision for loan losses was R$4,616 million as of December 31, 2007, and increased to R$6,651 million as of December 31, 2008 and to R$10,822 million as of December 31, 2009. These increases were mainly due to an increase of our loan portfolio and the effects from the global financial crisis, which raised our delinquency ratios and, as a result caused greater provisioning needs until September 2009. Beginning in May, 2009, the Brazilian economy began to recover more quickly, principally influenced by Brazilian government measures to encourage family consumption and to stimulate certain economic sectors. The recovery of the Brazilian economy positively impacted our results since the last quarter of 2009, when our delinquency ratios improved and accordingly, our provision for loan losses decreased. The balance of our outstanding loan portfolio increased by 31.3%, from R$133,137 million as of December 31, 2007 to R$174,835 million as of December 31, 2008, and by 2.9%, from R$174,835 million as of December 31, 2008 to R$179,934 million as of December 31, 2009. This performance reflects the sustainable growth of the Brazilian economy, which together with our business strategy has facilitated the expansion of our loan operations to individuals and corporations.

Our trading securities totaled R$59,146 million as of December 31, 2007, increased to R$91,849 million as of December 31, 2008, and to R$106,097 million on December 31, 2009. The increase of R$14,248 million in our trading securities in 2009 was mainly a result of a R$8,374 million increase in our Brazilian government securities and a R$9,635 million increase in our interest in investment funds. This performance reflects our treasury strategy of investing in highly liquid assets.

Taxes

Our income taxes consist of two federal taxes: (i) the IRPJ, which is assessed at a rate of 15.0% on our adjusted net income, and is increased by an additional income tax at a rate of 10.0% and (ii) the social contribution tax, which is assessed at a rate of 15.0% on our adjusted net income.

On January 3, 2008, the Brazilian government increased the social contribution tax rate for the financial segment from 9.0% to 15.0%. Financial institutions have been collecting the social contribution tax on adjusted net income at a 15.0% rate since May 1, 2008. The legality of this increase is being questioned at the Brazilian Supreme Court. If the Brazilian Supreme Court decides that this increase is not legal, we will be entitled to recover any amount we have collected under the 15.0% tax rate regime in excess of what we would have collected for the social contribution tax under the 9.0% regime.

Brazilian corporations may pay shareholders interest on shareholders' equity as an alternative form of making dividend distributions which may be deducted entirely against taxable income. We intend to maximize the amount of dividends we pay in the form of interest on shareholders' equity. For further information on our tax expenses, see

"Item 4.B. Business Overview Regulation and Supervision Taxation" and "Item 10.B Memorandum and Articles of Incorporation Organization Allocation of net income and distribution of dividends" and "Item 10.E. Taxation Brazilian tax considerations Distributions of interest on shareholders' equity."

Impact of material acquisitions on our future financial performance

We have made the following significant acquisitions during the past three years:

- in January 2007, we entered into an agreement with the shareholders of BMC to acquire 100% of the total capital of BMC, and, accordingly, its controlled companies BMC Asset Management Ltda.   Distribuidora de Títulos e Valores Mobiliários, BMC Previdência Privada S.A. and Credicerto Promotora de Vendas Ltda. BMC is one of the largest private banks in the payroll deductible loan market for beneficiaries and pensioners of INSS, with a network of approximately 7,000 agents and 749 banking correspondents distributed throughout the country. In accordance with this agreement, we delivered 9,299,618 of our common shares and 9,299,514 of our preferred shares to BMC shareholders in exchange for their BMC shares, which amounted to R$790 million, in August 2007. This transaction was closed in August 2007 upon Central Bank approval;

- in March 2008, we entered into an agreement with the shareholders of Ágora Corretora to acquire 100% of the total capital of Ágora Corretora for R$908 million. In accordance with this agreement, we delivered shares representing 7.8% of the total capital of BBI to Ágora Corretora shareholders and converted Ágora Corretora into BBI's wholly owned subsidiary. This transaction was closed in September 2008 after Central Bank approval. In November and December 2008, we repurchased 6.1% of the total capital of BBI from Ágora Corretora's former shareholders;

- in April 2009, Bradesco disclosed that it acquired through its Insurance Group 20% of the voting capital and total capital stock of Integritas, a holding company of Grupo Fleury, for R$342 million. Grupo Fleury, which has been in operation for the past 83 years, is one of Brazil's most renowned and respected medical and health organizations. It provides diagnosis, clinical treatment and medical analysis services, and is a benchmark in complex medical tests for nearly 1,500 clinical laboratories and hospitals;

- in June 2009, Bradesco entered into an agreement to acquire Ibi Participações Ltda., Banco Ibi and its subsidiaries for a total of R$1.5 billion, to be paid to the former controlling shareholders upon delivery of our shares, representing approximately 1.6% of our capital stock. Banco Ibi is among the main credit card issuers in Brazil, both in the private label segment as well as in branded cards, and its acquisition will substantially strengthen our position in both markets. The transaction includes a partnership agreement with C&A Modas Ltda., a leader in the fashion and clothing markets, under which Bradesco will offer its products and financial services at C&A stores, for 20 years;

- in October 2009 we announced that the Board of Directors of both Odontoprev S.A. (Odontoprev) and of Bradesco (as an indirect controlling company of Bradesco Dental S.A.) approved the execution of an agreement establishing the terms of the merger between Bradesco Dental and Odontoprev in the segment of dental care plans. Under the plan of merger, Bradesco Dental becomes a wholly owned subsidiary of Odontoprev and Bradesco Saúde S.A. (Bradesco Saúde), the direct controlling company of Bradesco Dental, receives shares representing 43.50% of Odontoprev's total capital. Bradesco Saúde and Odontoprev's main shareholder, Mr. Randal Luiz Zanetti, will jointly own 51.06% of the combined company's capital; and

- in June 2010, Bradesco concluded the acquisition of the entire capital stock of the controlling group of Ibi Services S. de R.L. México ("Ibi México") and of RFS Human Management S. de R.L., a subsidiary of Ibi México. As of December 31, 2009 Ibi México had a credit portfolio of R$205 million and more than 1.3 million credit cards. This transaction includes a partnership contract with C&A México S. de R.L. (C&A México) for a period of 20 years for the exclusive joint sale of financial products and services through the C&A México chain of stores.

We have integrated the transactions described above into our operations, except for the transaction with Ibi México. We do not record each business individually, therefore we cannot quantify the financial impact of these acquisitions individually.

We believe that these acquisitions and related transfers of assets and liabilities contributed to increase our revenues and expenses, and that each acquisition and the related transfers of assets and liabilities will increase our future revenues, expenses and income. The amount of these increases is uncertain, and we therefore cannot estimate their impact on our future financial performance. For more information, see "Item 4.A. History, Development of the Company and Business Strategy Recent acquisitions."

None of our acquisitions made since January 2007 have been significant as measured in accordance with U.S. GAAP.

Critical accounting policies

Our significant accounting policies are described in note 2 to our audited consolidated financial statements in Item 18. Financial Statements The following discussion describes the areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts involve making assumptions about highly uncertain matters. In each case, other estimates or changes in the estimates between periods could have had a material impact on our financial condition and results of operations, as shown in our financial statements.

Allowance for loan losses

We periodically adjust our allowance for loan losses based on an analysis of our loan portfolio, including our estimate of the probable losses inherent in our loan and leasing portfolio at the end of each period.

The determination of the amount of the allowance for loan and leasing losses by its nature requires us to make judgments and assumptions regarding our loan portfolio, both on a portfolio basis and on an individual basis. When we review our portfolio as a whole, several factors can affect our estimate of the likely range of losses, including which methodology we use in measuring historical delinquency rates and what historical period we consider in making those measurements. Additional factors that can affect our determination of the allowance for loan losses include:

- general Brazilian economic conditions and conditions in the relevant industry;
- past experience with the relevant debtor or industry, including recent loss experience;
- credit quality trends;
- amounts of loan collateral;
- the volume, composition and growth of our loan portfolio;
- the Brazilian government's monetary policy; and
- any delays in the receipt of information needed to evaluate loans or to confirm existing credit deterioration.

We use models to assist us in analyzing our loan portfolio and in determining what allowance for loan losses to make. We apply statistical loss factors and other risk indicators to loan pools with similar risk characteristics in arriving at an estimate of incurred losses in the portfolio to calculate the models. Although we frequently revise and improve our models, they are by their nature dependent on our judgment and on the information and estimates that we receive. In addition, the volatility of the Brazilian economy may lead to greater uncertainty in our models than would be expected in more stable macroeconomic environments. Accordingly, our allowance for loan losses may not be indicative of future charge offs.

Our allowance for loan losses is based on our risk classification of each client and/or operation and on portfolio delinquency rates. Assuming a 1.0% increase in the default rate of our loan portfolio, as of December 31, 2009, our loan losses would increase by approximately R$105 million. This sensitivity analysis is hypothetical, and is only meant to illustrate the impact that the delinquencies, and therefore the risk rating, have on determining allowance for loan losses. Given the procedures that we follow in order to determine the risk classification of our clients and of the credit portfolio by products, we believe that our current risk classifications and estimates of the severity of losses are appropriate for our loan portfolio.

The process of determining the level of allowances for credit losses requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions.

For additional information regarding our practices related to the allowance for loan losses, see "Item 4.B. Business Overview Selected Statistical Information Credit operations" and Item 4.B. Business Overview Selected Statistical Information Non performing loans and allowance for loan losses.

Fair value of financial instruments

Financial instruments reported at fair value in our financial statements consist primarily of securities classified as trading and available for sale and other trading assets, including derivatives. Fair value is defined as the value at which a position could be closed out or sold in a transaction with a willing and knowledgeable party.

On January 1, 2008, the Company adopted ASC 820, which established a three level valuation hierarchy for disclosure of fair value measurements. Under ASC 820, instruments are categorized within a hierarchy based on the lowest level of input that is significant to the fair value measurement. We input less of our own judgment in arriving at fair market value measurements for instruments classified as levels 1 and 2, where inputs are principally based on observable market data. By contrast, for instruments classified as level 3, we have to input a significant amount of our own judgment in arriving at fair market value measurements. We base our judgment decisions on our knowledge and observations of the markets relevant to the individual assets and liabilities, and those judgments may vary based on market conditions. In applying our judgment, we look at a range of third party prices and transaction volumes to understand and assess the extent of market benchmarks available and the judgments or modeling required in third party processes. Based on these factors, we determine whether the fair values are observable in active markets or whether the markets are inactive.

The fair values of trading account assets, liabilities and available for sale securities are primarily based on actively traded markets where prices are based on either direct market quotes, observed transactions or market prices for similar assets. Liquidity is a significant factor in the determination of the fair values of trading account assets or liabilities and available for sale securities. Situations of illiquidity generally are triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, the securities are classified within level 3 of the valuation hierarchy once the fair value is determined, based on unobservable inputs that are supported by limited available market information and that are significant to the fair value of the assets, as well as other factors which require significant management judgment or estimation. As of December 31, 2009, R$6.9 billion, or 4.8%, of trading assets and available for sale securities were classified as level 3 fair value assets.

Exchange traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivatives contracts are listed on an exchange, thus, the majority of our derivative positions are determined using quantitative models that require the use of multiple inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, including the period to maturity. These inputs are used to value the position. The majority of market inputs is observable and can be obtained mainly from BM&FBovespa and the secondary market. As of December 31, 2008 and 2009, the fair values of derivatives assets and liabilities classified as level 3 was R$34 million and R$16 million.

Imprecision in estimating unobservable market inputs can impact the amount of revenue or loss recorded for a particular position. Furthermore, while we believe our valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value of financial instruments, see Note 21 of the Financial Statements.

Net trading gains (losses), which represent the net amount earned from our trading positions, can be volatile and are largely driven by general market conditions and customer demand. Net trading gains (losses) are dependent on the volume and type of transactions, the level of risk assumed, and the volatility of price and rate movements at any given time within the ever changing market environment. To evaluate risk in our trading activities, we focus on the actual and potential volatility of individual positions as well as portfolios. At a portfolio and corporate level, we use trading limits, stress testing and tools such as "VaR" modeling to estimate a potential daily loss not to be exceeded with a specified confidence level to measure and manage market risk. As of December 31, 2009, the amount of our "VaR" was R$20 million based on a 99% confidence level. For more information on "VaR", see "Item 11. Quantitative and Qualitative Disclosure about Market Risk Value at Risk ("VaR")."

Other Than Temporary Impairment

In determining whether or not impairment of a security is other than temporary, we have applied the three step model described in ASC 320, "Investments Debt and Equity Securities." We use a combination of factors aimed at determining whether recovery of the value of a security is likely. These factors include: the length of time and the extent to which fair value has been less than cost to assist in determining the extent of the analysis to be performed over the securities; the financial condition and near term prospects of the issuer of the security, including any specific events which may influence the operations of the issuer; any failure of the issuer of the security to make scheduled interest payments; changes to the rating of the security by a rating agency; the historic and implied volatility of the security; and the intent and ability of the Bank to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, for marketable equity securities our assessment includes forecast analyses of the period (date) when the security will recover the cost basis and whether the bank will own the security in that period (on that date). These analyses are performed based on an assessment of individual terms and attributes of each security. For more information on other than-temporary impairment, see Item 18. Financial Statements.

Beginning in 2009, under new accounting guidance for impairments of debt securities that are deemed to be other-than-temporary, the credit component of an other-than-temporary impairment loss is recognized in earnings and the non-credit component is recognized in accumulated other comprehensive income, in situations where we have no intention of selling the security and when it is more likely than not that we will not be required to sell the security prior to the fair value recovery. Prior to January 1, 2009, unrealized losses (both the credit and non-credit components) on available-for-sale securities that we deemed to be other-than-temporary were included in current period earnings.

Classification of securities

The classification of securities under trading, available for sale or held to maturity categories is based on management's intention to hold or trade such securities at the time of acquisition. The accounting treatment of the securities we hold thus depends on whether we classify them at acquisition as trading, available for sale or held to maturity. Changes in circumstances may modify our strategy with respect to a specific security, requiring transfers among the three categories indicated above.

Income tax

The determination of the amount of our income tax liability is complex, and our assessment is related to our analysis of our deferred tax assets and liabilities and income tax payable. In general, our evaluation requires that we estimate future amounts of deferred tax benefits and income tax payable. Our assessment of the possibility that a deferred tax benefit could be realized is subjective and involves assessments and assumptions that are inherently uncertain in nature. The realization of deferred tax benefits is subject to changes in future tax rates and developments in our tax planning strategies. The underlying support for our assessments and assumptions could change over time as a result of unforeseen events or circumstances, affecting our determination of the amount of our tax liability.

We constantly monitor and evaluate the impact on our liability of new tax laws, as well as new developments that could affect the assessments and assumptions underlying our analysis of the possibility of realizing deferred tax benefits.

We have applied the ASC 740 (Income Taxes), which consists of a framework to determine the appropriate level of tax reserves for these uncertain tax positions. See note 16 to our consolidated financial statements.

Significant judgment is required in determining whether it is more likely than not that an income tax position will be sustained upon examination, even after the outcome of any related administrative or judicial proceedings based on technical merits. Further judgment is then required to determine the amount of benefit eligible for recognition in our consolidated financial statements.

In addition, we have also applied ASC 740 to monitor the interpretation of tax laws by, and decisions of, tax authorities and Courts so that we can adjust any prior judgment of accrued income taxes. This monitoring may also result from our own income tax planning or resolution of income tax controversies, and may be material to our operating results for any given period. For additional information about ASC 740, see note 2(q) and note 16 to our consolidated financial statements.

For additional information regarding our income tax, see "Item 4.B. Business Overview Regulation and Supervision Taxation Income tax and social contribution on profits."

Pension plan reserves

Certain products we offer, such as pension investment contracts and funds where the policyholders bear the investment risk, are considered investment contracts in accordance with the requirements of ASC 944 "Financial Services - Insurance." During the accumulation phase of the pension investment contracts, when the policyholders bear the investment risk, the contracts are treated as investment contracts. During the annuity phase, the contract is treated as an insurance contract with mortality risk. Funds related to pension investment contracts where the policyholders bear the investment risk are equal to the account value. Account values are not actuarially determined. Rather, account values increase with deposits and interest credited (based on contractual provisions) and are reduced by redemptions at the policyholder's election.

In addition, we determine the need to record an additional liability for the contract feature where the present value of expected annuitization payment at the expected annuitization date exceeds the expected account balance at the annuitization date, in accordance with ASC 944 "Financial Services - Insurance." Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards.

Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, retirement, disability incidence, disability termination, inflation, expenses and other contingent events as appropriate to the respective product type. These assumptions are established at the time the policy is issued and are intended to estimate the experience for the period the policy benefits are payable.

Insurance technical provisions

Insurance technical provisions (reserves) are liabilities representing estimates of the amounts that will come due at some point in the future, to or on behalf of our policyholders. U.S. GAAP allows for some degree of managerial judgment and prescribes the method for establishing reserves. Future policy benefits and claims include reserves for traditional individual and group life insurance, health insurance and accident insurance, among others. These benefits are computed using assumptions of mortality, morbidity, lapse, investment performance, inflation and expense. These assumptions are based on our experience and are periodically reviewed against industry standards to ensure actuarial credibility. For long duration insurance contracts, once the assumptions are made for a given policy or group of policies, they will not be changed over the life of the policy. However, significant changes in experience or assumptions may require us to provide for expected future losses on a product by establishing premium insufficiency provisions. Premium insufficiency provisions may also be established for short duration contracts to provide for expected future losses. Future policy benefits and claims also include reserves for incurred but unreported health, disability and life insurance claims. We recognize claims costs in the period the service was provided to our policyholders. However, claim costs incurred in a particular period are not known with certainty until after we receive, process and pay the claims. We determine the amount of liability using actuarial methods based on historical claim payments to determine our estimate of claim liabilities. The methods of determining these estimates and establishing the reserves are reviewed and updated regularly. Adjustments resulting thereof are recognized in earnings for the respective period. For additional information, see Note 2 of our consolidated financial statements.

Use of estimates

In presenting the financial statements, our management also makes estimates and assumptions relating to the calculation of insurance technical reserves, the selection of useful lives for certain assets and the determination of whether a specific asset or group of assets would be impaired. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could be different from those estimates.

Commitments and contingencies

We have contractual obligations to make certain payments to third parties, in accordance with the amounts presented in the following table:

	Payments due as of December 31, 2009				
	Less than 1 year[(1)]	**1 to 3 years**	**3 to 5 years**	**More than 5 years**	**Total**
			(R$ in millions)		
Contractual Obligations					
Time deposits	R$ 23,939	R$ 53,711	R$ 11,719	R$ 1,168	R$ 90,537
Federal funds purchased and securities sold under agreements to repurchase	85,118	19,226	3,678	335	108,357
Long term debt	11,143	25,447	9,187	5,040	50,817
Other obligations[(2)]	84,083	26,606	1,477	274	112,440
Total[(3)]	**R$204,283**	**R$124,990**	**R$26,061**	**R$6,817**	**R$362,151**

(1) Based on our historical experience, we expect that most of our obligations that are contractually due within one year will be rolled over.

(2) Includes reserves for insurance claims, pension plans and pension investment contracts.

(3) Excludes the liability for unrecognized tax benefits in the amount of R$1,683 million.

Off balance sheet financial guarantees

In addition to our loan operations, we have credit related transactions with our customers for attending to their financing needs. These transactions are not recorded on our balance sheet in accordance with U.S. GAAP. The following table summarizes these off balance sheet financial arrangements as of December 31, 2009:

	Payments due as of December 31, 2009				
	Less than 1 year	**1 to 3 years**	**3 to 5 years**	**More than 5 years**	**Total**
			(R$ in millions)		
Contractual Obligations					
Financial guarantees	R$ 10,041	R$ 3,478	R$ 2,283	R$ 18,866	R$ 34,668
Letters of credit	1,385				1,385
Total	**R$ 11,426**	**R$ 3,478**	**R$ 2,283**	**R$ 18,866**	**R$ 36,053**

We guarantee our clients' performance in obligations with third parties. We have the right to seek reimbursement from our clients for any amount we shall have to pay under such guarantee. Additionally, we may hold cash or other highly liquid collateral for these obligations. These agreements are subject to the same credit evaluation performed on the execution of loans.

Letters of credit are conditional commitments issued by us to guarantee the performance of a customer's obligations with third parties. We issue commercial letters of credit to facilitate foreign trade transactions and to support public and private borrowing agreements, including commercial paper, bond financing and similar transactions. These instruments are short term commitments to pay a third party beneficiary under certain contractual conditions. Letters of credit are subject to the same credit evaluations as other extensions of credit.

We expect many of these guarantees to expire without the need to advance any cash. Therefore, in the ordinary course of business, we expect that these transactions will have virtually no impact on our liquidity.

Results by segment

We operate and manage our business through two principal operating segments: (i) the banking segment and (ii) the insurance, pension plans and certificated savings plan segment. Our segments are managed based on types of products and services offered and their related client bases. We evaluate the performance of our segments based on net income, net interest income, and non interest income and expense.

The sum of the segments shown in the following tables may not correspond to the amounts shown on a consolidated basis, as they do not take into account immaterial activities or inter segment transactions.

In our banking segment, we offer a range of banking products and services to our customers, including deposit taking and loan operations, credit and debit card services and capital markets services, through our broad distribution network. For a description of the banking segment's operations, see "Item 4.B. Business Overview Banking activity."

In our insurance, pension plan and certificated savings plan segment, we offer a range of products and services to our customers, including health, life, automobile and basic line insurance, individual and corporate pension plans, and certificated savings plans, through our broad distribution network. For a description of the operations of the insurance, pension plan and certificated savings plan segment, see "Item 4.B. Business Overview Insurance, pension plans and certificated savings plans."

Results of operations for year ended December 31, 2009 compared with the year ended December 31, 2008

The following tables set forth the principal components of our net income for 2009 and 2008, on a consolidated basis and by segment:

	Consolidated		
	2008	**2009**	**% change**
	(*R$ in millions, except %*)		
Net interest income	R$ 25,371	R$ 33,133	30.6%
Provision for loan losses	(6,651)	(10,822)	62.7
Non interest income	23,660	31,734	34.1
Non interest expense	(35,632)	(40,376)	13.3
Income before income taxes	**6,748**	**13,669**	**102.6**
Income tax and social contribution	401	(4,420)	
Net income before attribution to noncontrolling interest	**7,149**	**9,249**	**29.4**
Net income attributed to noncontrolling interest	(131)	(33)	(74.8)
Parent company´s net income	**R$ 7,018**	**R$ 9,216**	**31.3%**

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	**2009**	**% Change**	**2008**	**2009**	**% Change**
	(*R$ in millions, except %*)					
Net interest income	R$19,054	R$25,551	34.1%	R$6,295	R$7,569	20.2%
Provision for loan losses	(6,651)	(10,822)	62.7			
Non interest income	10,564	15,721	48.8	12,977	15,900	22.5
Non interest expense	(20,620)	(21,554)	4.5	(14,946)	(18,775)	25.6
Income before income taxes	**2,347**	**8,896**	**279.0**	**4,326**	**4,694**	**8.5**
	1,970	(2,733)		(1,545)	(1,661)	7.5

Income tax and social contribution						
Net income before attribution to noncontrolling interest	**4,317**	**6,163**	**42.8**	**2,781**	**3,033**	**9.1**
Net income attributed to noncontrolling interest	(42)	(6)	(85.7)	(89)	(26)	(70.8)
Parent company´s net income	**R$4,275**	**R$6,157**	**44.0%**	**R$2,692**	**R$3,007**	**11.7%**

Net interest income

The following table shows the principal components of our net interest income before provision for loan losses for 2009 and 2008, on a consolidated basis and by segment:

	Consolidated			**Banking**			**Insurance, Pension Plans and Certificated savings plans**		
	2008	**2009**	**% Change**	**2008**	**2009**	**% Change**	**2008**	**2009**	**% Change**
					(R$ in millions, except %)				
Interest income	R$ 53,803	R$ 54,151	0.6%	R$ 47,936	R$ 47,044	(1.9)%	R$ 6,295	R$ 7,569	20.2%
Interest expense	(28,432)	(21,018)	(26.1)	(28,882)	(21,493)	(25.6)			
Net interest income	**R$ 25,371**	**R$ 33,133**	**30.6%**	**R$ 19,054**	**R$ 25,551**	**34.1%**	**R$ 6,295**	**R$ 7,569**	**20.2%**

The following table shows, on a consolidated basis and by segment, how much of the increase in our net interest income was attributable to changes in the average volume of interest earning assets and interest bearing liabilities, and how much was attributable to changes in average interest rates (including the effects of the appreciation/depreciation of the *real*) in each case for the year 2009 as compared to the year 2008:

	Consolidated	**Banking**	**Insurance, Pension Plans and Certificated savings plans**
		2009/2008 Increase (decrease)	
		(*R$ in millions*)	
Due to changes in average volume of interest earning assets and interest bearing liabilities	R$ 3,987	R$ 4,063	R$ 412
Due to changes in average interest rates	3,775	2,434	862
Net change	**R$ 7,762**	**R$ 6,497**	**R$ 1,274**

Banking

Our net interest income increased by 34.1%, from R$19,054 million in 2008 to R$25,551 million in 2009. This increase was mainly due to a 28.0% increase in the average volume of interest earning assets, highlighting the 18.2% increase in the average volume of outstanding loans, a 56.4% increase in the average volume of federal funds sold and securities purchased under agreements to resell and 56.4% in the average volume of trading securities. These factors were partially offset by a 31.0% increase in the average volume of interest bearing liabilities, particularly an increase of 59.3% in the average volume of time deposits, a 25.1% increase in the average volume of federal funds purchased and securities sold under agreements to repurchase, a 19.2% increase in the average volume of long term debt and a 14.1% increase in the average volume of savings deposits.

The average interest rate of net interest income for average interest earning assets increased from 7.4% in 2008 to 7.7% in 2009. This positive growth reflects the improvement in funding conditions, considering the decrease in funding costs and the increase in the average volume of operations with individuals, which presents higher interest rates.

Insurance, pension plans and certificated savings plans

Our net interest income increased by 20.2%, from R$6,295 million in 2008 to R$7,569 million in 2009. This growth is mainly due to a 9.5% increase in the average balance of trading securities, which includes a growth of sales of our VGBL and PGBL investment contracts, and a 12.9% increase in the average balance of available for sale securities,. This growth was partially offset by a 37.5% decrease in our average balance of federal funds sold and securities purchased under agreements to resell.

The average interest rate of net interest income for average interest earning assets increased from 9.2% in 2008 to 10.3% in 2009.

Interest income

The following tables show, on a consolidated basis and by segment, the average balance of the principal components of our average interest earning assets and the average interest rates earned in 2009 and 2008:

	Consolidated		
	2008	**2009**	**% Change**
	(R$ in millions, except %)		
Average balance of interest earning assets:			
Loans	R$ 146,404	R$ 173,048	18.2%
Federal funds sold and securities purchased under agreements to resell	46,893	68,998	47.1
Trading securities	72,789	94,940	30.4
Available for sale securities	24,727	28,650	15.9
Held to maturity securities	3,458	3,927	13.6
Interest earning deposits in other banks	8,360	10,164	21.6
Brazilian Central Bank compulsory deposits	24,590	23,967	(2.5)
Other interest earning assets	648	601	(7.3)
Total	**R$ 327,869**	**R$ 404,295**	**23.3%**
Average interest rate earned	**16.4%**	**13.4%**	

127

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	2009	% Change	2008	2009	% Change
			(*R$ in millions, except %*)			
Average balance of interest earning assets:						
Loans	R$ 146,404	R$ 173,048	18.2%			
Federal funds sold and securities purchased under agreements to resell	42,746	66,838	56.4	R$ 3,456	R$ 2,161	(37.5)%
Trading securities	32,501	50,827	56.4	40,123	43,949	9.5
Available for sale securities	3,358	4,844	44.3	21,144	23,878	12.9
Held to maturity securities	707	969	37.1	2,751	2.958	7.5
Interest earning deposits in other banks	7,740	9,970	28.8	620	194	(68.7)
Brazilian Central Bank compulsory deposits	24,590	23,967	(2.5)			
Other interest earning assets	648	601	(7.3)			
Total	**R$ 258,694**	**R$ 331,064**	**28.0%**	**R$ 68,094**	**R$73,140**	**7.4%**
Average interest rate earned	**18.5%**	**14.2%**		**9.2%**	**10.3%**	

For further information about average interest rates by type of assets, see "Item 4.B. Business Overview Selected Statistical Information Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest income was attributable to changes in the average volume of interest earning assets, and how much was attributable to changes in average interest rates (including the effects of the floating of the *real*), in each case for the year 2009 as compared to the year 2008:

	Consolidated	Banking	Insurance, Pension Plans and Certificated savings plans
		2009/2008 Increase (decrease) (*R$ in millions*)	
Due to changes in average volume of interest earning assets	R$ 10,952	R$ 10,984	R$ 412
Due to changes in average interest rates	(10,604)	(11,876)	862
Net change	**R$ 348**	**R$ (892)**	**R$ 1,274**

Banking

Our interest income remained practically stable but with a slight decrease of 1.9%, from R$47,936 million in 2008 to R$47,044 million in 2009. This decrease was mainly due to the following factors: (i) a drop in interest income from loan operations; (ii) a decrease in interest income of trading and available for sale securities; and (iii) lower interest income with compulsory deposits. These effects were mitigated by the increase of interest income from federal funds sold and securities purchased under agreements to resell.

Interest income with loan operations decreased by 2.8%, from R$33,662 million in 2008 to 32,708 million in 2009. This decrease is related to the drop in the average rate of the loan portfolio from 23.0% in 2008 to 18.9% in 2009, as a result of a more competitive market. The 18.2% increase in the average volume of loan operations mitigated the drop in interest income generated by the decrease in the average rate. The sustainable growth of the Brazilian economy, plus our commercial strategy, has benefitted the expansion of our loan operations to individual and corporate customers, mainly operations related to consumer finance, real estate financing and BNDES onlending.

Income from trading securities decreased by 9.5%, from R$4,194 million in 2008 to R$3,795 million in 2009. This variation is due to the decrease in the average rate, from 12.9% in 2008 to 7.6% in 2009, mainly driven by cuts made by COPOM to the base interest rate, from 13.75% at the end of 2008 to 8.75% at the end of 2009.

Income from available for sale securities decreased by 36.2%, from R$1,207 million in 2008 to R$770 million in 2009. This variation is due to the decrease in the average rate, from 35.9% in 2008 to 18.3% in 2009, mainly driven by the cuts made by COPOM to the base interest rate, from 13.75% at the end of 2008 to 8.75% at the end of 2009, and by the variation of the Amplified Consumer Price Index (IPCA), of 5.9% in 2008 versus 4.3% in 2009.

Interest income from Brazilian Central Bank compulsory deposits decreased 3.7%, from R$1,489 million in 2008 to R$1,434 million in 2009. This variation was due to the decrease in the average rate, from 6.1% in 2008 to 6.0% in 2009, mainly influenced by the cuts made by COPOM on the base interest rate, from 13.75% at the end of 2008 to 8.75% at the end of 2009.

Our interest income from federal funds sold and securities purchased under agreements to resell increased by 19.1%, from R$6,466 million in 2008 to R$7,701 million in 2009. This increase was mainly due to an increase in the average volume of these types of operations, from R$42,746 million in 2008 to R$66,838 million in 2009, due to the increase in our own portfolio position and funded portfolio.

Insurance, pension plans and certificated savings plans

Our net interest income increased by 20.2%, from R$6,295 million in 2008 to R$7,569 million in 2009. This growth was mainly due to a 9.5% increase in the average balance of trading securities, reflecting an increase in the sale of "VGBL" and "PGBL" contracts, and a 12.9% increase in the average balance of available for sale securities. This growth was partially offset by a 37.5% decrease in our average balance of federal funds sold and securities purchased under agreements to resell.

The average interest rate of net interest income for average interest earning assets increased from 9.2% in 2008 to 10.3% in 2009.

Interest expense

The following table shows the principal components of our average interest bearing liabilities and the average interest rates paid on those liabilities in 2009 and 2008, all of which are in the banking segment:

	Consolidated		
	2008	**2009**	**% Change**
	(R$ in millions, except %)		
Average balance of interest bearing liabilities:			
Savings deposits	R$ 34,538	R$ 39,349	13.9%
Time deposits	62,233	99,119	59.3
Federal funds purchased and securities sold under agreements to repurchase	74,139	92,759	25.1
Short term borrowings	10,252	10,798	5.3

Long term debt	40,445	48,200	19.2
Deposits from financial institutions	404	594	47.0
Total	**R$ 222,011**	**R$ 290,819**	**31.0%**
Average interest rate paid	**12.8%**	**7.2%**	

	Banking			**Insurance, Pension Plans and Certificated savings plans**		
	2008	**2009**	**% Change**	**2008**	**2009**	**% Change**
			(R$ in millions, except %)			
Average balance of interest bearing liabilities:						
Savings deposits	R$ 34,538	R$ 39,422	14.1%			
Time deposits	62,233	99,140	59.3			
Federal funds purchased and securities sold under agreements to repurchase	74,139	92,759	25.1			
Short term borrowings	10,252	10,798	5.3			
Long term debt	40,445	48,200	19.2			
Deposits from financial institutions	404	594	47.0			
Total	**R$ 222,011**	**R$ 290,913**	**31.0%**			
Average interest rate paid	**13.0%**	**7.4%**				

129

For further information on average interest rates by type of liability, see "Item 4.B. Business Overview Selected Statistical Information Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest expense was attributable to changes in the average volume of interest bearing liabilities and how much was attributable to changes in average interest rates (including the effects of the fluctuations in the *real*/U.S. dollar rate), in each case, for 2009 as compared to 2008:

	Consolidated	**Banking**	**Insurance, Pension Plans and Certificated savings plans**
		2009/2008 Increase(decrease) (*R$ in millions*)	
Due to changes in average volume of interest bearing liabilities	R$ 6,965	R$ 6,921	
Due to changes in average interest rates	(14,379)	(14,310)	
Net change	**R$ (7,414)**	**R$ (7,389)**	

Banking

Our financial expenses decreased by 25.6%, from R$28,882 million in 2008 to R$21,493 million in 2009. This decrease is related to a reduction in the average interest rate of the average balance of our interest bearing liabilities, from 13.0% in 2008 to 7.4% in 2009, mainly due to the 25.5% appreciation of the *real* against the U.S. dollar in that period, impacting the expenses related to short term and long term debt. This effect was mitigated by the increase in financial expenses corresponding to time deposits, which were impacted by the increase in the average volume of those operations, from R$62,233 million to R$99,119 million, representing a 59.3% increase in 2009.

Provision for loan losses

The following table shows changes in our allowance for loan losses, provision for loan losses, loan charge offs and loan recoveries for the years ended 2009 and 2008, as well as our provisions to loans ratio (provisions as a percentage of the average balance of our loans):

	2008	**2009**	**% Change**
	(*R$ in millions, except %*)		
Allowance for loan losses at the beginning of the year	R$ 7,769	R$ 10,318	32.8%
Provisions for loan losses	6,651	10,822	62.7
Loan charge offs	(5,345)	(8,264)	54.6
Loan recoveries	1,243	1,696	36.4

Allowance for loan losses at the end of the year	**R$ 10,318**	**R$ 14,572**	41.2%
Ratio of provision for loan losses to average loans outstanding	4.5%	6.3%	

Our allowance for loan losses increased by 41.2%, from R$10,318 million in 2008 to R$14,572 million in 2009. This increase was mainly due to:

- the 18.2% increase in the average balance of loan operations, mainly due to the increase in our loan portfolio, mainly operations with individuals; and

- the effects of the world financial crisis, which entailed a deterioration in our default rates and greater provisioning needs until September, 2009. Beginning in May, 2009 the Brazilian economy began to recover more quickly, principally influenced by Brazilian government measures to encourage family consumption and to stimulate certain economic sectors. The recovery of the Brazilian economy positively impacted our results since the last quarter of 2009, when our delinquency ratios improved and accordingly, our provision for loan losses decreased. The main types of loan operations that impacted our allowance for loan losses were: industrial and others, with the allowance for loan losses for these loans increasing from R$ 3.3 billion in 2008 to R$ 5,8 bilhões em 2009 and (ii) leasing operations, with the allowance for loan losses for these loans increasing from R$ 641 million in 2008 to R$ 1.9 billion in 2009.

The calculation of allowance for loan losses comprises an individual analysis of impaired losses and an aggregate loss analysis for groups of homogeneous loans, as it follows:

	December 31 (*R$ in millions*)	
	2008	**2009**
Impaired loans	R$ 538	R$ 552
Homogeneous loan losses	9,780	14,020
Total	**R$ 10,318**	**R$ 14,572**

The ratio of homogeneous allowance for loan losses to total loans (including non performing loans) increased from 5.6% in 2008 to 7.8% in 2009. This increase reflects the effects of the global financial crisis, which began at the end of 2008, affecting the ability of companies in different sectors of the Brazilian economy to repay debt owed to us, thereby generating greater provisioning needs. The 9.4% increase in operations with individuals also contributed to increase this index, since these operations have historically had higher risk than operations with corporate customers.

Our level of losses from annual loans, set forth as the value of loan charge-offs to average balance of loan operations, raised from 3.7% in 2008 to 4.8% in 2009. Problem loan recoveries increased by 36.4% and loan charge offs increased by 54.6% compared to 2008. In 2009, provision for loans grew 62.7% compared to 2008, increasing our ratio of allowance for loan losses to outstanding loans from 5.9% as of December 31, 2008 to 8.1% in 2009.

We believe that our current allowance for loan losses is sufficient to cover probable losses associated with our portfolio. For more information, see "Item 4.B. Business Overview Selected Statistical Information Charge offs" and "Item 4.B. Business Overview Selected Statistical Information Non performing loans and allowance for loan losses."

The amount of changes in allowance for loan losses as a percentage of the total portfolio is consistent with our historical experience with delinquency ratios, charge offs and net losses. The changes in the quality of our loan portfolio were the most significant elements when establishing our allowance for loan losses as compared to any other change or trend in non performing loans.

Loans granted to individuals presented a 9.4% growth compared to 2008, mainly due to: (i) the 38.0% growth in credit card portfolio; (ii) the 21.4% increase in mortgages ; and (iii) a 6.6% growth in other financings, principally comprising of vehicle and consumer financing.

With respect to credit to corporate customers, credits assigned to export financing decreased from R$24,130 million in 2008 to R$18,137 million in 2009, a 24.8% drop partially driven by the appreciation of the *real* against the U.S. dollar, of 25.5% in 2009. The funding portfolios for the construction of properties increased by 34.0%, import financing increased by 14.2% and foreign currency loans increased by 6.8%, in each case, compared to 2008.

For a description of the Central Bank's regulation on loan operations, see "Item 4.B. Business Overview Regulation and Supervision Bank regulations Treatment of credit operations" and note 2(j) to our consolidated financial statements in Item 18. Financial Statements.

Non interest income

The following tables show, on a consolidated basis and by segment, the principal components of our non interest income for 2008 and 2009.

	Consolidated		
	2008	**2009**	**% Change**
	(R$ in millions, except %)		
Fee and commission income	R$ 8,997	R$ 9,381	4.3%
Net trading gains (losses)	(371)	3,075	-
Net realized gains (losses) on available for sale securities, net of impairment losses	609	164	(73.1)
Equity in the earnings of unconsolidated companies	597	644	7.9
Insurance premiums	10,963	12,521	14.2
Pension plan income	710	607	(14.5)
Other non interest income	2,155	5,342	147.9
Total	**R$ 23,660**	**R$ 31,734**	**34.1%**

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	**2009**	**% Change**	**2008**	**2009**	**% Change**
	(R$ in millions, except %)					
Fee and commission income	R$ 7,883	R$ 8,371	6.2%	R$972	R$851	(12.4)%
Net trading gains (losses)	(225)	2,807	-	(146)	265	-
Net realized gains (losses) on available for sale securities, net of impairment losses	341	(75)	-	268	238	(11.2)
Equity in earnings of unconsolidated companies	554	499	(9.9)	42	146	247.6
Insurance premiums				10,963	12,521	14.2
Pension plan income				710	607	(14.5)
Other non interest income	2,011	4,119	104.8	168	1,272	657.1
Total	**R$ 10,564**	**R$ 15,721**	**48.8%**	**R$ 12,977**	**R$ 15,900**	**22.5%**

Banking

Our non interest income increased by 48.8%, from R$10,564 million in 2008 to R$15,721 million in 2009. This increase was mainly due: (i) to the recovery in global financial markets in the second half of 2009, which led to net gains from trading securities, from a R$225 million loss in 2008 to a R$2,807 million gain in 2009; (ii) a 6.2% increase in fee and commission income in 2008, primarily due to the increase in credit card revenues which was impacted by the growth in the card base, from 83.3 million cards in 2008 to 132.8 million cards in 2009, basically as a result of the acquisition of Banco Ibi; and (iii) the 104.8% increase in other non-interest income, impacted by the result of the partial sale of interest held in Cielo, totaling R$2,410 million.

Insurance, pension plans and certificated savings plans

Our non interest income increased by 22.5%, from R$12,977 million in 2008 to R$15,900 million in 2009. This increase was mainly due to: (i) a 14.2% increase in income from insurance premiums, from R$10,963 million in 2008 to R$12,521 million in 2009, mainly due to (a) health products, in respect of which premiums increased R$840 million, from R$5,259 million in 2008 to R$6,099 million in 2009, (b) increase in the premiums for auto, basic line and liability insurance, from R$2,905 million in 2008 to R$3,277 million in 2009 and (c) growth of R$346 million in the premiums of life and casualty insurance, reaching R$3,145 million in 2009 compared to R$2,799 million in 2008; (ii)net gains on trading securities, from a R$146 million loss in 2008 to a R$265 million gain in 2009 due to the recovery of global financial markets in 2009; and (iii) the R$1,104 million in other non-interest income, mainly due to the R$732 million resulting from the exchange of shares with Odontoprev.

Non interest expense

The following tables show, on a consolidated and per segment basis, the principal components of our non interest expense for 2008 and 2009:

	Consolidated		
	2008	2009	% Change
	(*R$ in millions, except %*)		
Salaries and benefits	R$ (6,880)	R$ (7,404)	7.6%
Administrative expenses	(7,288)	(8,211)	12.7
Amortization of intangible assets	(802)	(660)	(17.7)
Insurance claims	(7,391)	(8,329)	12.7
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(4,225)	(6,008)	42.2
Pension plan operating expenses	(482)	(410)	(14.9)
Insurance and pension plan selling expenses	(1,014)	(1,654)	63.1
Depreciation and amortization	(881)	(1,053)	19.5
Other non interest expense	(6,669)	(6,647)	(0.3)
Total	**R$ (35,632)**	**R$ (40,376)**	**13.3%**

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	2009	% Change	2008	2009	% Change
	(*R$ in millions, except %*)					
Salaries and benefits	R$ (6,130)	R$ (6,615)	7.9%	R$ (570)	R$ (532)	(6.7)%
Administrative expenses	(6,873)	(7,645)	11.2	(682)	(768)	12.6
Amortization of intangible assets	(799)	(660)	(17.1)	(3)		
Insurance claims				(7,391)	(8,329)	12.7
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts				(4,225)	(6,008)	42.2
Pension plan operating expenses				(482)	(410)	(14.9)
Insurance and pension plan selling expenses				(1,014)	(1,655)	63.2
Depreciation and amortization	(820)	(1,020)	24.4	(59)	(31)	(47.5)
Other non interest expense	(5,998)	(5,614)	(6.4)	(520)	(1,042)	100.4
Total	**R$ (20,620)**	**R$ (21,554)**	**4.5%**	**R$ (14,946)**	**R$ (18,775)**	**25.6%**

Banking

Our non interest expense increased by 4.5%, from R$20,620 million in 2008 to R$21,554 million in 2009, due to a 7.9% growth in salaries and benefits expenses, impacted by increased salary levels and the 11.2% growth in our administrative expenses, due to the organic growth and consequent increases in points of sale.

Insurance, pension plans and certificated savings plans

Our non interest expense increased by 25.6%, from R$14,946 million in 2008 to R$18,775 million in 2009. This increase was mainly due to: (i) a 42.2% increase in our provision for insurance, pension plans, certificated savings plans and pension investment contracts from R$4,225 million in 2008 to R$6,008 million in 2009; (ii) a 12.7% increase in insurance claims, from R$7,391 million in 2008 to R$8,329 million in 2009; and (iii) a 63.2% increase in insurance and pension plan selling expenses, reaching R$1,655 million in 2009, versus R$1,014 million in 2008. Increases in our expenses are the result of our business expansion.

Income tax and social contribution

Income tax in Brazil consists of federal income taxes and the social contribution tax on adjusted income. See "Item 5.A. Operating Results Overview Taxes." The combined rate of these two taxes was 34.0% up to April 2008. As of May 2008, the combined rate increased to 40%, due to the raise of the social contribution on adjusted net income rate, from 9% to 15%. Our income tax expenses are composed of current income tax and deferred tax. Certain amounts of income and expenses are recognized in our statement of income but do not affect our taxable basis. Similarly, certain amounts of taxable income and deductible expenses are used as a basis to calculate our income taxes but do not affect our statement of income. Additionally, under Brazilian tax regulations, foreign exchange variation from gains and losses of investments abroad are not taxable when the foreign exchange variation is positive and non-deductible when the foreign exchange variation is negative.

Income tax expenses changed from revenues of R$401 million in 2008 to expenses of R$4,420 million in 2009. This variation was mainly due to: (i) income before income tax, social contribution and equity in the earnings in unconsolidated companies in the amount of R$6,873 million, corresponding to a 111.7% growth in the period, reflecting on the tax expense by the statutory rate that increased from R$2,460 million in 2008 to R$5,210 million in 2009 and (ii) the non deductible exchange loss on investments abroad, which generated a negative adjustment in 2009 of R$673 million, versus a positive adjustment in 2008 of R$803 million. These effects were partially mitigated by the higher fiscal benefit due to interest on shareholders´ capital paid to shareholders, from R$ 783 million in 2008 to R$ 853 million in 2009.

As a percentage of our income before income taxes, adjusted for nontaxable income of equity in the earnings in unconsolidated companies income tax changed from a 6.5% income in 2008 to a 33.9% expense in 2009.

Net income

As a result of the above, our net income increased by 31.3%, from R$7,018 million in 2008 to R$9,216 million in 2009.

Results of operations for year ended December 31, 2008 compared with the year ended December 31, 2007

The following tables set forth the principal components of our net income for 2008 and 2007, on a consolidated basis and by segment:

	Consolidated		
	2007	**2008**	**Percentage change**
	(R$ in millions, except %)		
Net interest income	R$ 23,771	R$ 25,371	6.7%
Provision for loan losses	(4,616)	(6,651)	44.1
Non interest income	25,081	23,660	(5.7)
Non interest expense	(32,939)	(35,632)	8.2
Income before income taxes	**11,297**	**6,748**	**(40.3)**
Income tax and social contribution	(3,352)	401	
Net income before attribution to noncontrolling interest	**7,945**	**7,149**	**(10.0)**
Net income attributed to noncontrolling interest	(37)	(131)	254.1
Parent Company's Net income	**R$ 7,908**	**R$ 7,018**	**(11.3)%**

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2007	**2008**	**% Change**	**2007**	**2008**	**% Change**
	(R$ in millions, except %)					
Net interest income	R$ 17,188	R$ 19,054	10.9%	R$ 6,577	R$ 6,295	(4.3)%
Provision for loan losses	(4,616)	(6,651)	44.1			
Non interest income	12,884	10,564	(18.0)	11,412	12,977	13.7

Non interest expense	(18,751)	(20,620)	10.0	(14,069)	(14,946)	6.2
Income before income taxes	**6,704**	**2,347**	**(65.0)**	**3,920**	**4,326**	**10.4**
Income tax and social contribution	(1,877)	1,970		(1,287)	(1,545)	20.0
Net income before attribution to noncontrolling interest	**4,827**	**4,317**	**(10.6)**	**2,633**	**2,781**	**5.6**
Net income attributed to noncontrolling interest	(28)	(42)	50.0	(19)	(89)	368.4
Parent Company's Net income	**R$ 4,799**	**R$ 4,275**	**(10.9)%**	**R$ 2,614**	**R$ 2,692**	**3.0%**

134

Net interest income

The following table shows the principal components of our net interest income before provision for loan losses for 2007 and 2008, on a consolidated basis and by segment:

	Consolidated			**Banking**			**Insurance, Pension Plans and Certificated savings plans**		
	2007	**2008**	**% Change**	**2007**	**2008**	**% Change**	**2007**	**2008**	**% Change**
				(*R$ in millions, except %*)					
Interest income	R$ 36,509	R$ 53,803	47.4%	R$ 29,940	R$ 47,936	60.1%	R$ 6,577	R$ 6,295	(4.3)%
Interest expense	(12,738)	(28,432)	123.2	(12,752)	(28,882)	126.5			
Net interest income	**R$ 23,771**	**R$ 25,371**	**6.7%**	**R$ 17,188**	**R$ 19,054**	**10.9%**	**R$ 6,577**	**R$ 6,295**	**(4.3)%**

The following table shows, on a consolidated basis and by segment, how much of the increase in our net interest income was attributable to changes in the average volume of interest earning assets and interest bearing liabilities, and how much was attributable to changes in average interest rates (including the effects of the appreciation/depreciation of the *real*) in each case for 2008 and 2007:

	Consolidated	**Banking**	**Insurance, Pension Plans and Certificated savings plans**
		2008/2007 Increase (decrease) (*R$ in millions*)	
Due to changes in average volume of interest earning assets and interest bearing liabilities	R$ 7,291	R$ 6,527	R$ 916
Due to changes in average interest rates	(5,691)	(4,661)	(1,198)
Net change	**R$ 1,600**	**R$ 1,866**	**R$ (282)**

Banking

Our net interest income increased by 10.9%, from R$17,188 million in 2007 to R$19,054 million in 2008. This increase was mainly due to a 41.1% increase in the average volume of interest earning assets, which in turn was mainly due to a 38.8% increase in the average volume of outstanding loans, a 40.9% increase in the average volume of federal funds sold and securities purchased under agreements to resell, and a 74.8% increase in trading securities. The increase in our net interest income was partially offset by a 44.0% increase in the average volume of interest bearing liabilities, which in turn was mainly due to an increase of 80.9% in time deposits, 44.3% increase in federal funds purchased and securities sold under agreements to repurchase, a 25.2% increase in long term debt and a 19.3% increase in savings deposits.

As a percentage of average interest earning assets, our net interest income decreased from 9.4% in 2007 to 7.4% in 2008. This decrease was mainly due to market volatility, a decrease in our operations' spread and an increase in the average volume of interest bearing assets.

Insurance, pension plans and certificated savings plans

Our net interest income decreased by 4.3%, from R$6,577 million in 2007 to R$6,295 million in 2008. This decrease was mainly due to a 12.6% decrease in interest earned on trading securities, which in turn was mainly due to a higher volatility in the financial and capital markets in the second half of 2008. This decrease was partially offset by a 17.5% increase in our average balance of trading securities, which in turn was mainly due to an increase in funds from sales of our pension investment contracts VGBL and PGBL in 2008 and a 10.0% increase in our average balance of securities available for sale.

As a percentage of average interest earning assets, our net interest income decreased from 11.0% in 2007 to 9.2% in 2008.

Interest income

The following tables show, on a consolidated basis and by segment, the average balance of the principal components of our average interest earning assets and the average interest rates earned in 2008 and 2007:

	Consolidated		
	2007	2008	% Change
	(*R$ in millions, except %*)		
Average balance of interest earning assets:			
Loans	R$ 105,470	R$ 146,404	38.8%
Federal funds sold and securities purchased under agreements to resell	33,299	46,893	40.8
Trading securities	52,787	72,789	37.9
Available for sale securities	21,760	24,727	13.6
Held to maturity securities	2,762	3,458	25.2
Interest earning deposits in other banks	7,635	8,360	9.5
Brazilian Central Bank compulsory deposits	18,858	24,590	30.4
Other interest earning assets	716	648	(9.5)
Total	**R$ 243,287**	**R$ 327,869**	**34.8%**
Average interest rate earned	**15.0%**	**16.4%**	

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2007	2008	% Change	2007	2008	% Change
	(*R$ in millions, except %*)					
Average balance of interest earning assets:						
Loans	R$ 105,470	R$ 146,404	38.8%			
Federal funds sold and securities purchased under agreements to resell	30,346	42,746	40.9	R$ 2,953	R$ 3,456	17.0%
Trading securities	18,590	32,501	74.8	34,143	40,123	17.5
Available for sale securities	2,541	3,358	32.2	19,219	21,144	10.0
Held to maturity securities	479	707	47.6	2,283	2,751	20.5
Interest earning deposits in other banks	6,389	7,740	21.1	1,246	620	(50.2)
Brazilian Central Bank compulsory deposits	18,858	24,590	30.4			
Other interest earning assets	716	648	(9.5)			
Total	**R$ 183,389**	**R$ 258,694**	**41.1%**	**R$ 59,844**	**R$ 68,094**	**13.8%**
Average interest rate	**16.3%**	**18.5%**		**11.0%**	**9.2%**	

For further information about average interest rates by type of assets, see "Item 4.B. Business Overview Selected Statistical Information Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest income was attributable to changes in the average volume of interest earning assets, and how much was attributable to changes in average interest rates (including the effects of the fluctuation of the *real*), in each case for the year 2008 as compared to the year 2007:

	Consolidated	**Banking**	**Insurance, Pension Plans and Certificated savings plans**
		2008/2007 Increase (reduction) (*R$ in millions*)	
Due to changes in average volume of interest earning	R$ 13,946	R$ 13,254	R$ 916
Due to changes in average interest rates	3,348	4,742	(1,198)
Net change	**R$ 17,294**	**R$ 17,996**	**R$ (282)**

Banking

Our interest income increased by 60.1%, from R$29,940 million in 2007 to R$47,936 million in 2008. This increase was mainly due to an increase in interest income from loan transactions, an increase in revenues from federal funds sold and securities purchased under agreements to resell and an increase in trading securities.

136

Our interest income from loan transactions increased by 48.9%, from R$22,608 million in 2007 to R$33,662 million in 2008. This increase was mainly due to a 38.8% increase in the average balance of loans, from R$105,470 million in 2007 to R$146,404 million in 2008, which in turn was mainly due to (i) an increase in personal loans, mainly in the "Leasing" and "Personal Credit" lines, as a result of our strategy to expand our loan transactions, as we take advantage of growing consumption in Brazil, and (ii) an increase in the volume of loan to corporate clients, mainly "Foreign Transactions," "Leasing" and "Working Capital" lines, as a result of the growth in Brazilian economy. The increase in loan transactions was affected by the global economic crisis during the fourth quarter of 2008.

Our interest income from federal funds sold and securities purchased under agreements to resell increased by 101.9%, from R$3,202 million in 2007 to R$6,465 million in 2008. This increase was mainly due to an increase in the average volume of such operations, R$30,346 million in 2007 to R$42,746 million in 2008, which in turn was mainly due to an increase in funded status.

Our interest income from trading securities increased by 146.6%, from R$1,701 million in 2007 to R$4,194 million in 2008. This increase was mainly due to an increase in the average volume in trading securities, from R$18,590 million in 2007 to R$32,501 million in 2008.

Insurance, pension plans and certificated savings plans

Our interest income decreased by 4.3%, from R$6,577 million in 2007 to R$6,295 million in 2008. This decrease was mainly due a 12.6% decrease in our interest income from trading securities, which in turn was due to a higher volatility in the financial and capital markets in the second half of 2008. This decrease was partially offset by a 17.5% increase in the average balance of our trading securities, which in turn was mainly due to an increase in funds from sales of our pension investment contracts VGBL and PGBL in 2008 and a 10.0% increase in our available for sale securities.

Interest expense

The following table shows the principal components of our average interest bearing liabilities and the average interest rates paid on those liabilities in 2008 and 2007, all of which are in the banking segment:

	Consolidated		
	2007	**2008**	**% Change**
	(R$ in millions, except %)		
Average balance of interest bearing liabilities:			
Savings deposits	R$ 28,958	R$ 34,538	19.3%
Time deposits	34,388	62,233	81.0
Federal funds purchased and securities sold under agreements to repurchase	51,384	74,139	44.3
Short term borrowings	6,892	10,252	48.8
Long term debt	32,305	40,445	25.2
Deposits from financial institutions	223	404	81.2
Total	**R$ 154,150**	**R$ 222,011**	**44.0%**
Average interest rate paid	**8.3%**	**12.8%**	

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2007	**2008**	**% Change**	**2007**	**2008**	**% Change**
			(R$ in millions, except %)			
Average balance of interest bearing liabilities:						
Savings deposits	R$ 28,958	R$ 34,538	19.3%			
Time deposits	34,411	62,233	80.9			
Federal funds purchased and securities sold under agreements to repurchase	51,384	74,139	44.3			
Short term borrowings	6,892	10,252	48.8			
Long term debt	32,305	40,445	25.2			
Deposits from financial institutions	223	404	81.2			
Total	**R$ 154,173**	**R$ 222,011**	**44.0%**			
Average interest rate paid	**8.3%**	**13.0%**				

Table of Contents

For further information on average interest rates by type of liability, see "Item 4.B. Business Overview Selected Statistical Information Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest expense was attributable to changes in the average volume of interest bearing liabilities and how much was attributable to changes in average interest rates (including the effects of the fluctuation of the *real*), in each case, for 2008 as compared to 2007:

	Consolidated	**Banking**	**Insurance, Pension Plans and Certificated savings plans**
		2008/2007 Increase (reduction) (*R$ in millions*)	
Due to changes in average volume of interest bearing liabilities	R$ 6,655	R$ 6,727	
Due to changes in average interest rates	9,039	9,403	
Net change	**R$ 15,694**	**R$ 16,130**	

Banking

Our interest expense increased by 126.5%, from R$12,752 million in 2007 to R$28,882 million in 2008. This increase was mainly due a 44.0% increase in the average volume of interest bearing liabilities, which in turn was mainly due to a 80.9% increase in our average balance of time deposits, from R$34,411 million in 2007 to R$62,233 million in 2008, and a 44.3% increase in federal funds purchased and securities sold under agreements to repurchase, from R$51,384 million in 2007 to R$74,139 million in 2008.

Provision for loan losses

The following table shows changes in our allowance for loan losses, provision for loan losses, loan charge offs and loan recoveries for the years ended 2008 and 2007, as well as our provisions to loans ratio (provisions as a percentage of the average balance of our loans):

	2007	**2008**	**% Change**
		(*R$ in millions, except %*)	
Allowance for loan losses at the beginning of the year	R$ 6,552	R$ 7,769	18.6%
Provisions for loan losses	4,616	6,651	44.1
Loan charge offs	(4,281)	(5,345)	24.9
Loan recoveries	882	1,243	40.9
Allowance for loan losses at the end of the year	R$ 7,769	R$ 10,318	32.8%
Ratio of provision for loan losses to average loans outstanding	4.4%	4.5%	

Our allowance for loan losses increased by 32.8%, from R$7,769 million in 2007 to R$10,318 million in 2008. This increase was mainly due to:

- a 38.8% increase in our average balance of outstanding loans, which in turn was mainly due to an increase in our loan portfolio,

- the impact on our loan portfolio of the depreciation of the *real*, and

- the slowdown in the Brazilian economy, especially in the last quarter of 2008.

The calculation of allowance for loan losses comprises an individual analysis of impaired loans and aggregate loss analysis for groups of homogenous loans, as follows:

	December 31, (*R$ in millions*)	
	2007	**2008**
Impaired loans	R$ 187	R$ 538
Homogenous loan losses	7,582	9,780
Total	**R$ 7,769**	**R$ 10,318**

Despite the total increase in allowance for loan losses, the ratio of allowance for homogenous loan losses to total loans (including non performing loans) changed slightly, from 5.7% in 2007 to 5.6% in 2008. The main reason for the stability of the ratio is that, although the year of 2008 (particularly the second half) was characterized by higher volatility in the financial and capital markets, the increase of our total amount of allowance for loan losses in 2008 was mainly due to the increase in the volume of our outstanding loans. The increase in our commercial loans to corporations portfolio was higher than the increase on our loans to individuals portfolio. Based on our past experience, commercial loans to corporations perform better than loans to individuals, demanding lower levels of provisions for loans.

Our level of annual loan losses, calculated as the value of loan charge offs as a percentage of the average balance of outstanding loans, decreased from 4.1% in 2007 to 3.7% in 2008. Recoveries of non performing loans increased by 40.9% and loan charge offs increased by 24.9%, as compared to 2007. In 2008, the provision for loan losses increased by 44.1%, as compared to 2007. The increase in the allowance for loan losses increased the level of our expenses with allowance for loan losses for outstanding loans by 5.8% as of December 31, 2007 to 5.9% as of December 31, 2008.

We believe that our current allowance for loan losses is sufficient to cover probable losses associated with our portfolio. For more information, see "Item 4.B. Business Overview Selected Statistical Information Charge offs" and "Item 4.B. Business Overview Selected Statistical Information Non performing loans and allowance for loan losses."

We believe that the amount of, and the variation in, our allowance for loan losses, as a percentage of the total portfolio, are consistent with our historical experience with delinquency ratios, charge offs and net losses. Adjustments in the quality of our loan portfolio were the most significant component to determining our allowances for loan losses than any change or trend in non performing loans.

Commercial loans to corporations had a better performance than those to individuals in 2008, mainly foreign trade oriented transactions, export transactions, transactions with our branches and offices abroad, and working capital transactions. In the corporate segment, loans classified as "industrial and other loans" increased by 39.9% as a percentage of our loan portfolio, from 34.2% in 2007 to 36.5% in 2008. This decrease was mainly due to an increase in the loan to large companies.

Loans to individuals were also adversely affected by the volatility in the financial and capital markets in the second half of 2008. Credit classified as "other financing" decreased by 9.2%, mainly due to a decrease in other types of loans. Credit classified as "other financing" represented 21.4% of our total loan operations in 2008, compared with 31.0% in 2007. Financing and leasing operations, basically for vehicles, increased by 150.2%, from 6.2% of the total of outstanding loans in 2007 to 11.8% in 2008, which was mainly due to a higher demand for this type of credit.

For a description of the Central Bank's regulation of lending operations, see "Item 4.B. Business Overview Regulation and Supervision Bank regulations Treatment of credit operations" and note 2(j) to our consolidated financial statements in Item 18. Financial Statements.

Non interest income

The following tables show, on a consolidated basis and by segment, the principal components of our non interest income for 2007 and 2008.

Table of Contents

	Consolidated		
	2007	2008	% Change
	(*R$ in millions, except %*)		
Fee and commission income	R$ 7,819	R$ 8,997	15.1%
Net trading gains (losses)	3,694	(371)	
Net realized gains (losses) on available for sale securities, net of impairment losses	1,456	609	(58.2)
Equity in the earnings of unconsolidated companies	407	597	46.7
Insurance premiums	8,843	10,963	24.0
Pension plan income	555	710	27.9
Other non interest income	2,307	2,155	(6.6)
Total	**R$ 25,081**	**R$ 23,660**	**(5.7)%**

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2007	2008	% Change	2007	2008	% Change
	(*R$ in millions, except %*)					
Fee and commission income	R$ 6,994	R$ 7,883	12.7%	R$ 712	R$ 972	36.5%
Net gains (losses) on trading securities	3,585	(225)		60	(146)	
Net realized gains (losses) on available for sale securities, net of impairment losses	425	341	(19.8)	1,016	268	(73.6)
Equity in earnings of unconsolidated companies	451	554	22.8	(39)	42	
Insurance premiums				8,843	10,963	24.0
Pension plan income				555	710	27.9
Other non interest income	1,429	2,011	40.7	265	168	(36.6)
Total	**R$ 12,884**	**R$ 10,564**	**(18.0)%**	**R$ 11,412**	**R$ 12,977**	**13.7%**

Banking

Our non interest income decreased by 18.0%, from R$12,884 million in 2007 to R$10,564 million in 2008. This decrease was mainly due to a decrease in our trading securities given market volatility during the second half of 2008, and which was partially offset by an increase in the fee and commission income, which in turn was mainly due to an increase in our income from credit card transactions.

Insurance, pension plans and certificated savings plans

Our non interest income increased by 13.7%, from R$11,412 million in 2007 to R$12,977 million in 2008. This increase was mainly due to a 24.0% increase in income from insurance premiums, from R$8,843 million in 2007 to R$10,963 million in 2008, which in turn was mainly due to an increase in the volume of life and health insurance products sold. This increase was partially offset by a decrease in net gains on trading securities, which in turn was due to the volatility in the financial and capital markets in the second half of 2008.

Non interest expense

The following tables show, on a consolidated and per segment basis, the principal components of our non interest expense for 2007 and 2008:

	Consolidated		
	2007	**2008**	**% Change**
	(R$ in millions, except %)		
Salaries and benefits	R$ (6,769)	R$ (6,880)	1.6%
Administrative expenses	(6,236)	(7,288)	16.9
Amortization of intangible assets	(620)	(802)	29.4
Insurance claims	(6,012)	(7,391)	22.9
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(4,981)	(4,225)	(15.2)
Pension plan operating expenses	(478)	(482)	(0.8)
Insurance and pension plan selling expenses	(1,157)	(1,014)	(12.4)
Depreciation and amortization	(746)	(881)	18.1
Other non interest expense	(5,940)	(6,669)	12.3
Total	**R$ (32,939)**	**R$ (35,632)**	**8.2%**

	Banking			Insurance, Pension Plans and Certificated savings plans		
	2007	2008	% Change	2007	2008	% Change
	(R$ in millions, except %)					
Salaries and benefits	R$ (6,094)	R$ (6,130)	0.6%	R$ (510)	R$ (570)	11.8%
Administrative expenses	(5,856)	(6,873)	17.4	(585)	(682)	16.6
Amortization of intangible assets	(616)	(799)	29.7	(4)	(3)	(25.0)
Insurance claims				(6,013)	(7,391)	22.9
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts				(4,981)	(4,225)	(15.2)
Pension plan operating expenses				(478)	(482)	(0.8)
Insurance and pension plan selling expenses				(1,157)	(1,014)	(12.4)
Depreciation and amortization	(694)	(820)	18.2	(49)	(59)	20.4
Other non interest expense	(5,491)	(5,998)	9.1	(292)	(520)	78.1
Total	**R$ (18,751)**	**R$ (20,620)**	**10.0%**	**R$ (14,069)**	**R$ (14,946)**	**6.2%**

Banking

Our non interest expense increased by 10.0%, from R$18,751 million in 2007 to R$20,620 million in 2008. This increase was mainly due to a 17.4% increase in our administrative expenses, from R$5,856 million in 2007 to R$6,873 million in 2008, which in turn was mainly due to the expansion of our services, an increase in the volume of our banking business and investments to improve our technology systems.

Insurance, pension plans and certificated savings plans

Our non interest expense increased by 6.2%, from R$14,069 million in 2007 to R$14,946 million in 2008. This increase was mainly due to an increase in our insurance claims, from R$6,013 million in 2007 to R$7,391 million in 2008, which in turn was due to an increase in sales. Our insurance lines that presented more claims were: (i) health with R$989 million; (ii) life with R$209 million, of which R$100 million corresponds to the expansion of claims incurred but not reported, whose calculation methodology was changed from five to seven years; (iii) basic lines with R$72 million, of which R$40 million corresponds to losses from the floodings in the State of Santa Catarina; and (iv) vehicles with R$20 million.

Taxes on Income

Taxes on income in Brazil consist of federal income taxes and the social contribution tax on adjusted income. See "Item 5.A. Operating Results Overview Taxes." The combined rate of these two taxes was 34.0% until April 2008. As of May 2008, the combined rate increased to 40%, due to an increase in the social contribution rate on adjusted net income from 9% to 15%.

Income tax expenses decreased from R$3,352 million in 2007 to a revenue of R$401 million in 2008. This variation was mainly due to the increase in the social contribution rate from 9% to 15%, generating R$1,240 million in revenue, and the foreign exchange losses on investments abroad, generating R$803 million in revenue, as well as by the increase in our tax basis due to reduced gains in securities.

As a percentage of our income before income taxes, adjusted for nontaxable income of unconsolidated companies, taxes on income changed from an expense of 30.8% in 2007 to an income of 6.5% in 2008.

Net Income

As a result of the foregoing, our net income decreased by 11.3%, from R$7,908 million for 2007 to R$7,018 million for 2008.

5.B Liquidity and Capital Resource

Asset and liability management

Our general policy on asset and liability management is to manage interest rate, liquidity, foreign exchange and maturity risks in order to maximize our net income from financial operations and our return on assets and equity, in light of our internal risk management policies, and maintain adequate levels of liquidity and capital.

As part of our asset and liability management, we seek to avoid material mismatches between assets and liabilities by matching, to the extent possible, the maturity, currency and interest rate structure of the loans we extend to the terms of the transactions under which we fund such loans. Subject to our policy constraints, from time to time we take mismatched positions as to interest rates, maturities and, in more limited circumstances, foreign currencies, when we believe such positions are justified in view of market conditions and prospects.

We monitor our asset and liability position in accordance with Central Bank requirements and guidelines. The treasury committee of our senior management meets on a weekly basis to:

- present and discuss the transactions conducted by us during the previous week;
- present the exposure in each item of our portfolio, to factors such as fixed rates, floating rates, foreign currency and exchange rates;
- establish exposure limits based on our evaluation of the risks presented by our currency, term and rate gap positions and current market volatility levels;
- establish asset allocation and funding policies; and
- decide on the maturity terms of our assets and liabilities.

In making such decisions, our senior management evaluates not only our exposure limits for each market segment and product, but also market volatility levels and the extent to which we are exposed to market risk through interest, maturity, liquidity and currency mismatches. It also considers other potential risks, as well as the liquidity of the market, our institutional needs and perceived opportunities for gain. The committee holds special meetings as needed in response to unexpected macroeconomic changes.

In addition, our senior managers receive daily reports on our unmatched and open positions, while the treasury committee assesses our risk position weekly.

Liquidity and funding

Central Bank requirements for compulsory deposits determine our minimum liquidity levels. We review our asset and liability management policies from time to time to ensure that we have sufficient liquidity available to honor withdrawals of deposits, repay other liabilities at maturity, extend loans or other forms of credit to our customers and meet our own working capital needs.

Our treasury department acts as a support center for our different business segments by managing our funding and liquidity positions, and executing our investment objectives in accordance with our asset and liability management policies. It is also responsible for setting the rates for our different products, including exchange and interbank transactions. The treasury department covers any funding shortfall through borrowing in the interbank market. It seeks to maximize efficient use of our deposit base by investing any surpluses in liquid instruments in the interbank market.

We have used our excess liquidity to invest in Brazilian government securities and expect to continue doing so, subject to regulatory requirements and investment considerations.

Our principal sources of financing are:

- demand, savings, time and deposits from financial institutions; and

- short term and long term borrowings, part of which is denominated in foreign currencies.

The following table shows the average balance and average real interest rates of our sources of funding (interest bearing, as well as non interest bearing) in the periods indicated:

	2007			2008			2009		
	Average balance	**% of total**	**Average rate**	**Average balance**	**% of total**	**Average rate**	**Average balance**	**% of total**	**Average rate**
	(R$ in millions, except %)								
Deposits from financial institutions	R$ 223	0.1%	14.8%	R$ 404	0.1%	19.8%	R$ 594	0.1%	11.3%
Savings deposits	28,958	11.1	6.9	34,538	10.1	7.1	39,349	9.3	6.2
Time deposits	34,388	13.1	10.2	62,233	18.2	11.4	99,119	23.4	9.0
Interest bearing liabilities:									
Federal funds purchased and securities sold under agreements to repurchase	51,384	19.6	10.8	74,139	21.7	12.4	92,759	21.9	9.4
Short term borrowings	6,892	2.6	(10.5)	10,252	3.0	47.8	10,798	2.5	(20.3)
Long term debt	32,305	12.4	7.3	40,445	11.8	11.7	48,200	11.4	6.4
Total interest bearing liabilities	**154,150**	**58.9**	**8.3%**	**222,011**	**64.9**	**12.8%**	**290,819**	**68.6**	**7.2%**
Non interest bearing liabilities:									
Demand deposits	22,311	8.5		26,305	7.7		28,171	6.6	
Other non interest bearing liabilities(1)	85,091	32.6		93,862	27.4		105,159	24.8	
Total non interest bearing liabilities	**107,402**	**41.1**		**120,167**	**35.1**		**133,330**	**31.4**	
Total liabilities	**R$ 261,552**	**100.0%**		**R$ 342,178**	**100.0%**		**R$ 424,149**	**100.0%**	

(1) Other non interest bearing liabilities, whose primary components are technical reserves for insurance, pension plans, certificated savings plans, pension plan investment agreements and provision for contingent liabilities, are not a source of funding.

Deposits are our most important source of funding, accounting for 32.8% of average total liabilities in 2007, compared to 36.1% in 2008 and 39.4% in 2009. Our deposits balance over these years progressed in the following manner:

- In 2007, the average balance of our deposits increased by 10.6% as compared to 2006. As a percentage of average balance of liabilities, the average balance of our deposits decreased from 37.6% in 2006 to 32.8% in 2007, mainly due to an increase in other funding sources, especially a 84.7% increase in federal funds purchased and securities sold under agreements to repurchase and a 25.2% increase in the average balance of other non-interest-bearing;

- In 2008, the average balance of our deposits increased by 43.8%, as compared to 2007. As a percentage of average balance of liabilities, the average balance of our deposits increased from 32.8% in 2007 to 36.1% in 2008, mainly due to the increase of 81.0% in time deposits; and

- In 2009, the average balance of deposits increased 35.4%, compared to 2008. As a percentage of the liability balance, the average balance of our deposits increased from 36.1% in 2008 to 39.4% in 2009, mainly due to the 59.3% increase in time deposits.

Short term and long term borrowings, one our most important sources of funding, accounted for 15.0% of total average liabilities in 2007, compared to 14.8% in 2008 and 13.9% in 2009. Our average balance of short term and long term borrowings increased; however, it decreased as a percentage of total liabilities, mainly due to the increase in other funding sources, mainly time deposits.

The following table shows our sources of funding and liquidity as of December 31, 2009:

Table of Contents

	December 31, 2009	
	(*R$ in millions*)	**% of total**
Deposits from financial institutions	R$752	0.2%
Savings deposits	44,162	9.8
Time deposits	90,537	20.1
Federal funds purchased and securities sold under agreements to repurchase	108,357	24.0
Short term borrowings	7,976	1.8
Long term debt	50,817	11.3
Total interest bearing liabilities	**302,601**	**67.2**
Demand deposits	35,664	7.9
Other non interest bearing liabilities(1)	112,440	24.9
Total non interest bearing liabilities	**148,104**	**32.8**
Total liabilities	**R$450,705**	**100.0%**

(1) Other non interest bearing liabilities, whose primary components are technical reserves for insurance, pension plans, certificated savings plans, pension plan investment agreements and provision for contingent liabilities, are not a source of funding.

Deposits

Deposits accounted for approximately 38.0% of total liabilities at December 31, 2009. Our deposits consist primarily of *real* denominated, interest bearing time and savings deposits and *real* denominated, non interest bearing demand deposits. The increase in the average balances of our time, savings and demand deposits from December 31, 2008 through December 31, 2009 was due to the increase in our client base. At December 31, 2008, we had approximately 20.1 million checking account holders and 35.8 million savings account holders, compared to approximately 20.9 million checking account holders and 37.7 million savings accounts at December 31, 2009. For additional information regarding our deposits, see "Item 4.B. Business Overview Selected Statistical Information Maturity of deposits."

Federal funds sold and securities purchased under agreements to resell

Federal funds sold and securities purchased under agreements to resell consist mainly of funds we obtained from financial institutions in the market by selling securities with agreements to repurchase.

On December 31, 2009, we had federal funds sold and securities purchased under agreements to resell in the amount of R$82,146 million, a R$35,196 million increase as compared to December 31, 2008.

On December 31, 2008, we had federal funds sold and securities purchased under agreements to resell in the amount of R$46,950 million, an increase of R$6,349 million, as compared to December 31, 2007.

The increase presented in the periods above reflects the increase in our money market transactions in order to increase our liquidity.

Short term borrowings

Our short term borrowings in foreign currencies consist primarily of lines obtained from banking correspondents for import and export financings, as well as issuances of short term debt securities. We have consistently had access to short term borrowings on market terms.

We do not have any unused credit lines, credit facilities or portions thereof due to the fact that we do not maintain any pre approved credit lines with other financial institutions.

Our credit facilities could be impacted by various factors, including downgrades in our rating, fluctuations in Brazilian exchange rates and base interest rates, increased rates of inflation, currency devaluations and adverse developments in the Brazilian and world economies. For a further discussion of risks that could have an adverse effect on our credit facilities, see "Item 3.D. Risk Factors Macroeconomic risks " and " Item 3.D. Risk Factors Risks relating to Bradesco and the Brazilian banking industry."

On December 31, 2009, we had short term borrowings (up to 360 days) amounting to R$7,976 million, a decrease of R$5,873 million in relation to December 31, 2008. Our short term borrowings decreased as a demand for imports and exports financing, which we financed by means of short term borrowings, dropped by 56.6%, from R$10,958 million on December 31, 2008 to R$4,761 million on December 31, 2009. The balance of our commercial papers denominated in and indexed to U.S. dollar increased by 11.2%, from R$2,890 million on December 31, 2008 to R$3,214 million on December 31, 2009. We also highlight that the variation in the period is being impacted by the 25.5% appreciation of real against the U.S. dollar.

On December 31, 2008, we had short term borrowings (with maturities up to 360 days) totaling R$13,849 million, an increase of R$5,860 million as compared to December 31, 2007. Our short term borrowings increased as demand for financing import and export, which we finance through short term borrowings, increased 80.4%, from R$6,073 million on December 31, 2007 to R$10,958 million, on December 31, 2008. The balance of our U.S. dollar denominated and indexed commercial papers increased 50.9%, from R$1,915 million on December 31, 2007 to R$2,890 million, on December 31, 2008.

Basically all of our import and export finance credit lines from banking correspondents are U.S. dollar denominated. We have historically funded a substantial portion of our foreign currency trade operations from foreign currency credit lines with these banking correspondents.

For additional information on our short term borrowings, see "Item 4.B. Business Overview Selected Statistical Information Federal funds purchased and securities sold under agreements to repurchase and short term borrowings" and "Item 11. Quantitative and Qualitative Disclosure about Market Risk Sensitivity analysis."

Long term debt

We classify as "long term" all borrowings not classified as short term. Long term debt consist primarily of funds borrowed for local onlendings, in which we borrow from Brazilian governmental agencies and entities to make loans to Brazilian entities for investments in facilities and equipment, as well as our subordinated notes, Euronotes and foreign currency loans.

As of December 31, 2009, the value of our long term debt increased to R$50,817 million, from R$47,255 million as of December 31, 2008. The increase in our long term debt was mainly due to: (i) the R$3,546 million increase in our subordinated debt and the R$1,813 million increase in our funding of internal fund onlendings. This increase was offset by a R$1,085 million decrease in securities issued by means of securitization of money orders and receivables from credit card bills.

As of December 31, 2008, the amount of our long term debt increased from R$38,915 million to R$47,255 million as of December 31, 2008. The increase in our long term debt was basically due to: (i) the increase of R$3,399 million in our subordinated debt; (ii) the increase of R$5,008 million in our funding of internal fund onlendings; and (iii) the increase of R$2,808 million in securities issued by means of securitization of money orders and receivables from credit card bills, as a result of new issuances in 2008.

Medium and long term securities issuance is also included in our long term debt, including through our medium term note program. This program permits us to issue up to US$2.5 billion (or its equivalent in other currencies) of medium term notes through our branches in Grand Cayman and New York and through our headquarters in Brazil. The program provides that the notes are unsecured, unsubordinated obligations and rank on the same level as all our present and future unsecured and unsubordinated external debt. We may offer the notes issued under the program for sale to qualified institutional buyers in the United States under the Rule 144A of the Securities Act or to non U.S. persons outside the United States in accordance with Regulation S of the Securities Act.

We had US$100 million outstanding notes as of December 31, 2009 and US$100 million outstanding notes on December 31, 2008 issued under our medium term securities program. On December 31, 2009, outstanding securities were issued during 2005 and earn interest at a fixed rate. Even though the program allows us the issuance of up to US$2.5 billion in medium term securities, our ability to issue the remaining balance under the program depends on whether there is a demand for these resources.

Table of Contents

In August 2003, we issued two series of notes due in 2010, in an aggregate amount of US$400.0 million, and, in July 2004, we issued a new series of notes due in 2012, in an aggregate amount of US$100.0 million. The notes are secured by future flows of payment orders we receive from abroad. In August 2005, we redeemed in advance one of the series issued in 2003 in the amount of US$200.0 million. In 2007, we issued four new series due in 2014, two of which were issued in June 2007 in an aggregate amount of US$500 million and the remainder was issued in December 2007 in an aggregate amount of US$400 million. In March 2008, we issued a new series in the amount of US$500 million with maturity for 2015, subject to annual revision of grace period. In December 2008, we issued a new series in the amount of US$500 million with maturity for February 2015. In 2009, we issued four new series totaling US$300 million due in November 2014, February 2015, February 2017 and February 2020. Out of the outstanding series as of December 31, 2009, the 2003, 2004 series and two series issued in 2009 bear fixed interest rates.

In December 2001, April 2002, October 2003, April 2004 and September 2009, we issued, through our branch in Grand Cayman, subordinated debt securities with a 10 year maturity, in the amounts of US$150 million, JP¥17.5 billion, US$500 million, EUR225 million and US$750 million, respectively. In June 2005, we issued US$300 million in non cumulative junior subordinated perpetual bonds, on which we pay interest at a fixed rate on a quarterly basis. In June, 2010 we exercised our full call option.

We use the proceeds of our long term debt issuances for general onlending purposes, principally to our Brazilian clients. The difference between the interest we pay on our borrowings and the interest we charge our clients, known as the "spread," is related to the term of the loans, our assessment of the client risk and the general condition of the Brazilian economy. With the exception of our local onlendings, there are no regulatory restrictions on the use of our borrowings.

For additional information on our long term debt, see "Item 11. Quantitative and Qualitative Disclosure about Market Risk Sensitivity analysis" and note 14 to our consolidated financial statements in Item 18. Financial Statements.

Brazilian Central Bank compulsory deposits

The Central Bank requires us, as a financial institution, either to deposit a determined amount of funds with the Central Bank or to purchase and hold Brazilian federal treasury securities. We cannot use these compulsory deposits for any other purpose. The Central Bank determines the interest to be paid on these deposits, if any. For more information on compulsory deposit requirements, see "Item 4.B. Business Overview Deposit taking activities."

As of December 31, 2009, the balance of our compulsory deposits increased by 23.9%, from R$26,384 million as of December 31, 2008 to R$32,696 million as of December 31, 2009, mainly due to the increase in the average volume of deposits funded, highlighting time deposit.

As of December 31, 2008, the balance of our compulsory deposits decreased by 17.1%, from R$31,813 million as of December 31, 2007 to R$26,384 million as of December 31, 2008, due to the decrease in the compulsory deposits rate.

Sources of additional liquidity

In some limited circumstances, we may obtain emergency funds from the Central Bank through a transaction referred to as "*redesconto*." A *redesconto* is a loan from the Central Bank to a financial institution, which loan is guaranteed by Brazilian government securities owned by the financial institution. The amount of federal government securities held by the financial institution as trading securities limits the amount of the *redesconto* transaction. We have never obtained funds from the Central Bank through *redesconto* transactions for liquidity purposes. As of December 31, 2009, we had available R$44,101 million in Brazilian government securities as trading securities that could be used for this purpose.

Cash flow

During 2007, 2008 and 2009, the primary influence on our cash flow was the changes in the Brazilian economic environment. The following table shows the principal variations in cash outflows during the periods indicated:

	2007	2008	2009
Net cash provided by (used in) operating activities	R$ 18,995	R$ (28,299)	R$ 18,821
Net cash used in investing activities	(44,384)	(37,854)	(27,429)
Net cash provided by financing activities	54,111	83,619	35,028
Net increase (decrease) in cash and cash equivalents	**R$ 28,722**	**R$ 17,466**	**R$ 26,420**

2007

During 2007, we had a net increase of R$28,722 million in cash and cash equivalents, as a result of R$18,995 million from our operating activities and R$54,111 million from our financing activities, which was partially offset by the utilization of R$44,384 million in our investment activities.

The utilization of cash in our investment activities in 2007 mainly resulted from the utilization of R$6,658 million for the acquisition of available for sale securities, R$35,363 million in credit operations and R$4,875 million in Brazilian Central Bank compulsory deposits and was offset by R$3,094 million generated by the sale of available for sale securities.

The cash generated by our financing activities in 2007 basically resulted from a net increase of R$26,140 million in our transactions involving federal funds purchased and securities sold under agreements to repurchase, as well as the net increase of R$14,588 million in funding of deposits, mainly demand deposits and increase in our long term loans of R$7,650 million, net of respective payments.

2008

During 2008, we had a net increase of R$17,466 million in cash and cash equivalents, as a result of R$83,619 million from our financing activities, partially offset by R$(28,299) million in our operating activities, and by the utilization of R$(37,854) million in our investment activities.

The utilization of cash in our investment activities in 2008 mainly resulted from the utilization of R$4,878 million for the acquisition of available for sale securities, R$46,315 million in credit operations, which was offset by R$10,338 million in Brazilian Central Bank compulsory deposits, and by R$4,715 million generated by the sale of available for sale securities.

The cash generated by our financing activities in 2008 basically resulted from a net increase of R$64,678 million in our funding of deposits, mainly time deposits and increase of our short term and long term loans of R$12,670 million, net of respective payments and R$5,715 million referring to the increase in federal funds purchased and securities sold under agreements to repurchase.

2009

During 2009, we had a net increase of R$ 26,420 million in cash and cash equivalents, due to the R$35,028 million from our financing activities, and R$18,821 million from our operating activities, offset by the R$(27,429) million used in from our investment activities.

The use of cash in our investment activities in 2009 resulted primarily from the use of R$21,347 million for the acquisition of available for sale securities, from the use of R$9,750 million in loan operations, and the net increase of R$4,723 million in Brazilian Central Bank compulsory deposits, offset by R$8,614 million generated in the sale of available for sale securities and R$2,559 million from the sale of non consolidated investments.

The cash generated by our financing activities in 2009 resulted primarily from a net increase of R$2,387 million in deposit taking activities, mainly time deposits, and the R$33,526 million increase in our federal funds purchased and securities sold under agreements to repurchase, offset by a decrease in our short-term and long-term debt in the amount of R$1,719 million, net of the respective payments.

Table of Contents

Capital compliance

The Basel I Accord requires banks to have a ratio of capital to risk weighted assets of a minimum of 8.0%. At least half of total capital must consist of Tier I capital. Tier I, or core capital, includes equity capital less certain intangibles. Tier II capital includes asset revaluation reserves, general allowance for loan losses and subordinated debt, subject to some limitations. This ratio should be calculated based on BR GAAP financial information.

Brazilian banking regulations differ from Basel Accord requirements in several ways. Brazilian banking regulations:

- require a minimum ratio of capital to risk weighted assets of 11.0%;
- do not permit general allowance for loan losses to be considered as capital;
- require different specific risk weighted categories;
- impose a deduction from capital corresponding to fixed assets held in excess over limits imposed by the Central Bank; and
- limit the issuance of subordinated notes to 50.0% of Tier I capital.

Prior to July 31, 2000, capital adequacy requirements could be calculated on either a consolidated or unconsolidated basis. Since July 31, 2000, we have measured our capital compliance on a consolidated basis, in accordance with Central Bank rules. As of July 1, 2008, we started operating according to the New Capital Accord (Basel II), standardized approach. See "Item 4.B. Business Overview Regulation and Supervision Bank Regulations Principal limitations and restrictions on activities of financial institutions" for a more detailed discussion of Brazilian capital adequacy requirements.

The following table shows our capital positions as a percentage of total risk weighted assets, as well as our minimum capital requirements under Brazilian law, for the dates indicated. The table and the following information are based on generally accepted accounting principles in Brazil:

	At December 31,		
	2007	**2008[(1)]**	**2009**
	(R$ in millions, except %)		
Capital Tier I	10.3%	12.9%	14.8%
Capital Tier II	3.7	3.2	3.0
Total Capital	14.0%	16.1%	17.8%
Available regulatory capital	R$ 41,448	R$ 47,263	R$ 55,928
Minimum regulatory capital required	32,641	32,318	34,509
Excess over minimum regulatory capital required	**R$ 8,807**	**R$ 14,945**	**R$ 21,419**

(1) As of July 1, 2008, calculations are based on the New Capital Accord (Basel II).

The increase in our available authorized capital from R$47,263 million as of December 31, 2008 to R$55,928 million as of December 31, 2009, was mainly due to: (i) the R$5,295 million corresponding to profit capitalization, after the payment of dividends/interest on shareholders' equity; (ii) the R$1,368 million capital increase corresponding to the acquisition process of Banco Ibi and (iii) the R$1,382 million increase from the additional allowance for loan losses, which is now considered as Level I capital adjustment, pursuant to CMN Resolution 3,674/08, revoked by CMN Resolution 3,825/09, effective as of April 1, 2010.

The increase in our available authorized capital from R$41,448 million at December 31, 2007 to R$47,263 million at December 31, 2008 was mainly due to (i) R$1,620 million related to the additional allowance for loan losses, which is now considered a Level I capital adjustment, pursuant to CMN Resolution 3,674/08; (ii) R$4,928 million related to profit capitalization after payment of interest on shareholders' equity; and (iii) capital increase by subscription of shares of R$1,200 million. These factors were partially offset by the R$2,131 negative adjustment related to unrealized losses in available for sale investments.

The excess of our capitalization over the minimum regulatory capital required was R$21,419 million as of December 31, 2009, as compared to R$14,945 million in 2008.

As of December 31 of each of 2007, 2008 and 2009, we were in compliance with all minimum capital requirements imposed by the Central Bank. For a description of our capital requirements and Central Bank capital adequacy regulations see "Item 4.B. Business Overview Regulation and Supervision Bank Regulations Principal limitations and restrictions on activities of financial institutions."

In the previous years, we maintained a significant position in short term, highly liquid instruments, which in general have a zero or low risk weighting, thereby eliminating or significantly reducing the need to maintain capital against these assets. This position reflects the unfavorable credit environment that prevailed in Brazil during 2002, 2003 and the last quarter of 2008. If we were to increase significantly our loan portfolio, we would be required to maintain capital against these assets which, depending on the capital position at that time, could reduce our capital as a percentage of risk weighted assets.

Interest rate sensitivity

Management of interest rate sensitivity is a key component of our asset and liability policy. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or repricing characteristics of interest earning assets and interest bearing liabilities. For any given period, the pricing structure is considered balanced when an equal amount of these assets or liabilities matures or reprices in that period. Any mismatch of interest earning assets and interest bearing liabilities is known as a gap position. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a negative effect on net interest income. Conversely, a positive gap denotes asset sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income. These relationships can change significantly from day to day as a result of both market forces and management decisions.

Our interest rate sensitivity strategy takes into account:

- rates of return;
- the underlying degree of risk; and
- liquidity requirements, including minimum regulatory banking reserves, mandatory liquidity ratios, withdrawal and maturity of deposits, capital costs and additional demand for funds.

We monitor our maturity mismatches and positions and manage them within established limits. Our Treasury committee reviews our positions at least weekly and changes our positions as market outlooks change.

The following table shows the maturities of our interest earning assets and interest bearing liabilities as of December 31, 2009 and may not reflect interest rate gap positions at other times. In addition, variations in interest rate sensitivity may exist within the repricing periods presented due to differing repricing dates. Variations may also arise among the different currencies in which interest rate positions are held.