BANK BRADESCO
Form 6-K
May 31, 2013

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

# FORM 6-K

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

**For the month of May, 2013**
**Commission File Number 1-15250**

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

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

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

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

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

Yes _______ No ___X____

# Summary

After the date of filing, updated versions of this document, shall be made available at Bradesco's Investor Relations website, in www.bradescori.com.br.

**1. Responsibility for the Form**

# Declaration and identification of persons responsible

**Name of the person responsible for contents of the form:** Luiz Carlos Trabuco Cappi

**Position of person responsible:** CEO

**Name of the person responsible for contents of the form:** Luiz Carlos Angelotti

**Position of person responsible:** Director of Investor Relations

**The above mentioned directors declare that:**

**a)** they have reviewed this reference form;

**b)** all information in the form complies with Brazilian Securities Commission (CVM) Instruction No. 480, in particular articles 14 to 19; and

**c)** the information herein provides a true, accurate and full picture of the issuer's financial situation and the risks inherent in its activities and its issue of securities.

## 2. Independent auditors

### 2.1/2.2 - Auditors – identification and compensation

| Auditors – identification and compensation | |
|---|---|
| **Has auditor?** | Yes |
| **Brazilian Exchange and Securities Commission (CVM) code** | 418-9 |
| **Auditor type** | National |
| **Name/Business name** | KPMG Auditores Independentes |
| **Individuals/Legal entities No. (CPF/CNPJ)** | 57.755.217/0022-53 |
| **Period in which services rendered** | 2011-03-21 |
| **Description of services engaged** | Works related to the year of 2012 include: (i) Audit of financial statements of companies and funds of Bradesco Organization; (ii) Statutory reports to meet Banco Central do Brasil and CVM requirements; and (iii) Other Services not represented by previously agreed procedures for review of financial and control information and assistance to meeting requirements related to fiscal matters, process diagnosis, technology and training.<br><br>Audit work related to the review of the financial statements of the Bradesco Conglomerate companies for the 2011 fiscal year. |
| **Total amount of remuneration of independent auditors segregated by service** | Contracted works related to 2012 audit: R$ 28,194 thousand<br>Other Services: R$ 891 thousand<br>Total: R$ 29,085 thousand<br><br>Contracted works related to audit from 2011: R$ 30,674 thousand<br>Other Services: R$ 1,402 thousand<br>Total: R$ 32,076 thousand |
| **Reason for replacement** | Not applicable |
| **Reason given by auditor in the event of disagreeing with issuer's reason** | Not applicable |
| **Period in which services rendered** | 2011-03-21 |
| **Name of technical person responsible** | Cláudio Rogélio Sertório |
| **Taxpayer No. (CPF)** | 094.367.598-78 |
| **Address** | Av. Dionysia Alves Barreto, 500 - Conj. 1001, 10º andar, Centro, Osasco, SP, Brasil, CEP 06086- 050, Telephone (011) 2856-5300, email: CSertorio@kpmg.com.br |

**Auditors – identification and compensation**

| | |
|---|---|
| **Has auditor?** | Yes |
| **Brazilian Exchange and Securities Commission (CVM) code** | 287-9 |
| **Auditor type** | National |
| **Name/Business name** | PRICEWATERHOUSECOOPERS AUDITORES INDEPENDENTES |
| **Individuals/Legal entities No. (CPF/CNPJ)** | 61.562.112/0001-20 |
| **Period in which services rendered** | 01/05/2009 to 12/31/2010 |
| **Description of services engaged** | Audit work related to a review of the Bradesco conglomerate's financial statements for the year ended December 31, 2010 and "other services" relating to diagnostics of technology processes, response to consultations on tax aspects and training arrangements. |
| **Total amount of remuneration of independent auditors segregated by service** | Audit and Other Services in the year of 2010: R$ 34,088 thousand. |
| **Reason for replacement** | The Issuer's board of directors, at the meeting held on March 21, 2011, taking into account the Corporate Governance practices adopted by the Bradesco Organization and the management process to engage the independent auditor, resolved on accepting the recommendation provided by the Audit Committee to engage, at that date, to replace PricewaterhouseCoopers Auditores Independentes for KPMG Auditores Independentes, CRC 2SP014428/O-6, with head Office at Rua Doutor Renato Paes de Barros, 33, 17° andar, Itaim Bibi, in the city capital of São Paulo, State of SP, enrolled under the National Register of Legal Entities (CNPJ) under number 57.755.217/0001-29, registered with the Brazilian Securities and Exchange Commission (CVM), according to Declaratory Act number 5180, of December 7, 1998, for the provision of independent audit services to the Company beginning in the 2011 fiscal year. |
| **Reason given by auditor in the event of disagreeing with issuer's reason** | Not applicable |
| **Period in which services rendered** | 01/01/2010 to 12/31/2010 |
| **Name of technical person responsible** | Luis Carlos Matias Ramos |

| | |
|---|---|
| **Taxpayer No. (CPF)** | 103.007.048-28 |
| **Address** | Av. Francisco Matarazzo, 1400, Torre Torino, 9º andar, Água Branca, São Paulo, SP, Brasil, CEP 05001-903, Telephone (011) 36742000, email: luis.ramos@br.pwc.com |

**2.3 - Other material information**

There is no further information that we believe to be significant.

# 3. Selected financial information

## 3.1 - Financial Information – Consolidated

| | | | In R$ |
|---|---|---|---|
| **(International Financial Reporting Standards - IFRS)** | **Financial year 12/31/2012** | **Financial year 12/31/2011** | **Financial year 12/31/2010** |
| Shareholder equity | 71,346,390,000.00 | 59,382,094,000.00 | 51,158,565,000.00 |
| Total assets | 801,186,699,000.00 | 722,086,892,000.00 | 602,954,024,000.00 |
| Net Rev./Fin. Med. Rev./Ins. Prem. Received | 136,805,812,000.00 | 131,341,584,000.00 | 101,034,627,000.00 |
| Gross earnings | 15,502,232,000.00 | 14,683,469,000.00 | 15,324,117,000.00 |
| Net earnings | 11,351,694,000.00 | 11,089,442,000.00 | 10,052,193,000.00 |
| Number shares excluding Treasury | 3,817,372,781 | 3,817,841,181 | 3,762,055,141 |
| Share equity value (Brazilian reais per unit) | 18.690000 | 15.550000 | 13.600000 |
| Net earnings per share | 2.970000 | 2.900000 | 2.670000 |

**3.2 - Non-accounting metrics**

Non-accounting metrics were not disclosed in the course of the last fiscal year.

**3.3 - Events subsequent to the most recent financial statements**

There were no events subsequent to the financial statements in this period.

# 3.4 - Policy for allocation of earnings

| (R$ thousand) | | Allocation of earnings | | |
|---|---|---|---|---|
| | | 2012 | 2011 | 2010 |
| **A) Rules for Profit Retention** | | **Legal Reserve**<br><br>Allocation of a portion of net profit to the legal reserve is determined by Article 193 of Law No. 6,404/76 in order to ensure the integrity of share capital, and may be used only to offset losses or increase capital. Five percent (5%) of the period's net profit, before any other use, will be allocated to the legal reserve, which must not exceed twenty percent (20%) of share capital.<br>There is no requirement to allocate to the legal reserve in a year in which the balance of this reserve, plus capital reserves as per §1 of Article 182, exceeds thirty percent (30%) of share capital.<br><br>**Statutory Reserves**<br><br>Article 194 of Law No. 6,404/76 which governs the creation of statutory reserves states that the bylaws of the company may establish reserves on condition that in each case:<br>- criteria are set to determine the annual portion of net profits that will be allocated to the statutory reserve; and<br>- the maximum amount of the reserve is stated.<br>Pursuant to the legislation, Article 28 of the Bylaws, states that after all statutory allocations have been made, a proposal for the allocation or use of any net income remaining shall be made by the executive board, to be approved by the board of directors and decided by General Meeting, and such income may be allocated one hundred percent (100%) to "Income Reserves – Statutory" in order to maintain an operational margin consistent with the development of the Company's active operations up to the limit of ninety-five percent (95%) of paid-up share capital.<br>If the board's proposal for use of net income from the period contains provision for distributing dividends and/or payment of interest on own capital in an amount greater than the mandatory dividend pursuant to Article 27, item III of the bylaws, and/or retained earnings under Article 196 of Law No. 6,404/76, the balance of net income for making this reserve will be determined after deducting these allocations in full. | | |
| Profit Retention (R$ thousand) | Net income for the period | 11,381,244 | 11,028,265 | 10,021,673 |
| | Legal Reserve | 569,062 | 551,413 | 501,083 |
| | Statutory Reserves | 6,917,184 | 6,736,518 | 6,151,847 |
| | Interest on shareholder equity | 3,261,307 | 2,933,987 | 2,464,538 |
| | Dividends | 633,691 | 806,348 | 904,205 |
| **B) Rules for distribution of dividends** | | With the introduction of Law No. 9,249/95, which came into force on January 1, 1996, companies may pay interest on own capital to their shareholders, to be imputed, net of income tax at source, to the | | |

| | |
|---|---|
| | amount of the minimum mandatory dividend.<br><br>**Minimum Mandatory Dividend**<br>Pursuant to item III of Article 27 of Bradesco's Bylaws, shareholders are assured thirty percent (30%) of net income, each year, as a minimum mandatory dividend, adjusted for any decrease or increase of the amounts specified in items I, II and III of Article 202 of Law No. 6,404/76 (Law of Joint Stock Corporations).<br>Thus the minimum of thirty percent (30%) stipulated in the bylaws is greater than the minimum of twenty-five percent (25%) set forth in §2 of Article 202 of Law No. 6,404/76.<br><br>**Shareholders Holding Preferred Shares**<br>Preferred shares confer on their holders dividends ten percent (10%) higher than those paid on common shares (item "b", §2, Article 6 of the Bylaws).<br><br>**Reinvestment of Dividends or Interest on Own Capital**<br>Reinvestment of dividends or interest on own capital is a product that enables a shareholder and account holder registered with Bradesco Corretora (brokerage), personal or corporate, to invest the amount received and credited to current account in new shares (currently only for preferred shares), thereby increasing their shareholding.<br>Shareholders have the option of reinvesting monthly and/or special (supplementary or intermediate) dividends. There is no upper limit for reinvesting and the minimum must be enough to purchase at least one (1) share. |
| **C) Periodicity of dividend distributions** | Bradesco has distributed dividends monthly since 1970, and became the first Brazilian financial institution to adopt this practice.<br><br>**Interim Dividends**<br>The Executive Board, on approval of the Board of Directors, is authorized to declare and pay out interim dividends, semiannual or monthly, from<br>existing earnings, or profit reserve accounts (§1, Article 27 of the bylaws).<br>It may also authorize payment of Interest on Own Capital in total or partial substitution of interim dividends (§2, Article 27 of the Bylaws).<br><br>**Monthly Payment of Interest on Own Capital**<br>For the purposes set forth in Article 205 of Law No. 6,404/76, beneficiaries are shareholders registered with the Company on declaration dates, which are on the first day of each month.<br>Payments are made on the first business day of the following month, as monthly advances on the mandatory dividend by crediting the account informed by the shareholder or made available to the Company. |
| **D) Any restrictions on dividend payments imposed by special laws or regulations applicable to the issuer, as well as contracts, court decisions, administrative or arbitration court rulings** | There are no restrictions on the distribution of dividends. |

**3.5 - Distribution of dividends and retention of net income**

| | | | In R$ |
|---|---|---|---|
| | **Financial year 12/31/2012** | **Financial year 12/31/2011** | **Financial year 12/31/2010** |
| Adjusted net income | 10,812,182,236.32 | 10,476,852,079.21 | 9,520,589,046.91 |
| Dividend distributed / adjusted net income | 36.024165% | 35.700900% | 35.384000% |
| Issuer's return on shareholders' equity | 16.247905% | 19.841482% | 20.859863% |
| Total dividend distributed | 3,894,998,325.77 | 3,740,334,802.89 | 3,368,743,286.83 |
| Retained earnings | 7,486,246,133.50 | 7,287,930,543.63 | 6,652,929,394.13 |
| Date retention approved | 3/11/2013 | 3/9/2012 | 3/10/2011 |

3. Selected financialinformation

| Retained earnings Mandatory dividend | Amount | Dividend payment | Amount | Dividend payment | Amount | Dividend payment |
|---|---|---|---|---|---|---|
| Common | 27,772,166.00 | 2012-02-01 | | | | |
| Common | 27,771,118.66 | 2012-03-01 | | | | |
| Common | 27,771,119.15 | 2012-04-02 | | | | |
| Common | 30,548,122.94 | 2012-05-02 | | | | |
| Common | 30,548,123.58 | 2012-06-01 | | | | |
| Common | 30,548,156.16 | 2012-07-02 | | | | |
| Common | 126,971,801.08 | 2013-03-07 | | | | |
| Preferred | 30,515,138.11 | 2012-02-01 | | | | |
| Preferred | 30,515,139.12 | 2012-03-01 | | | | |
| Preferred | 30,515,131.95 | 2012-04-02 | | | | |
| Preferred | 33,567,653.04 | 2012-05-02 | | | | |
| Preferred | 33,567,652.34 | 2012-06-01 | | | | |
| Preferred | 33,567,909.69 | 2012-07-02 | | | | |
| Preferred | 139,511,611.04 | 2013-03-07 | | | | |
| Common | | | 25,247,389.20 | 2011-07-01 | 22,607,384.78 | 2010-07-01 |
| Common | | | 25,247,388.96 | 2011-05-02 | | |
| Common | | | 24,861,250.94 | 2011-03-01 | | |
| Common | | | 27,772,166.02 | 2012-01-02 | | |
| Common | | | 27,772,165.12 | 2011-11-01 | | |
| Common | | | 25,247,389.92 | 2011-09-01 | | |
| Common | | | 24,851,147.97 | 2011-04-01 | | |
| Common | | | 24,861,251.19 | 2011-02-01 | | |
| Common | | | 27,772,165.05 | 2011-10-03 | | |
| Common | | | 25,247,389.17 | 2011-06-01 | | |
| Common | | | 25,247,389.64 | 2011-08-01 | | |
| Common | | | 27,772,165.67 | 2011-12-01 | | |
| Common | | | 72,082,284.38 | 2012-03-08 | | |
| Preferred | | | 27,807,137.67 | 2011-08-01 | 165,076,049.21 | 2011-02-18 |
| Preferred | | | 27,353,832.76 | 2011-04-01 | | |
| Preferred | | | 27,353,820.55 | 2011-03-01 | | |
| Preferred | | | 27,807,128.78 | 2011-05-02 | | |
| Preferred | | | 27,807,133.25 | 2011-07-01 | | |
| Preferred | | | 27,807,138.03 | 2011-09-01 | | |
| Preferred | | | 30,515,124.90 | 2011-11-01 | | |
| Preferred | | | 30,515,135.44 | 2012-01-02 | | |
| Preferred | | | 27,807,129.89 | 2011-06-01 | | |
| Preferred | | | 30,515,126.46 | 2011-10-03 | | |
| Preferred | | | 27,353,834.83 | 2011-02-01 | | |
| Preferred | | | 79,208,336.64 | 2012-03-08 | | |
| Preferred | | | 30,515,134.31 | 2011-12-01 | | |
| Common | | | | | 22,607,384.88 | 2010-05-03 |
| Common | | | | | 22,607,383.86 | 2010-03-01 |
| Common | | | | | 24,868,194.69 | 2011-01-03 |

| | | |
|---|---|---|
| Common | 24,868,194.17 | 2010-11-01 |
| Common | 24,868,193.88 | 2010-09-01 |
| Common | 22,607,384.82 | 2010-04-01 |
| Common | 20,552,275.75 | 2010-02-01 |
| Common | 24,868,193.82 | 2010-10-01 |
| Common | 22,607,385.16 | 2010-06-01 |
| Common | 22,607,385.02 | 2010-08-02 |
| Common | 24,868,193.91 | 2010-12-01 |
| Common | 150,025,491.86 | 2011-02-18 |
| Preferred | 24,865,169.36 | 2010-06-01 |
| Preferred | 27,353,813.12 | 2010-10-01 |
| Preferred | 27,353,834.89 | 2010-12-01 |
| Preferred | 24,865,183.77 | 2010-08-02 |
| Preferred | 24,865,151.22 | 2010-04-01 |
| Preferred | 24,865,137.19 | 2010-03-01 |
| Preferred | 24,865,162.33 | 2010-05-03 |
| Preferred | 24,865,181.43 | 2010-07-01 |
| Preferred | 27,353,838.53 | 2011-01-03 |
| Preferred | 22,607,330.78 | 2010-02-01 |
| Preferred | 27,353,805.43 | 2010-09-01 |
| Preferred | 27,353,829.25 | 2010-11-01 |

| Retained earnings | Amount | Dividend payment | Amount | Dividend payment | Amount | Dividend payment |
|---|---|---|---|---|---|---|
| **Interest on own capital** | | | | | | |
| Common | 359,402,230.90 | 2012-07-18 | | | | |
| Common | 35,939,033.05 | 2012-08-01 | | | | |
| Common | 35,938,920.88 | 2012-09-03 | | | | |
| Common | 35,938,921.36 | 2012-10-01 | | | | |
| Common | 35,937,602.29 | 2012-11-01 | | | | |
| Common | 35,937,602.69 | 2012-12-03 | | | | |
| Common | 35,937,602.90 | 2013-01-02 | | | | |
| Common | 978,863,434.93 | 2013-03-07 | | | | |
| Preferred | 394,946,918.22 | 2012-07-18 | | | | |
| Preferred | 39,492,623.41 | 2012-08-01 | | | | |
| Preferred | 39,491,173.57 | 2012-09-03 | | | | |
| Preferred | 39,486,815.71 | 2012-10-01 | | | | |
| Preferred | 39,486,014.43 | 2012-11-01 | | | | |
| Preferred | 39,486,006.57 | 2012-12-03 | | | | |
| Preferred | 39,486,016.92 | 2013-01-02 | | | | |
| Preferred | 1,075,536,565.08 | 2013-03-07 | | | | |
| Common | | | 297,042,984.87 | 2011-07-18 | 907,618,820.67 | 2011-02-18 |
| Common | | | 364,988,308.02 | 2012-03-08 | | |
| Common | | | 80,494,777.98 | 2012-03-08 | | |
| Common | | | 380,068,651.60 | 2012-03-08 | | |
| Common | | | 274,398,412.08 | 2012-03-08 | | |
| Preferred | | | 88,659,544.93 | 2012-03-08 | 998,379,638.25 | 2011-02-18 |
| Preferred | | | 301,525,430.04 | 2012-03-08 | | |
| Preferred | | | 327,157,015.15 | 2011-07-18 | | |
| Preferred | | | 402,009,895.54 | 2012-03-08 | | |
| Preferred | | | 417,642,225.94 | 2012-03-08 | | |
| Common | | | | | 265,971,878.30 | 2010-07-19 |
| Preferred | | | | | 292,566,416.50 | 2010-07-19 |

**3.6 - Declaration of dividends charged to the retained earnings account or reserves**

In relation to the previous three fiscal years, no dividends were declared or charged to the retained earnings account or reserves established in prior fiscal years.

**3.7 - Level of indebtedness**

| Financial year * | Total debt of all types | Type of index | Level of endebtedness | Description of other index and reason for using it |
|---|---|---|---|---|

| | | | |
|---|---|---|---|
| 12/31/2012 | 729,840,309,000.00 | Level of endebtedness | 10.2300000 |

* International Financial Reporting Standards
- IFRS

### 3.8 - Obligations by nature and due date

**Fiscal year 12/31/2012 (International Financial Reporting Standards – IFRS)**

| Type of debt | Less than 1 year | 1 - 3 years | 3 - 5 years | Over 5 years | Total |
|---|---|---|---|---|---|
| Unsecured | 518,030,743,000.00 | 159,442,614,000.00 | 26,669,273,000.00 | 25,697,679,000.00 | 729,840,309,000.00 |
| Total | 518,030,743,000.00 | 159,442,614,000.00 | 26,669,273,000.00 | 25,697,679,000.00 | 729,840,309,000.00 |

**3.9 - Other material information**

The selected financial information in this item refers to the consolidated accounting statements.

Note Item 3.1: Breakdown of Net Income – Consolidated

**In R$**

| **Composition (International Financial Reporting Standards – IFRS)** | **2012** | **2011** | **2010** |
|---|---|---|---|
| Income from financial operations | 83,133,716,000.00 | 82,367,272,000.00 | 63,772,183,000.00 |
| Banking services fees | 12,841,186,000.00 | 10,868,311,000.00 | 9,421,485,000.00 |
| Premiums retained – insurance and pension plans | 40,176,745,000.00 | 34,315,543,000.00 | 27,994,116,000.00 |
| Income from equity interests in affiliates | 870,662,000.00 | 682,122,000.00 | 577,053,000.00 |
| Other operating revenues | 3,305,900,000.00 | 6,186,008,000.00 | 2,028,780,000.00 |
| Tax / social contribution (Cofins) | (2,636,662,000.00) | (2,301,443,000.00) | (2,072,156,000.00) |
| Tax on services of any type – (ISS) | (448,515,000.00) | (389,349,000.00) | (344,085,000.00) |
| Tax / social contribution (PIS) | (437,220,000.00) | (386,880,000.00) | (342,749,000.00) |
| **TOTAL** | **136,805,812,000.00** | **131,341,584,000.00** | **101,034,627,000.00** |

**Distribution of dividends and retention of net income**

Note that the accounting statements used policy for use of income and distribution of dividends and interest on own capital as per items 3.4 and 3.5, respectively, were prepared in accordance with accounting practices adopted in Brazil and applicable to institutions authorized to operate by the Central Bank of Brazil.

# 4. Risk factors

## 4.1 - Description of risk factors

### Macroeconomic risks

**Our business and results of operations are materially affected by conditions in the global financial markets.**

There has been extreme volatility in the global capital and credit markets since 2008. This volatility has resulted in reduced liquidity and increased credit risk premiums for many market participants, in addition to a reduction in the availability and/or increased costs of financing, both for financial institutions and their customers. Increasing or high interest rates and/or widening credit spreads have created a less favorable environment for most of our businesses and may impair the ability of some of our customers to repay debt that they owe to us, and reduce our flexibility in planning for, or reacting to, changes in its operations and the financial industry overall. Accordingly, even though the Brazilian and global economies started to recover since the first half of 2009, our results of operations are likely to continue to be affected by conditions in the global financial markets as long as they remain volatile and subject to disruption and uncertainty.

**The Brazilian government exercises influence over the Brazilian economy, and Brazilian political and economic conditions have a direct impact on our business.**

Our financial condition and results of operations are substantially dependent on Brazil’s economy, which in the past has been characterized by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles.

In the past, the Brazilian government has often changed monetary, fiscal, taxation and other policies to influence the course of Brazil’s economy. We have no control over, and cannot predict, what measures or policies the Brazilian government may take in response to the current or future Brazilian economic situation or how Brazilian government intervention and government policies will affect the Brazilian economy and, both directly and indirectly, our operations and revenues.

Our operations, financial condition and the market price of our preferred and common shares may be adversely affected by changes in policy involving exchange controls, tax and other matters, as well as factors such as:

- exchange rates fluctuations;
- base interest rate fluctuations;
- domestic economic growth;

- political, social or economic instability;
- monetary policies;
- tax policy and changes in tax regimes;
- exchange controls policies;
- liquidity of domestic financial, capital and credit markets;
- our customers' capacity to meet their other obligations with us;
- decreases in wage and income levels;
- increases in unemployment rates;
- macroprudential measures;
- inflation; and
- other political, diplomatic, social and economic developments within and outside of Brazil that affect the country.

2012 was marked by a slower than expected economic recovery in Brazil, despite the number of stimuli in place since 2011. This was largely influenced by the global financial markets crisis, which had a substantial impact on industrial production and business confidence. Furthermore, exceptional factors, such as the drought in the South and Northeast of Brazil in early 2012, affected the agricultural output in those regions and negatively impacted GDP growth in 2012. However, the adoption of new fiscal incentives, the continuing reduction in interest rates and currency depreciation provided for a gradual improvement in the domestic economy in the second half of 2012.

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

Our business is impacted by fluctuations in the value of the real. Since October 2002, and more intensively since June 2004, the real has gained value against the dollar, with rare moments of depreciation (reaching R$1.5593 per US$1.00 on August 1, 2008). In 2009, the real was again appreciating against the U.S. dollar (reaching R$1.7412/US$1.00 at the end of the year). In 2010, the real continued to appreciate against the U.S. dollar to reach R$1.6662/US$1.00 at the end of the year. In 2011, the exchange rate continued to fall until the middle of the year, reaching a nominal level of R$1.5345 per U.S. dollar on July 26, 2011. Since then, due to the deterioration of global economic conditions and the decision of the Central Bank Committee on Monetary Policy or "COPOM" in August (in which the previous cycle of monetary tightening was reversed) the real began to depreciate and ended 2011 at R$1.8758 per U.S. dollar. In 2012, reflecting persisting risk aversion in the international markets and the continuing reduction in interest rates in Brazil throughout the first half of 2012, the real maintained a weakening trend, reaching R$2.0904 per U.S. dollar on June 28, 2012. The exchange rate remained fairly stable during the remainder of the year, ending 2012 at R$2.0435 per U.S. dollar.

As of December 31, 2012, the net balance of our assets and liabilities denominated in, or indexed to, foreign currencies (primarily U.S. dollars) was 2.6% of our total assets. When the Brazilian currency is devalued or if it depreciates, we 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 experience gains on our monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into reais. Therefore, if our liabilities denominated in, or indexed to, foreign currencies significantly exceed our monetary assets denominated in, or indexed to, foreign currencies, including any financial instruments entered into for hedging purposes, a large devaluation or depreciation of the Brazilian currency could materially and adversely affect our financial results and the market price of our preferred and common shares, even if the value of the liabilities has not changed in their original currency. In addition, our lending operations depend significantly on our capacity to match the cost of funds indexed to the U.S. dollar with the rates charged to our customers. A significant devaluation or depreciation of the U.S. dollar may affect our ability to attract customers on such terms or to charge rates indexed to the U.S. dollar.

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

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

Brazil has, in the past, experienced extremely high rates of inflation. Brazil's rates of inflation, as measured by the General Price Index – Domestic Availability or "IGP-DI" (Índice Geral de Preços Disponibilidade Interna), reached 11.3%, 5.0% and 8.1% in 2010, 2011 and 2012, respectively. Inflation and governmental measures to combat inflation, which have in the past had significant negative effects on the Brazilian economy and contributed to increased economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets, may have an adverse effect on us.

Notwithstanding the monetary stability achieved in mid-1990's, which became stronger after 1999 upon the adoption of inflation target regime, inflation memory and potentiality remain present.

Government measures to combat inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. As a result, interest rates have fluctuated significantly. Increases in the base interest rate set by the COPOM (SELIC) 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 base interest rate may also have an adverse effect on us by decreasing the interest income we earn on our interest-earning assets and lowering our revenues and margins.

Future Brazilian government actions, including the imposition of more taxes, intervention in the foreign exchange market and actions to adjust or fix the value of the real, as well as any GDP growth beyond expected levels may trigger increases in inflation. If Brazil experiences fluctuations in rates of inflation in the future, our costs and net margins may be affected and, if investor confidence lags, the price of our securities may fall. Inflationary pressures may 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 value of our preferred and common shares.

**Changes in base interest rates by the COPOM may materially adversely affect our margins and results of operations.**

The COPOM establishes the base interest rates for the Brazilian banking system (SELIC). The base interest rate was 10.75%, 11.0% and 7.25% per annum as of December 31, 2010, 2011 and 2012, respectively. Changes in the base interest rate may adversely affect our results of operations because:

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

- low base interest rates may diminish our interest income.

The COPOM adjusts the basic interest rate in order to manage aspects of the Brazilian economy, including the protection of reserves and capital flows. We have no control over the basic interest rates set by the COPOM or how often such rates are adjusted.

**Developments and the perception of risk in Brazil and other countries, especially emerging market countries, may adversely affect the market price of Brazilian securities, including our preferred and common shares.**

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including 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 value of securities of Brazilian issuers. Crises in other emerging market countries may diminish investor interest in securities of Brazilian issuers, including ours, which could adversely affect the market price of our preferred and common shares.

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

**Risks relating to Bradesco and the Brazilian banking industry**

**We may experience increases in our level of past due loans as our loans and advances portfolio becomes more seasoned.**

Our loans and advances portfolio has grown substantially since 2004, primarily as a result of the expansion of the Brazilian economy. Any corresponding increase in our level of non-performing loans and advances may lag behind the rate of loan growth, as loans typically do not become due within a short period of time after their origination. Levels of past due loans are higher among our individual customers than our corporate customers. From 2010 to 2012, our portfolio of loans and advances to customers increased by 28.4% and our level of impairment of loans  and advances increased by 30.5%, basically driven by increases in the number of individual customers.

Beginning in mid-2008, weakening economic conditions in Brazil impacted particularly our individual customers as unemployment rates in Brazil began to rise and led to increases in our level of delinquency ratios. This trend worsened in 2009. In 2010, as a result of the improvement in Brazilian economic conditions, we experienced a decrease in our delinquency ratios, which led to a slight decrease in our impairment. In 2011, delinquency ratios showed a slight increase when compared to 2010. This increase continued during 2012, as a result of higher default rates, mostly for operations with individuals and SMEs (small and medium enterprises). In 2012, our impairment of loans and advances increased 13.5% compared to 2011, while our portfolio of loans and advances to customers grew by 9.9% over that same period.

Rapid loan growth may also reduce our ratio of non-performing loans to total loans until growth slows or the portfolio becomes more seasoned. Adverse economic conditions and a slower growth rate for our loans and advances to customers may result in increases in our impairment of loans and advances, charge-offs and our ratio of non-performing loans and advances to total loans and advances, which may have an adverse effect on our business, financial condition and results of operations.

**Adverse conditions in the credit and capital markets may adversely affect our ability to access funding in a cost effective and/or timely manner.**

Recent volatility and uncertainties in the credit and capital markets have generally decreased liquidity, with increased costs of funding for financial institutions and corporations. These conditions may impact our ability to replace, in a cost effective and/or timely manner, maturing liabilities and/or access funding to execute our growth strategy. If we are forced to delay raising capital or pay unattractive interest rates in order to obtain capital, our financial condition and results of operations may be adversely affected.

**The increasingly competitive environment in the Brazilian bank and insurance industries may negatively affect our business prospects.**

The markets for financial, banking and insurance services in Brazil are highly competitive. We face significant competition in all of our principal areas of operation from other large Brazilian and international banks and insurance companies, public and private.

Competition has increased as a result of recent consolidations among financial institutions in Brazil and as a result of regulations by the National Monetary Committee (Conselho Monetário Nacional), or “CMN” that facilitate customers' ability to switch business between banks. The increased competition may materially and adversely affect us by, among other things, limiting our ability to retain our existing consumer base, increase our customer base and expand our operations, reducing our profit margins on banking and other services and products we offer, and limiting investment opportunities to some extent.

Additionally, Brazilian regulations raise limited barriers to market entry and do not differentiate between local or foreign commercial and investment banks and insurance companies. As a result, the presence of foreign banks and insurance companies in Brazil, some of which have greater resources than us, has grown and competition both in the banking and insurance sectors generally and in markets for specific products has increased. The privatization of publicly owned banks has also made the Brazilian markets for banking and other financial services more competitive.

The increased competition may negatively affect our business results and prospects by, among other things:

- limiting our ability to increase our customer base and expand our operations;

- reducing our profit margins on the banking, insurance, leasing and other services and products offered by us; and

- increasing competition for foreign investment opportunities.

**Losses on our investments in financial assets may have a significant impact on our results of operations and are not predictable.**

The value of certain of our investments in financial assets may decline significantly due to volatile financial markets and may fluctuate over short periods of time. As of December 31, 2012, investments in financial assets represented 24.1% of our assets, and realized investment gains and losses have had and will continue to have a significant impact on the results of our operations. The amounts of such gains and losses, which we record when investments in financial assets are sold, or in certain limited circumstances where they are marked to market or recognized at fair value, may fluctuate considerably from period to period. The level of fluctuation depends, in part, upon the market value of the financial assets, which in turn may vary considerably, and our investment policies. We cannot predict the amount of realized gain or loss for any future period, and our management believes that variations from period to period have no practical analytical value. Furthermore, 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 a counterparty will be unable to honor its contractual obligations. These counterparties may default on their obligations due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have obligations to make payments to us; executing currency or other trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Such counterparty risk is more acute in complex 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, which may generate losses. In addition, we enter into derivatives transactions to manage our exposure to interest rate and exchange rate risk. Such derivatives transactions are designed to protect us against increases in exchange rates or interest rates or against decreases in such rates, but not both. If we have entered into derivatives transactions to protect against, for example, 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 materially and adversely affect our future results of operations and cash flow.

**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 negatively affect our operations and revenues.**

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 all facets of our operations, including the imposition of:

- 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 provisioning policies.

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

In particular, the Brazilian government has historically enacted regulations affecting financial institutions in an effort to implement its economic policies. These regulations are intended to control the availability of credit and reduce or increase consumption in Brazil. These changes may adversely affect us because our returns on compulsory deposits are lower than those we obtain on our other investments.

**A majority of our common shares are held by one shareholder, whose interests may conflict with our other investors' interests.**

As of December 31, 2012, Fundação Bradesco directly and indirectly held 56.5% of our common shares. As a result, Fundação Bradesco has the power, among other things, to prevent a change in control of our company, even if a transaction of that nature would be beneficial to our other shareholders, as well as to approve related party transactions or corporate reorganizations. Under the terms of Fundação Bradesco's Bylaws, members of our Board of Executive Officers, or of our Statutory Board, and departmental officers that have been working at the Organization for more than ten years serve as members of the Board of Trustees of Fundação Bradesco. The Board of Trustees has no other members. Decisions in relation to our policy towards acquisitions, divestitures, financings or other transactions could be made by Fundação Bradesco which may be contrary to the interests of holders of common shares, and which may have a negative impact on the interests of holders of common shares.

**Changes in regulations regarding reserve and compulsory deposit requirements and taxes may reduce operating margins.**

The Central Bank has periodically changed the level of compulsory deposits that financial institutions in Brazil are required to maintain with the Central Bank.

In May 2012 the Central Bank changed the rules related to the reserve requirement amounts, enabling the deduction of the balance of loan operations for financing and leasing of automobiles and light commercial vehicles from the amount of compulsory deposits to be reserved, as a way to encourage the granting of financing for acquisition of these assets. In June, September and November 2012, the rules related to the payment of reserve requirement were again changed, aiming at adjusting the criterion for defining the amount subject to reserve requirement and additional liabilities, as well as for remunerating the reserve account and the criteria applicable to the eligibility of institutions in order to deduct amounts subject to the reserve requirement.

In December 2012 the Central Bank established the possibility of deducting demand amounts subject to the reserve requirement in certain specified circumstances, as a way to encourage banks to grant credit for the acquisition of certain assets.

Compulsory deposits generally yield lower returns than our other investments and deposits because:

- a portion of our compulsory deposits do not bear interest;

- a portion of our compulsory deposits must be held in Brazilian government securities; and

- a portion of our compulsory deposits must finance a federal housing program, the Brazilian rural sector, low income customers and small enterprises under a program referred to as a "microcredit program."

As of December 31, 2012, our compulsory deposits in connection with demand, savings and time deposits and additional compulsory deposits were R$47.9 billion. Reserve requirements have been used by the Central Bank to control liquidity as part of monetary policy in the past, and we have no control over their imposition. Any increase in the compulsory deposit requirements may reduce our ability to lend funds and to make other investments and, as a result, may adversely affect us.

**Changes in taxes and other fiscal assessments may adversely affect us.**

The Brazilian government regularly enacts reforms to the tax and other assessment regimes to which we and our customers are subject. Such reforms include changes in the rate of assessments and, occasionally, enactment of temporary taxes, the proceeds of which are earmarked for designated governmental purposes. The effects of these changes and any other changes that result from enactment of additional tax reforms have not been, and cannot be, quantified and there can be no assurance that these reforms will not, once implemented, have an adverse effect upon our business. Furthermore, such changes may produce uncertainty in the financial system, increasing the cost of borrowing and contributing to the increase in our non-performing portfolio of loans and advances.

**The Brazilian constitution used to establish a ceiling on loan interest rates, including bank loan interest rates, and the impact of the subsequent legislation regulating the subject is uncertain.**

Article 192 of the Brazilian Constitution, enacted in 1988, established a 12% per annum ceiling on bank loan interest rates. However, since the enactment of the Constitution, this rate had not been enforced, as the regulation regarding the ceiling was pending. The understanding that this ceiling is not yet in force has been recently confirmed by Binding Precedent No. 7, a final binding decision enacted in 2008 by the Brazilian Supreme Court in accordance with such Court's prior understanding on this matter. Since 1988, several attempts were made to regulate the limitation on loan interest, and especially bank loan interest rates, but none of them were implemented nor have been confirmed by Brazilian superior courts.

On May 29, 2003, Constitutional Amendment No. 40 (“EC 40/03”) was enacted and revoked all subsections and paragraphs of Article 192 of the Brazilian constitution. This amendment allows the Brazilian Financial System, to be regulated by specific laws for each sector of the system rather than by a single law relating to the system as a whole.

With the enactment of the new Civil Code (or Law No. 10,406/02), as amended, unless the parties to a loan have agreed to use a different rate, in principle the interest rate ceiling has been related to the base rate charged by the National Treasury. Today, that basic interest rate is the Special Settlement and Custody System rate known as “SELIC,” which is a basic interest rate established by the Monetary Policy Committee of the Central Bank (“COPOM”) that, in March 2013, was 7.25% per annum. However, there is presently some uncertainty as to whether the base interest rate would be the SELIC rate or the 12% per annum interest rate established in the Brazilian Tax Code should apply.

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

Additionally, certain Brazilian courts have issued decisions in the past limiting interest rates on consumer financing transactions that are considered abusive or excessively onerous in comparison with market practice. Brazilian courts’ future decisions as well as changes in legislation and regulations restricting interest rates charged by financial institutions could have an adverse 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.**

The results of our operations significantly depend upon the extent to which our actual claims are consistent with the assumptions we used to assess our potential future policy and claim liabilities 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 several factors, such as: assumptions for investment returns, mortality and morbidity, expenses, persistency, and certain macroeconomic factors, such as inflation and interest rates. These assumptions may deviate from our prior experience, including 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, among others. Therefore, we cannot determine precisely 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 and contributions, 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 in 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 assess the actual losses associated with the risks that we underwrite. Our current provisions are based on estimates that rely on then-available information and that involve a number of features including recent loss experience, current economic conditions, internal risk rating, actuarial and statistical projections of our expectations of the cost of the ultimate settlement of 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, morbidity and persistency, among others. 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, if we record our impairment of loans and advances based on estimates of incurred losses, it might not be sufficient to cover losses; 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 customers if our reinsurers fail to meet their obligations under the reinsurance contracts.**

The purchase of reinsurance does not hold us harmless against our liability towards our customers 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 before our policyholders.

**Our strategy of marketing and expanding internet banking in Brazil could be badly received or more expensive than lucrative.**

We have aggressively pursued the use of the internet for providing banking and other services to our customers, and we expect to continue to do so. However, the market for our internet products is rapidly evolving and is becoming increasingly competitive. We cannot predict whether, or how fast, this market will grow. Moreover, if we fail to adapt effectively to growth and change in the internet market and technology, our business, competitiveness, or results of operations could be adversely affected.

The internet may prove not to be a viable Brazilian commercial marketplace for a number of reasons, including a lack of acceptable security technologies, potentially inadequate development of the necessary infrastructure, the lack of necessary development and commercialization of performance improvements, or a perceived unreliability of our systems by our customers.

**A failure in, or breach of, our operational or security systems could temporarily interrupt our businesses, increasing our costs and causing losses.**

Although we have high profile information security controls, and continue to invest in the infrastructure, operations and crisis management in place, our business, financial, accounting, data processing systems or other operating systems and facilities may stop operating properly for a limited period of time or become temporarily disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control, such as: electrical or telecommunications outages; breakdowns, systems failures or other events affecting third parties with which we do business or that facilitate our business activities, including exchanges, clearing houses, financial intermediaries or vendors that provide services; events arising from local and larger-scale political or social matters and cyber attacks.

Cyber attacks and temporary interruptions or failures in the physical infrastructure or operating systems that support our businesses and customers, could result in customer attrition, regulatory fines, penalties or intervention, reimbursement or other compensation costs.

# 4.2 - Comments on expected alterations of exposure to risk factors

No reduction or increase in the issuer's exposure is expected in relation to risks mentioned in item 4.1.

**4.3 - Non-confidential significant judicial, administrative or arbitration proceedings**
In terms of assessing materiality, Bradesco has found that there are no cases that could materially damage its image or pose legal risks. Cases relating to this item were obtained from a materiality of R$485 million, which represents 0.5% of the issuer's capital base (R$96,934 million). Therefore, we selected cases whose financial impacts exceed this material amount. Any differences between the cases shown below and the values shown in Notes refer to processes that individually involve amounts below the level we consider material.

Bradesco is a party in judicial proceedings involving labor, civil-liability and tax claims arising in the normal course of its business.

Provisions were made taking into account: the opinion of legal advisors, the nature of the actions, similarity with previous cases, complexity and positioning of the courts, whenever loss is rated "probable."

Management believes that provision is sufficient to cover any losses arising from these cases.

Liabilities related to legal obligation currently in litigation is maintained until as case is conclusively won, which means favorable legal decisions that may no longer be appealed, or falls due to prescription.

**Labor claims**

These are legal proceedings brought by former employees and third parties to claim indemnities, in particular the payment of overtime, in light of the interpretation of Article 224 of the Labor Law (CLT). In cases in which judicial deposit is required to guarantee the execution, the amount of the labor contingency is made presuming loss of these deposits. For the other cases, provision is based on the average value of payments made in cases judged in the last 12 months.

Actually, overtime is controlled by an “electronic timecard system” and paid in the regular course of the employment agreement, and therefore the shares from former employees of the Organization have no relevant prices.

On December 31, 2012, our provision for labor-claim related liabilities rated "probable" reached R$2,491,257 thousand.

There are no individually material cases based on the above-mentioned criterion.

**Civil claims**

These claims for moral and property damages mostly relate to protests for non-payment, returned checks, debtor details recorded in credit restriction databases, and repayment of amounts reduced by inflation rate adjustments resulting from economic plans. These actions are controlled individually through our computerized system and provisioned whenever loss is rated "probable", based on the opinions of legal advisors, the nature of actions, similarity with previous cases, complexity and positioning of the courts.

Most of these actions involve petty claims courts, or Special Civil Courts (JECs), in which claims are limited to 40 times the minimum wage, and are not events that could significantly impact the Organization's financial result.

Note the existence of a substantial number of legal actions claiming reimbursement of amounts adjusted by inflation indices when balances held in savings accounts were reduced under economic plans as part of federal government economic policy for combating inflation in the past. Although the Organization complied with the legislation in force at the time, these cases are being provisioned in light of the actions notified so far and the corresponding perspective of loss analyzed from the point of view the current jurisprudence of the Higher Court of Justice (STJ).

Two points should be noted in relation to litigation concerning economic plans: a) there is no significant potential liability, since the right to new claims has been prescribed; and b) the Supreme Court (STF) suspended analysis of all appeals lodged until its final ruling.

On December 31, 2012, our provision for liabilities relating to civil-law actions rated "probable" reached R$3,715,712 thousand.

There are no individually material cases based on the above-mentioned criterion.

Note that repetitive or related civil liability cases based on similar facts or causes, which are considered material as a whole, are listed in item 4.6.

**Fiscal and social security obligations**

Bradesco Organization has been disputing at judicial level the conformity of some taxes and duties to the laws and federal constitution.

On December 31, 2012, our provision for tax and social security contingencies totaled R$14,840,224 thousand.

Based on our assessment of materiality, the cases shown below involve tax and social security issues and the chances of losing were rated "remote or possible":

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| **Judicial Proceedings:** | MS 2005.61.00.026014-8 |
| **a. court** | Federal |
| **b. jurisdiction** | TRF 3rd Region – 6 th Bench |
| **c. date brought** | 11/14/2005 |
| **d. parties to the proceedings** | Defendant: Banco Bradesco S.A.<br>Plaintiff: Special Representative of the Financial Institutions in SP |
| **e. sums, goods or rights involved** | R$ 6,808,365,299.14 |
| **f. principal facts** | Legal Proceedings, where there is a plea to calculate and collect the Cofins, as per October 2005, on the effective turnover, whose concept is stated in article 2 of LC No. 70/91, moving away from the unconstitutional expansion of the calculation basis intended by paragraph 1 of article 3 of Law No. 9,718/98.<br><br>On 11.14.2005 na injuction was obtained authorizing the collection of the COFINS related to October 2005 and thereafter, according to LC No. 70/91, moving away from the applicability of Law No. 9,718/98. On 10.03.2008 the favorable ruling was published, recognizing the non-enforceability of the COFINS in the terms of paragraph 1 of the article 3 of Law No. 9,718/98, where it is due on the calculation basis in the terms of LC No. 70/91.<br>On 01/11/2010 the judgement was delivered by TRF 3ª Região, partially upholding the appeal of the Federal Government and requesting the referral officer to exempt the company from the COFINS collection in the terms of paragraph 1 of art. 3 of Law No. 9,718/98, howevwe calculated on the income earned as a result of the execution of its activities, including the financial mediation. An extraordinary appeal has been lodged in a Protective Order envisaging the suspension of the enforceability of the tax credit until |

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| | the judgement of the extraordinary appeal. |
| **g. chance of losing (probable, possible or remote)** | The prospect of losing the case is rated “possible”. Provision was made because we believe this is a legal obligation. |
| **h. analysis of impact if case is lost** | If the case is lost, amounts provisioned will be paid. |
| **i. amount provisioned (if applicable)** | R$ 6,808,365,299.14 |

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|---|---|
| **Judicial Proceedings:** | MS 1999.61.00.009282-1 |
| **a. court** | Federal |
| **b. jurisdiction** | TRF 3rd Region – 6 th Bench |
| **c. date brought** | 3/4/1999 |
| **d. parties to the proceedings** | Defendant: Banco BMC S.A.<br>Plaintiff: Special Representative of the Financial Institutions in SP |
| **e. sums, goods or rights involved** | R$ 1,218,926,056.81 |
| **f. principal facts** | Legal Proceedings, where there is a plea to calculate and collect the Cofins, as per February 1999, on the effective turnover, whose concept is stated in article 2 of LC No. 70/91, moving away from the unconstitutional expansion of the calculation basis intended by paragraph 1 of article 3 of Law No. 9,718/98.<br><br>In July 2006 the company obtained a final decision, where the right to calculate and collect the COFINS on the effective turnover has been recognized, understood as the income earned with the sales of merchandise, merchandise and services, and services of any nature, in the terms of article 2 of LC No. 70/91.<br>Despite the favorable decision to the company, in Feb/ 2010 PGFN decided to transfer the amount to the tax authorities as payment of the income tax for part of the period discussed, whose plea was deferred by the judge on 10/27/2009. Against this deferment, on 11/24/2009 the company filled a Bill of Review which granted a suspension on 11/26/2009 and the appeal given on 12/04/2009.<br>The Federal Treasury filed Special and Extraordinary Appeals against that decision, both of which were dismissed. The Federal Treasury filed an Appeal, which was challenged by the company. Both are waiting for distribution. |
| **g. chance of losing (probable, possible or remote)** | The prospect of losing the case is rated "possible". Provision was made because we believe this is a legal obligation. |
| **h. analysis of impact if case is lost** | If the case is lost, the amounts provisioned will have to be paid by converting the realized judicial deposit amount into income to the Federal Government. |
| **i. amount provisioned (if applicable)** | R$ 1,218,926,056.81 |

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| **Judicial Proceedings:** | 16327.000190/2011-83 |
| **a. court** | Administrative |
| **b. jurisdiction** | First Instance – Federal Revenue Service Office Judgment (local acronym DRJ) |
| **c. date brought** | 12/14/2011 |
| **d. parties to the proceedings** | Defendant: Federal Authority (Brazil's Federal Revenue)<br>Plaintiff: Banco Bradesco S/A |
| **e. sums, goods or rights involved** | R$ 2,368,816,838.13 |
| **f. principal facts** | |

| | |
|---|---|
| | Administrative Procedure No. 16327.000190/2011-83 – Credit of COFINS resulting from the success in AO 2006.61.00.003422-0 (expansion of the calculation basis – Law No. 9,718/98), whose qualification was denied by the RFB in 2011, however the compensation also made in 2011 was undeferred.<br><br>After being judged as favorable, in the ordinary proceedings, on 06/30/2011 the company filed a request for credit qualification, which was deferred on 08/22/2011. Therefore, the company started using the credit recognized by the RFB, however on 12/14/2011 the company was informed of the decision that denied the compensations made. With this undeferment, the company presented a manifestation of non-conformity which is waiting to be judged by the DRJ. With the presentation of the manifestation of non-conformity against the decision, the collection of the amounts involved have been suspended. |
| **g. chance of losing (probable, possible or remote)** | Remote<br><br>If the proceedings at the administrative level end in a loss, the case will go to the courts, where the prospects of loss is also remote given the factual and legal grounds involved. |
| **h. analysis of impact if case is lost** | In the remote hypothesis of loss after any future legal proceedings, the amount involved will have to be paid, which will sensitize the period's earnings. |
| **i. amount provisioned (if applicable)** | There is no contingency provision, since the prospect of losing the case is remote. |

| | |
|---|---|
| **Judicial Proceedings:** | MS 2006.61.00.027475-9 |
| **a. court** | Federal |
| **b. jurisdiction** | TRF 3rd Region – 3rd Bench |
| **c. date brought** | 12/14/2006 |
| **d. parties to the proceedings** | Defendant: Banco IBI S.A - Banco Múltiplo.<br>Plaintiff: Special Representative of the Financial Institutions in São Paulo |
| **e. sums, goods or rights involved** | R$ 693,564,449.14 |
| **f. principal facts** | Legal Proceedings, in which a plea was made since January/2007: (i) to recognize and declare the non-enforceability of the COFINS and of the contribution to the PIS, in the modality required by Law No. 9,718/98, preventing it, because its incidence on income earned its inconsistent with the concept of turnover (product of the sales of merchandise and of services provided); (ii) to recognize and declare the non-enforceability of the COFINS levied at 3%, maintaining the levy at 2%; and (iii) to recognize the existence of amount inappropriately collected as PIS (basis of calculation) and of the COFINS (basis of calculation and levy) and the consequent credit rights and authorize the compensation of the values in reference against the instalments due of taxes and contributions managed by the Brazilian Federal Revenue Office.<br><br>On 03/23/2007 a partial injuction was obtained, moving away only from the requirement of the collection of the PIS and COFINS on the basis of calculation as determined by Law No. 9,718/98.<br>In 11/23/2007 the sentence was given as unfounded , re-establishing the Injunction following the favorable decision obtained through a bill of review.<br>On 01/21/2011 judgment was given as partially favorable, declaring as unconstitutional the incidence of the PIS and COFINS of Law No. 9,718/98 for other income that is not of turnover. Pending judgment is the Amendment of Judgment required in order to clarify if in the concept of turnover the financial income included.<br>A judicial deposit of the full amount was made of the values involved. |
| **g. chance of losing (probable, possible or remote)** | The prospect of losing the case is rated “possible”. Provision was made because we believe this is a legal obligation. |
| **h. analysis of impact if case is lost** | If the case is lost, the amounts provisioned will have to be paid by converting the realized judicial deposit amount into income to the Federal Government. |
| **i. amount provisioned (if applicable)** | R$ 693,564,449.14 |

| | |
|---|---|
| **Administrative Proceeding:** | 10970.720351/2011-88 |
| **a. court** | Administrative |
| **b. jurisdiction** | |

| | |
|---|---|
| | First Instance – Federal Revenue Service Office Judgment (local acronym DRJ) |
| **c. date brought** | 11/30/2011 |
| **d. parties to the proceedings** | Defendant: Federal Authority (Brazil's Federal Revenue)<br>Plaintiff: Tempo Serviços Ltda |
| **e. sums, goods or rights involved** | R$ 615,807,637.01 |
| **f. principal facts** | Administrative Procedure – Fine of IRPJ and CSLL related to the gloss of expense of the premium amortization paid in the acquisition of the investment.<br><br>Given the contestation and the further appeal to the Administrative Council for Fiscal Appeals - CARF, the demand for the relevant amount is suspended. |
| **g. chance of losing (probable, possible or remote)** | R$ 228,834,117.91 - remote<br>R$ 386,973,519.10 - possible<br>R$ 615,807,637.01 - total |
| **h. analysis of impact if case is lost** | If the case is lost in the administrative sphere, it will be discussed in court, where there is a good chance of success due to the grounds of fact and of right involved.<br><br>In the hypothesis of loss after any future legal proceedings, the amount involved will have to be paid, which will sensitize the period's earnings. |
| **i. amount provisioned (if applicable)** | There are no provisions for contingency, as the perspective of process failure is both possible and remote. |

| | |
|---|---|
| **Tax enforcement proceedings:** | 405.01.2011.018268-0 |
| **a. court** | Municipal |
| **b. jurisdiction** | 2nd Public Treasury Circuit Court of São Paulo |
| **c. date brought** | 5/2/2011 |
| **d. parties to the proceedings** | Defendant: Government of the Municipality of São Paulo.<br>Plaintiff: Bradesco Leasing S/A Arrendamento Mercantil |
| **e. sums, goods or rights involved** | R$ 515,957,527.42 |
| **f. principal facts** | Tax Execution No. 405.01.2011.018268-0 of the Municipal District of São Paulo (SP) against Bradesco Leasing for the collection of supposed debits of ISS on leasing transactions of its successful BCN Leasing, which was beased and maintained its operations in the Municipal District of Barueri (SP).<br>Tax Execution filed on 06/08/2007, originating from fines issued against the company already extinguished through incorporation (BCN Leasing).<br>The company was notified on 05/25/2011 and on 06/17/2011 presented a motion for advanced dismissal of enforceability founded on nullities of the preceding administrative procedures, partial illegitimancy, expiry and limitation.<br>The motion for advance dismissal of enforceability is pending judgment. |
| **g. chance of losing (probable, possible or remote)** | Possible |
| **h. analysis of impact if case is lost** | If the case is lost, the amount involved will have to be paid, thus impacting the result for the year. |
| **i. amount provisioned (if applicable)** | There is no contingency provision, as the prospect of loss is possible. |

| | |
|---|---|
| **Judicial Proceedings:** | MS 2000.51.01.006622-4 |
| **a. court** | 14th Federal Bench – Judicial Section of Rio de Janiero |
| **b. jurisdiction** | High Court of Justice |
| **c. date brought** | 4/10/2000 |
| **d. parties to the proceedings** | Defendant: Banco Saúde S/A.<br>Plaintiff: INSS |
| **e. sums, goods or rights involved** | R$ 694,101,486.84 |
| **f. principal facts** | Writ of mandamus filed by Bradesco Saúde S/A challeging the existence of the legal-tax relationship obliging it to withhold social security contributions on payments made to doctors/dentists.<br>In November 2001, an unfavorable sentence was awarded, which recognized the incidence of Social Security Contribution on payments made by applicants to doctors, and therefore the order remains rejected.<br>In February 2003, a sentence was awarded by TRF 3rd Region, which dismissed the applicant’s appeal to maintain the decision under recourse. |

| | |
|---|---|
| | Special and extraordinary appeals have been lodged – both originally accepted. Currently, the return of records from the Prosecuting Counsel is being waited for determination of the judgment date. |
| **g. chance of losing (probable, possible or remote)** | Possible |
| **h. analysis of impact if case is lost** | Deposit in court paid to Federal Revenue. Need to withhold social security contribution on payments made to doctors/dentists. |
| **i. amount provisioned (if applicable)** | The amounts deposited are provisioned. |

| | |
|---|---|
| **Judicial Proceedings:** | 16327.720064/2012-20 |
| **a. court** | Administrative |
| **b. jurisdiction** | First Instance – Federal Revenue Service Office Judgment (local acronym DRJ) |
| **c. date brought** | 2/3/2012 |
| **d. parties to the proceedings** | Defendant: Federal Authority (Brazil's Federal Revenue)<br>Plaintiff: Banco Bradesco S/A |
| **e. sums, goods or rights involved** | R$ 973,665,463.22 |
| **f. principal facts** | Administrative Proceeding: It related to the penalty (single fine of 50%) on amounts compensated against COFINS credit derived from success in AO 2006.61.00.003422-0 (enlargement of the calculation base - Law No. 9,718/98), the entitlement to which was conceded by RFB in 2011, while the compensation also made in 2011 was rejected.<br><br>After being judged as favorable, in the ordinary proceedings, on 06/30/2011 the company filed a request for credit qualification, which was deferred on 08/22/2011. Therefore, the company started using the credit recognized by the RFB, however on 12/14/2011 the company was informed of the decision that denied the compensations made. With this undeferment, the company presented a manifestation of non-conformity. However, on 02/03/2012, the company received the notification related to the single fine of 50% established as a result of rejected compensations. On 03/05/2012, the company filed an appeal against that fine, which is pending of judgment by DRJ. Based on that appeal, the claim for the relevant amount is suspended. |
| **g. chance of losing (probable, possible or remote)** | Remote |
| **h. analysis of impact if case is lost** | If the proceedings at the administrative level end in a loss, the case will go to the courts, where the prospects of loss is also remote given the factual and legal grounds involved.<br><br>In the remote hypothesis of loss after any future legal proceedings, the amount involved will have to be paid, which will sensitize the period's earnings. |
| **i. amount provisioned (if applicable)** | There is no contingency provision, since the prospect of losing the case is remote. |

| | |
|---|---|
| **Judicial Proceedings:** | 16327.720430/2012-41 |
| **a. court** | Administrative |
| **b. jurisdiction** | First Instance – Federal Revenue Service Office Judgment (local acronym DRJ) |
| **c. date brought** | 4/13/2012 |
| **d. parties to the proceedings** | |

| | |
|---|---|
| | Defendant: Federal Authority (Brazil's Federal Revenue)<br>Plaintiff: Ferrara Participações Ltda |
| **e. sums, goods or rights involved** | R$ 1,483,533,088.43 |
| **f. principal facts** | Administrative Proceeding: IRPJ and CSLL fine notification related to the taxation of alleged capital gain from investment disposal.<br><br>With the Contestation pending judgment by the Brazilian Federal Tax Office – DRJ, the collection of the amount involved has been suspended. |
| **g. chance of losing (probable, possible or remote)** | Remote |
| **h. analysis of impact if case is lost** | If the case is lost in the administrative sphere, it will be discussed in court, where there is a good chance of success due to the grounds of fact and of right involved.<br><br>In the hypothesis of loss after any future legal proceedings, the amount involved will have to be paid, which will sensitize the period's earnings. |
| **i. amount provisioned (if applicable)** | There is no contingency provision, since the prospect of losing the case is remote. |

Below, we highlight cases no longer included in this item, compared with the 2012 Reference Form (base date 12/31/2011), and the reasons for their exclusion:

- **Legal Proceedings No. MS 2005.61.00.026014-8** – Proceeding where there is a plea to calculate and collect the Cofins, as per October 2005, on the effective turnover, whose concept is stated in Article 2 of LC No. 70/91, moving away from the unconstitutional expansion of the calculation basis intended by paragraph 1 of Article 3 of Law No. 9,718/98.

**Date brought:** 11/14/2005.

Case excluded for not reaching the criterion used for materiality.

- **Administrative Procedure No. 16327.721663/2011-80** – Fine of IRPJ and CSLL related to the gloss of expense of premium amortization in the sale of the investment.

**Date brought:** 12/07/2011.

Case excluded for not reaching the criterion used for materiality.

**4.4 - Non-confidential judicial, administrative or arbitration proceedings in which the other parties are managers, former managers, controllers, former controllers, or investors**
We are not involved in any case covered by the conditions mentioned in item 4.4.

**4.5 - Significant confidential cases**
We are not involved in any case covered by the conditions mentioned in item 4.5.

**4.6 - Repeated or related significant and non-confidential judicial, administrative or arbitration proceedings, as a whole**
**Civil liability action in which customers who had amounts invested in savings accounts when government economic plans were introduced ("Bresser Plan," "Summer Plan" and the "Collor Plan") claim that they were adversely affected by altered indices used to adjust savings.**

**a)** amounts involved: R$1,650,730,073.28

**b)** amount provisioned (if applicable ): R$1,650,730,073.28

**c)** practice of the issuer or its subsidiary that gave rise to this contingency: Like all the other financial institutions, the issuer complied with legislative programs designed to control inflation in 1987, 1989 and 1999, which were known as the "Bresser Plan," "Summer Plan" and "Collor Plan" respectively. These "Plans" modified indices used for inflation adjustment of amounts in savings accounts. Now, some 20 years later, account holders alleging losses due to these alterations are asking the courts to order financial institutions to use the previous indices.

Individually none of these cases involve significant amounts.

## 4.7 - Other material contingencies

There are no significant contingencies other than those covered in previous items.

**4.8 - Rules of the country of origin or country in which securities are custodied**
Not applicable as Bradesco is not classed as a foreign issuer.

## 5. Market risk

### 5.1 - Description of principal market risks

Bradesco is exposed to market risks inherent to its business, such as currency risk and interest rate risk, since its role as financial intermediary involves borrowing and lending/financing using various types of indexers.

As good governance practice for its risk management, Bradesco has an ongoing process for managing its positions, which includes control of all positions exposed to market risk using measures consistent with best practices internationally and the New Capital Accord – Basel II. There is an area monitoring and controlling limits for market risk exposure independently of trading business areas.

Proposed risk limits are validated by specific business committees and ratified by the Risk and Capital Allocation Integrated Management committee, to be submitted for approval by the Board of Directors, depending on the characteristics of transactions, which are separated into the following portfolios:

Trading Portfolio: consists of all transactions with financial instruments, including derivatives, held with the intention of trading or to hedge other trading portfolio assets, and not subject to restrictions on their tradability. Operations remaining for negotiation are those related to resale, acquisition of benefits from effective or expected price changes, or arbitration.

Banking Portfolio: transactions not classified in the Trading Portfolio. Consist of structural transactions derived from the Organization's different lines of business and its respective hedging transactions.

### Market Risk Measurement Models

Market risk is measured and controlled using methodologies that are adequate to each situation, such as *Value at Risk* (VaR), *Economic Value Equity* (EVE), stress testing and sensitivity analysis, in addition to limits of management of results and financial exposure.

### Trading Portfolio and Banking Portfolio Equity Risk

Although controlled separately, risks relating to the Trading and Banking portfolio equity positions are measured using the Delta-Normal VaR methodology, adjusted by Gamma and Vega risks from option operations, for one-day horizons, with a confidence level of 99%, and volatility and correlation levels are calculated using statistical methods that give higher weightings to recent returns.

The Trading Portfolio risk is also controlled by stress testing to quantify the negative impact of economic shocks and events that are financially unfavorable for our positions. Analysis uses stress scenarios prepared by our Market Risk and Economic units, based on historical and prospective data for risk factors affecting Trading Portfolio positions.

**Banking Portfolio – Interest Rate Risk**

Measurement and control of interest rate risk for the Banking portfolio uses EVE methodology, which measures economic impact on positions arising from scenarios prepared by our Economics units, which chart any positive or negative changes in yield curves affecting our investments and funding efforts.

EVE methodology consists of re-pricing the portfolio subject to interest-rate variation taking into account increases or decreases in the rates used for calculating present value and total tenor/expiration of assets and liabilities. On this basis, the portfolio's economic value is calculated for interest rates on the date of the analysis and for scenarios projected over a one-year horizon. Any difference between the values obtained for the portfolio will be the EVE, or interest-rate risk attributed to the portfolio.

**Evolution of Exposure to Risk**

This section shows the evolution of Trading portfolio's VaR and stress analysis. Finally, we show the data from sensitivity testing as per the criteria defined in CVM Instruction No. 475/08.

**VaR Internal Model – Trading Portfolio**

The total value at risk at the end of 2012 showed an increase compared to 2011, as shown in the table below:

| | | **R$ thousand** |
|---|---|---|
| **Risk Factors** | **Dec12** | **Dec11** |
| Fixed | 94,956 | 34,963 |
| IPCA / IGP-M | 116,608 | 82,986 |
| Forex Coupon | 11,553 | 18,352 |
| Foreign Currency | 23,641 | 38,360 |
| Equities | 9,209 | 47,040 |
| Sovereigns/eurobonds and treasuries | 19,760 | 21,902 |
| Other | 4,245 | 48 |
| Correlation/diversification effect | (79,699) | (114,819) |
| **VaR at end year** | **200,272** | **128,832** |
| | | |
| VaR at mid year | 189,445 | 81,133 |
| VaR year low | 82,476 | 19,749 |
| VaR year high | 540,027 | 241,081 |

**Stress Analysis – Trading Portfolio**

To estimate any loss not covered by VaR, the organization conducts daily assessments of any impacts on positions in stress scenarios for 20-day horizons. Taking into account the effect of diversification across risk factors, the estimated medium possibility of loss in stress situations would be R$1,388 million in December 2012, while estimated maximum loss would be R$2,489 million.

| | | | | **R$ thousand** |
|---|---|---|---|---|
| | **With diversification (with stress situation)** | | **Without diversification (without stress situation)** | |
| | **Dec12** | **Dec11** | **Dec12** | **Dec11** |
| End year | 1,438,977 | 1,424,216 | 2,207,422 | 2,067,878 |
| Mid year | 1,388,024 | 979,965 | 2,087,586 | 1,391,848 |
| Year low | 334,096 | 104,878 | 852,719 | 237,549 |
| Year high | 2,489,434 | 2,267,302 | 3,346,254 | 2,813,747 |

**Sensitivity analysis**

The Trading portfolio is also monitored by daily sensitivity analysis, which measures the effect of varying market curves and prices on our positions. In addition, we run a quarterly sensitivity analysis of our financial exposure (*Trading* and *Banking* portfolios) in compliance with CVM Instruction No. 475/08. However, note that the impacts of the *Banking* portfolio's financial exposure (particularly the interest rate and price indices factors) do not necessarily represent potential accounting losses for the Organization. This is because some *Banking* portfolio loans are financed by sight deposits and/or savings, which are natural hedges against any interest-rate fluctuations; interest-rate fluctuations do not have a material impact on our earnings, since securities are intended to be held to maturity.

5. Market risk

R$ thousand

| Trading and Banking Portfolio (1) | | Dec12 1 | Dec12 2 | Dec12 3 | Dec11 1 | Dec11 2 | Dec11 3 |
|---|---|---|---|---|---|---|---|
| Interest Rate in BRL | Exposures subject to varying predetermined interest rates and interest-rate coupon. | (11,099) | (2,128,929) | (4,115,092) | (6,277) | (1,568,110) | (2,971,275) |
| Price Indices | Exposures subject to varying price-index coupons. | (22,273) | (1,902,223) | (3,448,019) | (11,480) | (1,422,256) | (2,590,408) |
| Forex Coupon | Exposures subject to varying foreign-currency coupons. | (661) | (58,363) | (109,978) | (438) | (40,667) | (79,234) |
| Foreign Currency | Exposures subject to currency rate variations. | (11,347) | (164,807) | (305,127) | (11,171) | (279,274) | (558,549) |
| Equities | Exposures subject to share-price variations. | (19,079) | (469,601) | (934,884) | (19,096) | (477,394) | (954,788) |
| Sovereigns/Eurobonds and Treasuries | Exposures subject to variations in the interest rate on securities traded on the international market. | (1,115) | (44,355) | (87,136) | (1,989) | (27,072) | (54,338) |
| Other | Exposures not covered by the previous definitions. | (82) | (2,056) | (4,112) | (66) | (1,644) | (3,288) |
| **Total without correlation** | | **(65,656)** | **(4,770,334)** | **(9,004,348)** | **(50,517)** | **(3,816,417)** | **(7,211,880)** |
| **Total with correlation (2)** | | **(36,642)** | **(3,712,361)** | **(6,979,548)** | **(31,594)** | **(2,773,835)** | **(5,210,427)** |

(1) Amounts net of tax effects; and
(2) “With correlation” considers the impact each variable has on another variable.

The sensitivity analysis shown below applies exclusively to the *Trading* portfolio and shows exposures that may have significant impacts on the Organization's results. Note that the results show impacts for each scenario in a static portfolio position. Given the dynamic nature of the market, these positions are continuously changing and do not necessarily reflect the position here stated. In addition, as mentioned previously, the Bank is continuously managing market risk, and constantly analyzing the market's dynamism to find ways of mitigating/minimizing associated risks in accordance with strategy determined by Senior Management. Therefore, in cases of signs of deterioration of a certain position, we take proactive initiatives to minimize possible negative impacts and maximize risk-return ratios for the Organization.

**R$ thousand**

| **Trading Portfolio (1)** | | **Dec12** | | | **Dec11** | | |
|---|---|---|---|---|---|---|---|
| | | **1** | **2** | **3** | **1** | **2** | **3** |
| Interest Rate in BRL | Exposures subject to varying predetermined interest rates and interest-rate coupon. | (1,596) | (300,144) | (577,467) | (750) | (186,845) | (361,825) |
| Price Indices | Exposures subject to varying price-index coupons. | (2,864) | (256,727) | (489,707) | (2,258) | (292,015) | (560,960) |
| Forex Coupon | Exposures subject to varying foreign-currency coupons. | (649) | (55,701) | (104,875) | (596) | (54,802) | (106,992) |
| Foreign Currency | Exposures subject to currency rate variations. | (12,312) | (216,083) | (418,084) | (10,255) | (256,370) | (512,739) |
| Equities | Exposures subject to share-price variations. | (1,537) | (31,882) | (60,427) | (3,940) | (98,511) | (197,023) |
| Sovereigns/Eurobonds and Treasuries | Exposures subject to variations in the interest rate on securities traded on the international market. | (1,001) | (41,733) | (81,194) | (1,985) | (25,277) | (50,144) |
| Other | Exposures not covered by the previous definitions. | (49) | (1,232) | (2,464) | - | (16) | (32) |
| **Total without correlation** | | **(20,008)** | **(903,502)** | **(1,734,218)** | **(19,784)** | **(913,836)** | **(1,789,715)** |
| **Total with correlation (2)** | | **(13,585)** | **(580,483)** | **(1,111,507)** | **(13,270)** | **(512,229)** | **(995,375)** |

(1) Amounts net of tax effects; and
(2) “With correlation” considers the impact each variable has on another variable.

Sensitivity analyses were performed using scenarios prepared for the respective dates, in all cases using market information data for the periods and scenarios that would adversely affect our positions.

**Scenario 1:** Based on market information (BM&FBovespa, Anbima, etc.), shocks were applied for a 1 basis point interest rate hike and 1% price variation. For example: in the scenario applied to positions as of 12.31.2012, the dollar was quoted at R$2.06. For the interest-rate scenario, the 1-year fixed rate applied to positions as of 12.31.2012 was 7.15% per annum.

**Scenario 2:** 25% shocks were determined based on the market. For example: in the scenario applied to positions as of 12.31.2012, the dollar was quoted at R$2.55. For the interest-rate scenario, the 1-year fixed rate applied to positions as of 12.31.2012 was 8.92% per annum. The scenarios for the other risk factors also accounts for 25% shocks in their yield curves or prices.

**Scenario 3:** 50% shocks were determined based on the market. For example: in the scenario applied to positions as of 12.31.2012, the dollar was quoted at R$3.06. For the interest-rate scenario, the 1-year fixed rate applied to positions as of 12.31.2012 was 10.71% per annum. The scenarios for the other risk factors also accounts for 50% shocks in their yield curves or prices.

**5.2 - Description of market risk management policy**
**a) risks for which hedging is sought**

The Treasury Department is the only unit in the Organization with a mandate to assume risks in the Trading Portfolio. In addition, Treasury is responsible for decisions to mitigate risk in the financial conglomerate's commercial portfolio, which involves volatility, currency, liquidity, share price and interest rate risk.

All Organization’s exposures to market risk are admitted up to the limits established by the Board of Directors, which are reviewed at least annually.

**b) asset protection strategy (hedging)**

The Organization's Treasury has a hedging policy determining that its hedging transactions must necessarily cancel out or mitigate risks of mismatch in quantities, terms, currencies and indexes, and be within the limits of risk exposure approved by the Board of Directors.

**c) instruments used for asset protection (hedging)**

Given the characteristics of its business and its international operations, the Organization uses a number of financial instruments for hedging, including trading in securities issued by governments or private companies, as well as exchange-traded or OTC derivatives.

**d) Parameters used for managing these risks**

Proposed risk limits are validated by specific business committees and ratified by the Risk and Capital Allocation Integrated Management committee, then submitted for approval by the Board of Directors, depending on the characteristics of Trading and Banking portfolio transactions.

The Integrated Risk Control Department acts separately from business management to monitor compliance with limits set and produces management reports to control positions that are sent to business areas and Senior Management, in addition to weekly reports and periodic presentations to the Board of Directors.

The following Trading Portfolio limits are monitored:

- Risk;
- Stress;
- Result; and
- Financial Exposure.

The following Banking Portfolio limits are monitored:

- Interest Rate Risk; and
- Stock Portfolio.

In addition to the above-mentioned limits, there are specific limits for each Treasury Department trader.

**e) whether issuer trades in financial instruments for purposes other than asset protection (hedging) and what these purposes are**

As part of its proposal as a financial institution, the Organization meets customer demand for *swap*s, term and other transactions, as well as proprietary treasury trades within the limits of market risk exposure set by the Board of Directors.

**f) organizational structure for controlling risk management**

Market risk management process is carried out in a corporate, centralized and independent way. That process involves several areas with specific duties in market risk measurement and control, what has allowed the Organization to be the first BACEN-authorized financial institution in the country to use its internal market risk models as from January 2013, which had already been used by its management to estimate the statutory capital. The management process approved by the Board of Directors is also revalidated every year by the Board of Directors and its Committees.

The Integrated Risk Control Department's mission is to foster and facilitate control of the Organization's risk and capital allocation activities independently, consistently, and transparently on an integrated basis, and it has the responsibility to:

- Propose methods for measuring risks;
- Detect, calculate, and report risks;
- Control calculated risks in relation to limits set;
- Calculate capital allocation; and
- Propose and decide policies and revisions, rules and procedures relating to market and liquidity risk management.

**<u>Macro-process for market risk management</u>**

(1) Planning, Budget and Control Department ("DPOC");
(2) Integrated Risk Control Department ("DCIR");
(3) Internal Controls and Compliance Department ("DCIC");
(4) General Accounting Department ("DCG");
(5) Market Relations Department ("DRM");
(6) Economic Research and Studies Department ("DEPEC"); and

(7) Organization and Methods Department (“DOM”).

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5. Market risk

The market risk is monitored by meetings of the Treasury's Executive Committees, and Market and Liquidity Risk management departments. In addition, monitoring is also carried out by the Integrated Risk Management and Capital Allocation Committee, which is also responsible for holding special meetings to review positions and situations in which risk exposure limits may be exceeded, thus prompting the Board to take measures and adopt strategies for validation as required.

The Integrated Risk Management and Capital Allocation Committee have the following responsibilities:

- ensure compliance with the Organization's risk management policies;

- ensure the efficacy of the risk management process;

- adopt exposure limits by type of risk, depending on risk appetite approved by the Board of Directors;

- validate and submit to the Board of Directors:

I. policies for risk and capital management;
II. proposals for risk appetite and exposure limits by type of risks; and
III. the results of reviews of risk and capital management policies and structures at intervals stated in regulations, or more often;

- report to the Board of Directors on risk management, capital requirements and adequacy, any material alterations of strategies adopted, and the status of business continuity plans;

- be informed of internal and external audit reports pertaining to risk management and results relating to Independent Model Validation;

- regularly inform the Board of Directors of the Committee's activities;

- review and propose to the Board of Directors updates to the Risk Management Executive Committee's rules and regulations when necessary; and

- provide the Board of Directors with comprehensive and integrated overviews of risks and their impacts on capital.

Market and Liquidity Risk Executive Committee has the following responsibilities:

- ensure compliance with the Organization's Risk Management and Market Liquidity policies;

- ensure the efficacy of market and liquidity risk management processes in the ambit of the Organization;

- adopt and revise, in relation to management of market and liquidity risks:

I. definitions, criteria and tools; and
II. measure(s) adopted for statistics, econometrics, and mathematical modeling methods;

- evaluate and submit policy structure, roles, responsibilities and procedures of the dependencies involved in market and liquidity risk management for validation by Bradesco's Integrated Risk Management and Capital Allocation Committee, as well as reviews conducted annually or more often;

- validate results from backtesting models and other matters deemed pertinent;

- establish conditions for review works by the validation area separately from models from Internal Control and Compliance Department – DCIC, and by internal and independent audits; and

- delegate responsibilities to technical committees involved in market and liquidity risk management.

Finally, the Treasury Executive Committee's responsibilities are:

- reporting and monitoring performance, behavior and risks of different portfolios and benchmarks maintained by the Organization, including liquidity reserves;

- defining Treasury's strategies to optimize results, based on analyzing political-economic scenarios locally and internationally;

- validating proposed risk exposure tolerance limits for Treasury to be submitted for approval by the Integrated Risk Management and Capital Allocation Committee;

- validating proposed liquidity policy, to be subject to approval by the Integrated Risk Management and Capital Allocation Committee;

- holding special meetings to review positions and situations in which risk exposure and tolerance limits are exceeded; and

- discuss and decide in relation to new products traded on financial markets.

**g) adequacy of operational structure and internal controls for verifying the effectiveness of policy adopted**

The Organization has its specific Internal Controls and Compliance Department (locally DCIC) which is segregated from those running trading business and corporate risk management, and runs a unit focusing on internal controls and compliance. This department also has a unit tasked with independently validating models and gauging the adherence and adequacy of models used for risk management. Additionally, all the Organization's departments and companies have persons responsible for introducing, appraising and deploying controls, and applicable adherence tests.

There is also the General Inspection Department, which is responsible for the Organization's internal auditing.

**5.3 - Significant alterations of principal market risks**

In relation to risk management policy, an annual review is conducted by the Board of Directors, and it has not been materially altered in the period.

As shown in item 5.1, there were no alterations in means used for mitigating risks, thus upholding the institution's conservative profile. The bank's risk levels have historically been related to the yield curve of both nominal and real interest rates.

Bradesco forwards daily reports to the Central Bank showing the market risk of its trading portfolio, with its exposures to foreign currency and commodities. In this case, the reported risk is calculated based on the standard model established by the Central Bank and on the internal model as from January 2013, and is used to measure the regulatory capital the Organization must hold to support risks involved in its activities. Therefore, like other financial institutions, the Bradesco Organization operates in accordance with Central Bank rules, and its risks are subject to the Basel index, which determines an institution's maximum leverage depending on its reference equity.

**5.4 - Other material information**

Bradesco supplies weekly reports to its Senior Management, its Board of Directors and the Central Bank of Brazil showing interest rate risk for its Banking Portfolio, which include all the financial conglomerate's companies.

# 6. Issuer history

## 6.1 / 6.2 / 6.4 - Incorporation of issuer, duration and date of registration with the Brazilian Securities and Exchange Commission CVM

| Incorporation of issuer, duration and date of registration with the Brazilian Securities and Exchange Commission CVM | |
|---|---|
| **Issuer's incorporation date** | 1/5/1943 |
| **Issuer's incorporation format** | Privately held business corporation, incorporated as a commercial bank. |
| **Country of incorporation** | Brazil |
| **Duration** | Indefinite duration |
| **CVM registration date** | 7/20/1977 |

## 6.3 - Brief history

Banco Bradesco S.A. was founded in 1943 as a commercial bank under the name of Banco Brasileiro de Descontos S.A. In 1948, we embarked on a period of intensive growth to become the largest private-sector commercial bank in Brazil by the late 1960s. We expanded our activities all over Brazil in the 1970s, and gained new urban and rural markets.

In 1988, as authorized by the Central Bank of Brazil, Bradesco was reorganized as a "multiple bank" or "universal bank;" the housing finance company was absorbed in order to operate commercial and real estate portfolios, and its business name was altered to Bradesco S.A. – Banco Comercial e de Crédito Imobiliário and on 01.13.1989, it was again changed to Banco Bradesco S.A.

In 1989, the company known as Financiadora Bradesco S.A. Crédito, Financiamento e Investimentos altered its business name and its business purpose, which led to the Central Bank of Brazil canceling its authorization to operate as a financial institution, and its Credit, Financing and Investment Portfolio was then constituted, and in 1992 Banco Bradesco de Investimento S.A. (BBI) was absorbed by Bradesco, when the Investment Portfolio was assembled.

We are one of Brazil's largest private-sector banks in terms of total assets. We provide a wide range of banking products and financial services in Brazil and internationally for individuals and business (small, mid-size and large companies). We have the most extensive private sector branch and service network in Brazil, allowing us to reach a diverse customer base. Our products and services include banking transactions such as: making loans and accepting deposits, issuing credit cards, managing groups of consumers buying durables by installment (known locally as "consortiums"), insurance, certificated savings plans with prize draws, leasing, collection and payment processing, private pension plans, asset management, and broker and dealer services for financial securities.

## 6.5 - Main corporate events occurring in issuer, subsidiaries or affiliated companies

**<u>2012:</u>**

**a) event**

Bradesco transferred to Experian Brasil its equity interest in Serasa S.A.

**b) main conditions of the deal**

**date:** 11.23.2012

**details of the transaction:** Through its subsidiaries, Bradesco transferred 308,676 shares issued by Serasa S.A, thus generating a profit before taxes of R$ 793.3 million.

**pending approval by regulators:** none.

**effects of the decision on the transaction:** Bradesco transferred its equity interest in the capital stock of Serasa S.A.

**c) companies involved**

Banco Bradesco Financiamentos S.A. and Embaúba Holdings Ltda.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**2011**

**a) event**

Bradesco acquires CBSS shares

**b) main conditions of the deal**

**date:** 01.24.2011

**details of the transaction:** Bradesco acquired shares in Companhia Brasileira de Soluções e Serviços - CBSS held by Visa International Service Association corresponding to 5.01% of the share capital of CBSS, for the amount of R$85.8 million.

**pending approval by regulators:** none.

**effects of the decision on the transaction:** Bradesco raised its holding from 45% to 50.01%, thus strengthening its interest in the capital of companies operating in the card market.

**c) companies involved**

Banco Bradesco S.A., Companhia Brasileira de Soluções e Serviços – CBSS, and Visa Internacional Service Association.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**a) event**

Banco Bradesco S.A. and Banco do Brasil S.A. signed a new binding memorandum of understanding to develop and integrate joint business by setting up a business holding company ("Elo Participações") to launch the Elo flag.

**b) main conditions of the deal**

**date:** 03.15.2011

**details of the transaction:** Elo Participações is 50.01% owned by Bradesco and 49.99% by Banco do Brasil and cover certain business related to electronic payments, which include:

Elo Serviços S.A., owner and manager of Elo flag credit cards, debit and prepaid cards;

Integration of Companhia Brasileira de Soluções e Serviços ("CBSS"), directly and indirectly to the business of Elo Participações;

Sale to CBSS of 100% (one hundred percent) of shares held by Bradesco and/or its affiliates in IBI Promotora de Vendas Ltda., of the customer base and business related to this sales channel for the amount of R$419,000,000.00 (four hundred nineteen million reais). This transaction is subject to: (i) the parties holding negotiations to sign definitive documents; and (ii) compliance with applicable legislation;

All other initially expected transactions that have not finalized yet will depend on the completion of definitive documents and compliance with applicable legal and regulatory formalities.

**pending approval by regulators:** none.

**effects of the decision on the transaction:** Elo Participações holds 50.01% of Bradesco and 49.99% of Banco do Brasil.

**c) companies involved**

Banco Bradesco S.A., Banco do Brasil S.A. and Companhia Brasileira de Soluções e Serviços – CBSS.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**a) event**

Acquisition of shareholder control of Banco do Estado do Rio de Janeiro S.A. - BERJ

**b) main conditions of the deal**

**date:** 05.20.2011

**details of the transaction:** the transaction involved the purchase of 96.99% of BERJ's common shares and 95.21% of its preferred shares corresponding to 96.23% of total capital, for R$1.025 billion (BERJ Price).

By acquiring BERJ, Bradesco was enabled to provide payroll services for the state government of Rio de Janeiro, along with its vendor/supplier payments and state-tax collection services, among other services, from January 2012 through December 2014. Bradesco will pay R$748.7 million (Payroll Price) for the right to provide this service.

The payment of the above-mentioned amounts will follow this schedule:

- 20% of BERJ Price and 100% of Payroll Price within 5 days of meeting certain conditions, including Central Bank of Brazil approval for transfer of BERJ 's shareholder control and signing a purchase and sale agreement for the single lot of shares; and

- 80% of BERJ price within 5 days of confirming the existence of BERJ's tax credit, and the possibility of its realization.

The above amounts are subject to adjusted at the Selic rate for the period through the date when the payment is made.

On concluding purchase and sale of the shares, Bradesco made a public offering to minority shareholders pursuant to Article 254 of Law No. 6,404/76 and CVM Instruction No. 361/02.

The following are BERJ's key numbers based on the financial statements of 12.31.2010:

| | **R$ million** |
|---|---|
| Active | 672 |
| Shareholder equity | 230 |
| Tax credit not posted | 1,375 |

**Other Information:**

| | |
|---|---|
| State government employees (active and inactive) | 440 thousand |
| Gross payroll - month | R$1.2 billion |
| Active vendors/suppliers | 4,300 |
| Annual collection of state taxes | R$23 billion |

**pending approval by regulators:** none.

**effects of the decision on the transaction:** Through this acquisition, Bradesco expands its presence in the state of Rio de Janeiro and reaffirms its confidence in its development. This acquisition has strategic value for Bradesco and its shareholders, since it adds hundreds of thousands of new customers in a state that has great economic potential and in which significant investments being made, in particular to extract oil from the pre-salt layer, to host the Rio 2016 Olympics, and for the FIFA World Cup in 2014.

**c) companies involved**

Banco Bradesco S.A. and Banco do Estado do Rio de Janeiro S.A. – BERJ.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**2010**

**a) event**

Bradesco acquires shareholder control of Ibi México and signs partnership agreement with C&A México

**b) main conditions of the deal**

**date of commitment to acquisition:** 01.21.2010

**date of the transaction conclusion:** 06.02.2010

**price:** 2,104.0 million Mexican pesos, equivalent to approximately R$297.6 million.

**details of the transaction:** acquisition by Bradesco of entire share capital Ibi Services S. de R. L. México (Ibi México) and RFS Human Management S. de R.L.

**pending approval by regulators:** none.

**effects of the decision on the transaction:** partnership agreement signed with C&A México S. de R.L. (C&A México) for a period of 20 years, for exclusive rights to market products and services through C&A México chain stores.

**c) companies involved**

Banco Bradesco S.A., Ibi Services S. de R. L. México (Ibi México), and RFS Human Management S. de R.L.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**a) event**

Bradesco signs memorandum of understanding with BB and Santander consolidating operations of their respective networks of external self-service terminals

**b) main conditions of the deal**

**date:** 02.11.2010

**details of the transaction:** signed memorandum of understanding for the purpose of facilitating consolidation of operations of the networks of external self-service terminals (ATMs outside branches).

**pending approval by regulators:** none.

**effects of the decision on the transaction:** Upon the completion of this operation, we intend to have a business model to allow our customers to access some 11,000 External ATMs.

**c) companies involved**

Banco Bradesco S.A., Banco do Brasil S.A. and Banco Santander (Brasil) S.A.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**a) event**

Bradesco acquires part of the shares of Cielo and CBSS owned by Santander Spain

**b) main conditions of the deal**

**date of commitment to acquisition:** 04.23.2010

**date of the transaction conclusion:** 07.13.2010

**details of the transaction:** details of the transaction: acquisition of part of the shares held by Santander Spain in the following companies:

- Cielo S.A. (Cielo), corresponding to 2.09% of share capital, for the amount of R$431.7 million; and

- Companhia Brasileira de Soluções e Serviços – CBSS, corresponding to 10.67% of share capital for the value of R$141.4 million.

**pending approval by regulators:** none.

**effects of the decision on the transaction:** Bradesco's holding in Cielo rose from 26.56% to 28.65%, and Bradesco holding in CBSS rose from 34.33% to 45.00%.

**c) companies involved**

Banco Bradesco S.A., Cielo S.A., Companhia Brasileira de Soluções e Serviços - CBSS and Grupo Santander Espanha.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**a) event**

Banco Bradesco, Banco do Brasil, and Caixa Econômica Federal sign Memorandum of Understanding to operate the Brazilian card flag Elo and undertake new business with prepaid cards

**b) main conditions of the deal**

**date of non-binding commitment between Bradesco and BB:** 04.27.2010

**date of commitment between Bradesco, BB and CEF:** 08.09.2010

**detail of transaction with Banco do Brasil on 04.27.2010:** Bradesco and Banco do Brasil signed a memorandum of understanding to develop a business model in order to:

- join part of their card operations;
- launch a Brazilian credit, debit and prepaid card flag for account holders and non-account holders;
- jointly format new business for private label cards (cards offered to non-account holder customers via retail partners);
- set up a company to sell cards to certain groups of non-account holder customers;
- transfer interests in CBSS S.A. held by both institutions and their subsidiaries, to a company to be created.

**detail of transaction with Caixa Econômica Federal, 08.09.2010:** Bradesco, together with Banco do Brasil S.A., signed a memorandum of understanding with Caixa Econômica Federal (Caixa) in relation to:

- Caixa's participation in the company to be set up, which will manage Brazilian flag Elo's credit, debit and prepaid cards for both account-holder customers of the respective banks and non-account holders;
- assess the possibility of developing new business for prepaid cards by setting up a means-of-payment company or using existing companies aligned with this business.

A binding commitment between Banco Bradesco S.A. and Banco do Brasil S.A. was signed on 03.15.2011.

**detail of transaction with Banco do Brasil:** moving forward from the memorandum of understanding signed on 04.27.2010, Bradesco signed a new binding memo with Banco do Brasil to develop and integrate joint business by setting up a business holding company ("Elo Participações") to launch the Elo flag.

Elo Participações will be 50.01% owned by Bradesco and 49.99% by Banco do Brasil and cover certain business related to electronic payments, which include:

- Elo Serviços S.A., owner and manager of Elo flag credit cards, debit and prepaid cards;

- Integration of Companhia Brasileira de Soluções e Serviços – CBSS, directly and indirectly to the business of Elo Participações;

- Sale to CBSS of 100% of shares held by Bradesco and/or its affiliates in IBI Promotora de Vendas Ltda., of the customer base and business related to this sales channel for the amount of R$419 million. This transaction is subject to: (i) the parties holding negotiations to sign definitive documents; and (ii) compliance with applicable legislation;

All other initially expected transactions that have not finalized yet will depend on the completion of definitive documents and compliance with applicable legal and regulatory formalities.

Bradesco together with Banco do Brasil has reached the stage of final talks with Caixa Econômica Federal to integrate the latter to the launch of Elo flag cards.

**pending approval by regulators:** none.

**effects of the decision on the transaction:** the new nationwide Elo flag for credit, debit and prepaid cards for both account holders and non-account holders.

**c) companies involved**

Banco Bradesco S.A., Banco do Brasil S.A. and Caixa Econômica Federal.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**a) event**

Bradesco Seguros, ZNT Empreendimentos and Odontoprev signed a non-binding memorandum of understanding to set up a strategic alliance for the development and marketing of dental health products.

**b) main conditions of the deal**

**date:** 08.19.2010

**details of the transaction:** Odontoprev S.A. and its controllers Bradesco Seguros S.A. and ZNT Empreendimentos, Comércio e Participações Ltda., signed with BB Seguros Participações S.A., a memorandum of understanding to form a strategic alliance for the development and marketing of dental health products.

**pending approval by regulators:** none.

**effects of the decision on the transaction:** setting up a new company with of 75% of total capital (49.99% of voting and 100% of preferred capital) from BB Seguros and 25% of total capital (50.01% of voting capital) from Odontoprev. BB Insurance will take part indirectly with up to 10% of the total capital of Odontoprev through a holding company to be formed between BB Seguros, Bradesco and ZNT.

As a result of this transaction, the availability of Banco do Brasil S.A.'s distribution channels on an exclusive basis will be assured for Odontoprev to market dental health products under the terms of the strategic partnership, for a period of 10 years, including dental plans for Banco do Brasil S.A. employees and their dependents.

**c) companies involved**

Banco Bradesco S.A., Bradesco Seguros S.A., BB Seguros Participações S.A., ZNT Empreendimentos, Comércio e Participações Ltda. and OdontoPrev S.A.

**d) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**e) corporate structure before and after the transaction**

Not applicable.

**event**

Bradesco signs an agreement with CPM Braxis and other shareholders of the latter to transfer its controlling interest to Capgemini.

**a) main conditions of the deal**

**date:** 09.02.2010

**details of the transaction:** Bradesco, together with its subsidiary CPM Braxis S.A. and its other shareholders, signed an agreement with Capgemini SA through which Capgemini acquired 55% of CPM Braxis stock and became its controlling shareholder.

**pending approval by regulators:** none.

**effects of the decision on the transaction:** with the conclusion of the transaction, Bradesco sold 35% of its interest in CPM Braxis for the amount of approximately R$104 million, and continued to hold 20% of its total capital.

**b) companies involved**

Banco Bradesco S.A., CPM Braxis and Capgemini S.A.

**c) effects arising from the transaction for share ownership structure, especially for the holding of the controlling block of shareholders with more than 5% of share capital and the issuer's management**

There was no effect on Bradesco's share ownership structure.

**d) corporate structure before and after the transaction**

Not applicable.

**6.6. - Information on any filing for bankruptcy based on material value or judicial or extrajudicial recovery**

There is not and there has not been any event of this nature related to the Company.

**6.7 - Other material information**

There is no further information that we believe to be significant.

## 7. Issuer Business Activities

### 7.1 - Description of the business activities of the issuer and its subsidiaries

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 (non government controlled) commercial bank in Brazil by the end of the 1960s. We expanded our activities nationwide during the 1970s and conquered urban and rural markets in Brazil. 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 banks 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 customer base. Our products and services encompass banking operations such as loans and advances and deposit taking, credit card issuance, purchasing consortiums, insurance, leasing, payment collection and processing, pension plans, asset management and brokerage services.

We operate and manage our business through two operational segments: (i) the banking segment and (ii) the insurance, pension and capitalization bonds segment.

Our segments are managed on the basis of the types of products and services offered and their related customer bases.

In our bank segment, we offer a range of bank products and services to our customers, including deposit, loan and advance operations, debt and credit cards and capital market services through our extensive distribution network. In our insurance, social security and capitalization segment, we offer to our customers a range of products and services including life, health, accident, automotive and property insurance; individual and corporate pension plans, as well as capitalization bonds, through our extensive distribution network.

The Organization was originally registered with the “BM&FBovespa” (São Paulo Stock Exchange) and subsequently with the “NYSE” (New York Stock Exchange).

# 7.2 - Information on operational segments

**a) products and services marketed**

We operate through two principal operating segments: (i) the banking segment and (ii) the insurance, pension plans and capitalization bonds segment. The following diagram shows the main elements of the business segments:

**Banking**

We have a diverse customer 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.

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 with customers, including checking accounts, savings accounts and time deposits;
- loans and advances (individuals and companies, real estate financing, microcredit, onlending BNDES funds, rural credit, leasing, among others);
- credit cards, debit cards and pre-paid cards;
- management of receipts and payments;
- asset management;
- services related to capital markets and investment banking activities;
- intermediation and trading services;
- custody, depositary and controllership services;
- international banking services; and
- purchasing consortiums.

**Insurance, pension plans and capitalization bonds**

We offer insurance products through a number of different entities, which we refer to collectively as Grupo Bradesco Seguros. Grupo Bradesco is the largest insurer group in Brazil by total revenues and technical provisions, according to data published by SUSEP and ANS. The group provides a wide range of insurance products for both individuals and corporate customers. Products include health, life, personal accident, automobile and other assets.

**b) the segment's revenue and its share of the issuer's net revenues**

The following segment information was compiled from reports forwarded to Management to assess performance and take decisions on the allocation of funds for investment and other purposes. Management uses different types of data, including financial data, related to accounting practices adopted in Brazil, and non-financial data measured on different bases.

The segment's key assumptions for its revenues and expenses include the following: (i) cash surpluses held by the insurance, pensions and capitalization bonds businesses, which are included in this segment, resulting in increased net interest income; (ii) salaries and benefits and administrative costs included in the insurance, pensions and capitalization bonds segment, which consist solely of costs directly related to these operations; and (iii) costs incurred in the banking segment for our branch infrastructure and other overheads that are not allocated.

**R$ million**

| Composition of net revenues 2012 | Banking (1) (2) | Insurance, private pension plans and certificated savings plans (2) (3) | Other operations, adjustments and eliminations (4) | Total |
|---|---|---|---|---|
| Revenues for interest and similar | 75,293 | 11,110 | (3,270) | 83,134 |
| Fee and commission income | 13,886 | 1,233 | (2,278) | 12,841 |
| Premiums retained – insurance and pension plans | - | 40,177 | - | 40,177 |
| Income from equity interests in affiliates | 752 | 108 | 10 | 871 |
| Other Operating Income | 2,368 | 1,164 | (226) | 3,306 |
| Tax / social contribution (Cofins) | (2,162) | (428) | (47) | (2,637) |
| Tax on services of any type – (ISS) | (413) | (7) | (29) | (449) |
| Tax / social contribution (PIS) | (359) | (68) | (10) | (437) |
| **Total** | **89,365** | **53,289** | **(5,850)** | **136,806** |
| **Share in the Net Revenues** | **65.3%** | **39.0%** | **-4.3%** | **100.0%** |

**R$ million**

| Composition of net revenues 2011 | Banking (1) (2) | Insurance, private pension plans and | Other operations, adjustments and | Total |
|---|---|---|---|---|

| | | certificated savings plans (2) (3) | eliminations (4) | |
|---|---|---|---|---|
| Revenues for interest and similar | 74,957 | 9,980 | (2,570) | 82,367 |
| Fee and commission income | 11,990 | 1,080 | (2,202) | 10,868 |
| Premiums retained – insurance and pension plans | - | 34,316 | - | 34,316 |
| Income from equity interests in affiliates | 585 | 100 | (3) | 682 |
| Other Operating Income | 5,322 | 928 | (64) | 6,186 |
| Tax / social contribution (Cofins) | (1,862) | (403) | (37) | (2,302) |
| Tax on services of any type – (ISS) | (366) | - | (23) | (389) |
| Tax / social contribution (PIS) | (311) | (68) | (7) | (386) |
| **Total** | **90,315** | **45,933** | **(4,906)** | **131,342** |
| **Share in the Net Revenues** | **68.8%** | **35.0%** | **-3.7%** | **100.0%** |

R$ million

| Composition of net revenues 2010 | Banking (1) (2) | Insurance, private pension plans and certificated savings plans (2) (3) | Other operations, adjustments and eliminations (4) | Total |
|---|---|---|---|---|
| Revenues for interest and similar | 56,309 | 8,907 | (1,444) | 63,772 |
| Fee and commission income | 10,451 | 975 | (2,004) | 9,421 |
| Premiums retained – insurance and pension plans | - | 27,994 | - | 27,994 |
| Income from equity interests in affiliates | 324 | 148 | 105 | 577 |
| Other Operating Income | 1,369 | 718 | (59) | 2,029 |
| Tax / social contribution (Cofins) | (1,705) | (337) | (29) | (2,072) |
| Tax on services of any type – (ISS) | (325) | - | (19) | (344) |
| Tax / social contribution (PIS) | (283) | (53) | (6) | (343) |
| **Total** | **66,139** | **38,353** | **(3,457)** | **101,035** |
| **Share in the Net Revenues** | **65.5%** | **38.0%** | **-3.4%** | **100.0%** |

(1) The “Financial” segment is represented by: financial institutions, holding companies (which basically manage financial funds), credit card and asset management companies;

(2) Balances of equity accounts, income and expenses are being eliminated among companies of the same segment;

(3) The “Insurance Group” segment is represented by insurance, pension plan and capitalization companies; and

(4) Represent eliminations among companies of different segments, as well as operations carried out in Brazil and abroad.

**c) profit or loss derived from the segment and its participation in the issuer’s net profits**

| Statement of Income for 2012 | Banking (1) (2) | Insurance, private pension plans and certificated savings plans (2) (3) | Other operations, adjustments and eliminations (4) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Net interest income | 39,181 | 3,125 | 1,187 |
| Net fee and commission income | 13,886 | 1,233 | (2,314) |
| Net gains/(losses) on financial assets held for trading | 1,096 | (7) | 1,021 |
| Net gains/(losses) on financial assets available for sale | (455) | 2,418 | (67) |
| Net gains/(losses) of foreign exchange operations | (1,590) | - | 639 |
| Income from insurance and pension plans | - | 1,412 | 1 |
| Impairment of loans and advances | (10,925) | - | (585) |
| Personnel Expenses | (10,587) | (1,018) | (52) |
| Other administrative expenses | (11,592) | (932) | 624 |
| Depreciation and amortization | (1,460) | (114) | (964) |
| Other operating income/(expenses) | (10,351) | (375) | 2,197 |
| **Operating income** | **7,203** | **5,742** | **1,687** |
| Income from equity interests in affiliates | 752 | 108 | 10 |
| **Income before taxes and profit sharing of non-controlling shareholders** | **7,955** | **5,850** | **1,697** |
| Income tax and social contribution | (274) | (2,196) | (1,680) |
| **Net income for the period** | **7,681** | **3,654** | **17** |
| Attributable to controlling shareholders | 7,673 | 3,592 | 27 |
| Attributable to non-controlling shareholders | 8 | 62 | (10) |
| **c) Profit sharing** | **67.7%** | **32.2%** | **0.1%** |

| Statement of Income for 2011 | Banking (1) (2) | Insurance, private pension plans and certificated savings plans (2) (3) | Other operations, adjustments and eliminations (4) |
|---|---|---|---|
| Net interest income | 31,380 | 3,275 | 956 |
| Net fee and commission income | 11,990 | 1,080 | (2,235) |
| Net gains/(losses) on financial assets held for trading | 779 | (1) | (1,386) |
| Net gains/(losses) on financial assets available for sale | (25) | 213 | 177 |
| Net gains/(losses) of foreign exchange operations | 1,044 | - | 1,582 |
| Income from insurance and pension plans | - | 3,075 | 1 |
| Impairment of loans and advances | (9,275) | - | 979 |
| Personnel Expenses | (10,083) | (951) | (117) |
| Other administrative expenses | (10,806) | (1,052) | 380 |
| Depreciation and amortization | (1,615) | (78) | (427) |
| Other operating income/(expenses) | (4,933) | (482) | 556 |
| **Operating income** | **8,456** | **5,079** | **466** |
| Income from equity interests in affiliates | 585 | 100 | (3) |
| **Income before taxes and profit sharing of non-controlling shareholders** | **9,041** | **5,179** | **463** |
| Income tax and social contribution | (1,306) | (1,850) | (438) |
| **Net income for the period** | **7,735** | **3,329** | **25** |
| Attributable to controlling shareholders | 7,725 | 3,201 | 32 |
| Attributable to non-controlling shareholders | 10 | 128 | (7) |
| **c) Profit sharing** | **69.8%** | **30.0%** | **0.2%** |

| Statement of Income for 2010 | Banking (1) (2) | Insurance, private pension plans and certificated savings plans (2) (3) | Other operations, adjustments and eliminations (4) |
|---|---|---|---|
| Net interest income | 28,224 | 2,824 | 1,724 |
| Net fee and commission income | 10,451 | 975 | (2,031) |
| Net gains/(losses) on financial assets held for trading | 906 | (1) | 1,307 |
| Net gains/(losses) on financial assets available for sale | 98 | 419 | 238 |

| | | | |
|---|---|---|---|
| Net gains/(losses) of foreign exchange operations | 337 | - | (1,020) |
| Income from insurance and pension plans | - | 2,554 | 23 |
| Impairment of loans and advances | (6,355) | - | 599 |
| Personnel Expenses | (7,944) | (763) | (87) |
| Other administrative expenses | (9,019) | (1,046) | 304 |
| Depreciation and amortization | (1,539) | (1) | (426) |
| Other operating income/(expenses) | (6,112) | (354) | 463 |
| **Operating income** | **9,047** | **4,606** | **1,094** |
| Income from equity interests in affiliates | 324 | 148 | 105 |
| **Income before taxes and profit sharing of non-controlling shareholders** | **9,371** | **4,755** | **1,199** |
| Income tax and social contribution | (2,416) | (1,772) | (1,084) |
| **Net income for the period** | **6,955** | **2,983** | **115** |
| Attributable to controlling shareholders | 6,944 | 2,913 | 83 |
| Attributable to non-controlling shareholders | 11 | 70 | 32 |
| **c) Profit sharing** | **69.2%** | **29.7%** | **1.1%** |

(1) The “Financial” segment is represented by: financial institutions, holding companies (which basically manage financial funds), credit card and asset management companies;

(2) Balances of equity accounts, income and expenses are being eliminated among companies of the same segment;

(3) The “Insurance Group” segment is represented by insurance, pension plan and capitalization companies; and

(4) Represent eliminations among companies of different segments, as well as operations carried out in Brazil and abroad.

# 7.3 - Information on products and services relating to the operational segments

**a) Characteristics of the product process**

We present below some characteristics of the main products and services of Banco Bradesco.

**<u>Banking</u>**

**Deposit-taking**

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

• Non-interest-bearing checking accounts, such as:

• **Easy Account** (*Conta Fácil*) – customers have a checking account and a savings account under the same bank account number, using the same card for both accounts;

• **Click Account** (*Click Conta*) – no-fee checking account for minors (from 11 to 17 years old), with exclusive website and debit card, automatic pocket money service and free online courses, among other benefits;

• **Academic Account** (*Conta Universitária*) – low fee checking account for college students, with subsidized credit conditions, exclusive website and free online courses, among other benefits; and

• **Cell Phone Bonus Account** (*Conta Bônus Celular*) – monthly checking account fees are awarded as bonus for the customers' prepaid cell phone.

• Traditional savings accounts, which currently earn the Brazilian reference rate, or *taxa referencial*, known as the "TR," plus 6.2% annual interest in the case the SELIC rate is higher than 8.5% *per annum* or TR plus 70% of the SELIC rate if the SELIC rate is lower than 8.5% *per annum*;

• Time deposits, which are represented by Bank Deposit Certificates (*certificados de depósito bancário* – or "CDBs"), and earn interest at a fixed or floating rate; and

• Deposits exclusively from financial institutions, which are represented by Interbank Deposit Certificates *(certificados de depósito interbancário* – or "CDIs"*)*, and earn the interbank deposit rate.

As of December 31, 2012, we had 25.7 million checking account holders, 24.2 million of which were individual account holders and 1.5 million corporate account holders. As of the same date, we had 48.6 million savings accounts. In the same period, our deposits (excluding deposits from financial institutions) totaled R$210.7 billion and we had a 13.9% share of the Brazilian savings deposit market, according to the latest information available at the Central Bank in December 2012.

We offer our customers certain additional services, such as:

- "Identified deposits," which allow our customers to identify deposits made in favor of a third party by using a personal identification number; and

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

## Loans and advances to customers

Our loans and advances to customers, mostly consumer credit, corporate and agricultural-sector loans, totaled R$289.7 billion as of December 31, 2012.

#### Loans and advances to consumers

Our significant volume of individual loans enables us to avoid concentration on any individual loans on the performance of our portfolio and helps build customer loyalty. They consist primarily of:

- short-term loans, extended through our branches to checking account holders and, within certain limits, through our ATM network. These short-term loans are on average repaid in four months with an average interest rate of 6.6% per month as of December 31, 2012;

- vehicle financings are on average repaid in 15 months with an average interest rate of 1.3% per month as of December 31, 2012; and

- overdraft loans on checking accounts (or "Cheque Especial"), which are on average repaid in one month, at interest rates varying from 8.1% to 8.8% per month as of December 31, 2012.

We also provide revolving credit facilities and traditional term loans. As of December 31, 2012, we had outstanding advances, vehicle financings, consumer loans and revolving credit totaling R$69.1 billion, or 23.9% of our portfolio of loans and advances as of that date. On the basis of loans outstanding on that date, we had a 12.9% share of the Brazilian consumer loan market, according to information published by the Central Bank.

Banco Bradesco Financiamentos ("Bradesco Financiamentos") offers direct-to-consumer credit and leasing for the acquisition of vehicles and payroll-deductible loans to the public and private sectors in Brazil.

Together with BF Promotora de Vendas Ltda. ("BF Promotora"), under the "Bradesco Financiamentos" brand, we offer financing and/or leasing for vehicles through our extensive network of correspondents in Brazil, which includes retailers and dealers of light vehicles, trucks and motorcycles.

Under the “Bradesco Promotora” brand, we offer payroll-deductible loans to social security retirees and pensioners, public-sector employees, military personnel and private-sector companies sponsoring plans, and other aggregated products (insurance, capitalization bonds, cards, purchasing consortiums, and others).

#### Real estate financing

As of December 31, 2012, we had 69,857 outstanding real estate loans. Among the facilities the production of which was financed to construction and incorporation companies by financial entities, we accounted for a participation of 35.1%, according to data made available by the Central Bank. As of December 31, 2012, the aggregate outstanding amount of our real estate loans amounted to R$22.3 billion, representing 7.7% of our portfolio of loans and advances.

Real estate financing is made through the Housing Finance System – SFH *(Sistema Financeiro Habitacional)*, by the Housing Mortgage Portfolio – CHH *(Carteira Hipotecária Habitacional)* or by the Commercial Mortgage Portfolio – CHC *(Carteira Hipotecária Comercial)*. Loans from SFH or CHH feature variable-installment repayments and annual interest rates ranging from 8.9% to 11.0% plus TR, or 13.0% from CHC.

Residential SFH and CHH loans are to be repaid within 30 years and commercial loans within 10 years.

Our individual loans made for construction purposes are repaid within 360 months, with 24 months to completion of construction, a two-month grace period and the remainder for repaying the loan. Payments are made at the interest rate of 10.5% *per annum* plus TR variation for real estate falling into the SFH rules, or interest rates of 11.0% *per annum* plus TR variation for real estate falling into the CHH.

We also extend corporate financing for builders under the SFH. These loans are for construction purposes and typically specify 36 months for completion of construction work and repayments starting within 36 months after official registration of the building. These loans are charged the TR plus an annual interest rate of 12 to 13% during the construction stage for SFH loans, and TR plus an annual interest rate of 14% for CHH loans.

Central Bank regulations require us to provide real estate financing in the amount of at least 65% of the balance of our savings accounts. In addition to real estate financing, mortgage notes, charged-off real estate financing, and 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.

In November and December 2012, the Central Bank authorized and defined the conditions for the issuance  of real estate credit notes through Investment banks.

**Microcredit**

We extend microcredit to low-income individuals and small companies, in accordance with Central Bank regulations requiring banks to use 2% of their cash deposits to provide microcredit loans. We started providing microcredit loans in August 2003. As of December 31, 2012, we had 83,778 microcredit loans outstanding, totaling R$80.3 million.

In accordance with Central Bank regulations, most microcredit loans are charged at a maximum effective interest rate of 2% per month. However, microcredit loans for certain types of business or specific production have a maximum effective interest rate of 4% per month. The CMN requires that the maximum amount loaned to a borrower be limited to (i) R$2,000 for individuals in general, (ii) R$5,000 for individuals developing certain professional, commercial or industrial activities or for micro companies, and (iii) R$40,000 for microcredit loans in certain segments. In addition, microcredit loans must be not for less than 120 days, and the origination fee must be 2.0% to 3.0% of the loan value.

**BNDES onlending**

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, the federal government's development bank, or (ii)*Agência Especial de Financiamento Industrial* (Finame), or "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 BNDES and Finame onlending transactions, they are always secured.

According to BNDES, we disbursed R$12.4 billion, 67.6% of which was loaned to micro, small and medium-sized companies in 2012. Our BNDES onlending portfolio totaled R$35.7 billion as of December 31, 2012, and accounted for 12.3% of our portfolio of loans and advances at that date.

**Other local commercial loans**

We provide traditional loans for the ongoing needs of our corporate customers. We had R$91.1 billion of outstanding other local commercial loans, accounting for 31.4% of our portfolio of loans and advances as of December 31, 2012. We offer a range of loans to our Brazilian corporate customers, including:

- short-term loans of 29 days or less;
- working capital loans to cover our customers' cash needs;
- guaranteed checking accounts and corporate overdraft loans;
- discounting trade receivables, promissory notes, checks, credit card and supplier receivables, and a number of other receivables;

- financing for purchase and sale of goods and services;
- corporate real estate financing;
- investment lines for acquisition of assets and machinery; and
- guarantees.

These lending products generally bear an interest rate of 0.8% to 8.3% per month.

**Rural loans**

We extend loans to the agricultural sector by financing demand deposits, BNDES onlendings and our own funds, in accordance with Central Bank regulations. As of December 31, 2012, we had R$11.6 billion in outstanding rural loans, representing 4.0% of our portfolio of loans and advances. In accordance with Central Bank regulations, loans arising from compulsory deposits are paid a fixed rate. The annual fixed rate was 5.5% as of December 31, 2012. Repayment of these loans generally coincides with agricultural harvest and principal is due when a crop is sold, except for BNDES onlending for rural investment which is repaid within five years with 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 July 2012, Central Bank regulations require us to use at least 34% of our checking account deposits to provide loans to the agricultural sector. If we do not reach 34%, we must deposit the unused amount in a non-interest-bearing account with the Central Bank.

**Leasing**

According to ABEL, as of December 31, 2012, our leasing companies were among the sector leaders, with a 19.5% market share. According to this source, the aggregate discounted present value of the leasing portfolios in Brazil as of December 31, 2012 was R$41.3 billion.

As of December 31, 2012, we had 319,721 outstanding leasing agreements totaling R$8.0 billion, representing 2.8% of our portfolio of loans and advances.

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 trucks, cranes, aircraft and heavy machinery. As of December 31, 2012, 66.8% of our outstanding leases were vehicle leases, compared with 56.7% in the Brazilian leasing market as a whole.

We conduct our leasing operations through our primary leasing subsidiary, Bradesco Leasing and also through Bradesco Financiamentos.

We obtain funding for our leasing operations primarily by issuing debentures and other securities in the domestic market.

As of December 31, 2012, Bradesco Leasing had R$67.7 billion of debentures outstanding in the domestic market. These debentures will mature in 2028 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 relating to products whose average life of five years or less, and 36 months for transactions for those with an average useful life of five years or more. There is no legal maximum term for leasing contracts. As of December 31, 2012, the remaining average maturity of contracts in our lease portfolio was approximately 51 months.

**Credit cards**

In 1968, Bradesco was the first bank to issue credit cards in Brazil, and as of December 31, 2012, we were one of Brazil's largest card issuers with a base of 93.1 million credit and private-label cards. We offer Visa, American Express, Elo, MasterCard credit and private label cards, which are accepted in over 200 countries.

We signed an agreement with Claro (mobile network operator) to operate in the mobile payment segment (M-Payment). Among other initiatives, we and Claro launched the virtual wallet (prepaid card operated via mobile phone) and the use of NFC (Near Field Communication) technology in transactions via mobile phone. In December 2012, we started to issue debit cards with NFC technology for the Prime Segment customers, in addition to announcing the development of the same NFC technology for mobile phones.

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; and
- interest on cash advances to cover future payments owed to establishments that accept credit cards.



Real estate financing

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

- cards issued for use restricted to Brazil;
- credit cards accepted nationwide and internationally;
- credit cards directed toward high net worth customers, such as Gold, Platinum and Infinite/Black from Visa, American Express and MasterCard brands;
- cards that combine credit and debit features in a single card, which may be used for traditional banking transactions and shopping;
- corporate credit cards accepted nationwide and internationally;
- co-branded credit cards, which we offer through partnerships with companies;
- "affinity" credit cards, which we offer through associations, such as sport clubs and non-governmental organizations;
- "CredMais" credit cards for employees of our payroll processing customers, which have more attractive revolving credit fees, and "CredMais INSS" credit cards for INSS pensioners and other beneficiaries with lower financing interest rates;
- private label credit cards, which we only offer to customers of retailers, designed to increase business and build customer loyalty for the corresponding retailer, which may or may not have a restriction on making purchases elsewhere;
- “CPB” and “EBTA,” virtual cards for corporate customers with the management and control of airline ticket expenses;
- Bradesco’s card for transportation companies, shippers, risk management companies and truck drivers, with both prepaid and debit card functionalities;
- "Contactless," which enable customers to simply place the card next a scanner to make a payment;
- "MoneyCard – Visa Travel Money and Global Travel Card" are prepaid international cards designed for foreign currency transactions, which target international travel;
- “Agrocard Bradesco” – created for farmers and combines the features of a credit card and a debit card. Holders of these cards can use them to buy farm products in stores authorized by Cielo;
- “Corporate Mastercard Black card” – created for executives offering exclusive services including Priority Pass, which provides access to more than 600 VIP lounges in airports, and Showpass, which facilitates the purchase of theatre tickets and promotions through Plataforma Black;
- “Prepax Presente prepaid cards” – issued by Alelo, a modern, practical and safe alternative for gifts in weddings, birthdays and graduations, among other events. The purchaser establishes the credit amount and is given the option of selecting a commemorative theme or customizing the card with a personal

image;

- "Elo Food, Meal and Christmas Meal benefit cards" – in addition to reducing operating costs, the value proposal of this business is to enhance the efficiency of payment means, with 100% of virtual transactions, by offering more security and convenience to companies and workers; and

- Utility Bills and Taxes Payment Services (via bar code) by way of the credit card option, in the internet banking channel. With this service, customers have up to 40 days to concentrate the payment of bills on a single date and also generate points/credits to the Rewards Programs they have with their Bradesco Cards.

As of December 31, 2012, we had more than 62 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 customers and offer our credit card customers banking products, such as financing and insurance.

The following table shows credit cards we issued in Brazil for the years indicated:

| | | | In million |
|---|---|---|---|
| **Card base** | **2012** | **2011** | **2010** |
| Credit | 93.1 | 91.3 | 86.5 |

| | | | In million |
|---|---|---|---|
| **Revenue** | **2012** | **2011** | **2010** |
| Credit | 103,542.5 | 89,624.1 | 75,561.0 |

| | | | In million |
|---|---|---|---|
| **Number of transactions** | **2012** | **2011** | **2010** |
| Credit | 1,225.6 | 1,105.8 | 959.1 |

**Debit cards**

We first issued 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."* Bradesco debit cardholders can use them to purchase goods and services at establishments or make withdrawals through our self-service network in Brazil or the "Plus" network worldwide. Purchase amounts are debited to the cardholder's Bradesco account, thus eliminating the inconvenience and bureaucracy of writing checks.

**Management of receipts and payments**

In order to meet the cash management needs of our customers in both public and private sectors, we offer many electronic solutions for receipt and payment management, supported by a vast network of branches, bank correspondents and electronic channels, all of which aim to improve speed and security for customer data and transactions.

These solutions include: (i) collection and payment services and (ii) online resource management enabling our customers to pay suppliers, salaries, and taxes and other levies to governmental or public entities.

These solutions, which can also be customized, facilitate our customers' day-to-day tasks and help to generate more business.

We also earn revenues from fees and investments related to collection and payment processing services and, also by funds in transit received up to its availability to the related recipients.

**Global cash management**

Global Cash Management aims at structuring solutions to foreign companies operating in the Brazilian market and Brazilian companies making business in the international market. By way of customized solutions, partnerships with international banks and access to the SWIFT network, we offer products and services for carrying out the cash management of these companies.

**Solutions for receipts and payments**

In 2012, we processed 857 million receipts through our collection system, checks custody service, identified deposits and credit orders via our teleprocessing system (credit order by teleprocessing or OCT), which was 8.6% more than in the same period of 2011.

In 2012 the volume processed through virtual means (Pag-For Bradesco, Net Empresa and Online Tax Payment) was 545 million documents, which represented a 20.9% increase as compared to the same period of 2011.

**Production chain solutions**

The Production Chain area seeks to search for customized solutions for our customers, tailored to the characteristics of each sector and economic activity. The purpose of this operation is to facilitate the relationship and interconnection among all production chain elements – anchor companies, their customers, suppliers, distributors, service providers, and employees, among others. Accordingly, it is possible to expand the customer base, increase business volume and strengthen the customer's loyalty to the Bank, by way of structured and driven actions.

**Franchising solutions**

The Franchising area seeks to search for customized solutions driven to the characteristics and needs of the Brazilian franchising sector (franchisers and franchisees). The purpose of this operation is the centralized servicing to all franchisees of the networks accredited to the Bank, thus improving the number of customers and the business volume in this significant sector of the Brazilian economy.

**Public authority solutions**

Public administration also requires agility and technology in its everyday activities. We have a business area specifically to serve this market, which offers specialized services to entities and bodies of the Executive, Legislative and Judiciary branches at 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 and state police forces) and notary officers and registrars, identifying business opportunities and structuring customized solutions.

Our exclusive website developed for these customers (www.bradescopoderpublico.com.br) poses corporate solutions for federal, state and municipal governments for payments, receipts, human resources and treasury services, meeting the needs and expectations of the Executive, Legislative and Judiciary branches. The portal also features exclusive facilities for public employees and the military showing all of our products and services for these customers.

The relationship works through exclusive service platforms located nationwide, with specialized relationship managers to provide services to these customers.

In 2012 the Bank took part in bidding processes sponsored by the Brazilian Government and was successful in over 90% of these processes. Furthermore, we became leaders in payments of INSS (Social Security National Service) benefits, with approximately 7.3 million retirees and pensioners.

**Asset management**

We administer and manage assets by way of:

- mutual funds;
- individual and corporate investment portfolios;
- pension funds, including assets guaranteeing the technical provisions of *Bradesco Vida e Previdência*;
- insurance companies, including assets guaranteeing the technical provisions of *Bradesco Seguros*; and
- Receivable funds (FIDCs – *Fundos de Investimento em Direitos Creditórios*), FIIs (Real Estate Investment Funds) and private equity funds (FIPs – *Fundos de Investimento em Participações*).

On December 31, 2012, we managed 1,373 funds and 231 portfolios, providing services to 3.2 million investors. These funds comprise a wide group of fixed-income, non-fixed income and multimarket funds, among others.

The following tables show our portfolio of assets under management by number of investors, and number of investment funds and managed portfolios for each period.

| | | | **In million** |
|---|---|---|---|
| **Distribution of Assets** | **Dec12** | **Dec11** | **Dec10** |
| **Investment funds - Total** | **406,714** | **316,207** | **275,607** |
| Fixed income | 369,287 | 283,633 | 242,751 |
| Equities | 28,646 | 26,471 | 27,227 |
| Quotas of third-party funds | 8,782 | 6,103 | 5,629 |
| **Managed portfolios - Total** | **35,117** | **19,163** | **20,101** |
| Fixed income | 24,573 | 10,550 | 10,459 |
| Equities | 9,301 | 7,447 | 8,470 |
| Quotas of third-party funds | 1,242 | 1,166 | 1,171 |
| **Grand total** | **441,831** | **335,370** | **295,707** |

| | 12/31/2012 | | 12/31/2011 | | 12/31/2010 | |
|---|---|---|---|---|---|---|
| | **Number** | **Quotaholders** | **Number** | **Quotaholders** | **Number** | **Quotaholders** |
| Investment funds | 1,373 | 3,159,302 | 1,319 | 3,159,749 | 1,146 | 3,125,605 |
| Managed portfolios | 231 | 469 | 240 | 441 | 221 | 497 |
| **Grand total** | **1,604** | **3,159,771** | **1,559** | **3,160,190** | **1,367** | **3,126,102** |

Total managed assets increased by 31.7% in 2012. This increase was mainly in the “fixed-income” segment, which management fees are lower than those of the “non-fixed-income” segment.

Our products are mostly distributed through our branch network, banking service by phone and the investor website on Internet, the “ShopInvest” (www.shopinvest.com.br).

**Services related to capital markets and investment banking activities**

As the Organization's investment bank, Bradesco BBI originates and executes mergers and acquisitions, and originates, structures, syndicates and distributes fixed-income and equity capital market transactions in Brazil and abroad.

In 2012, Bradesco BBI advised customers on over 170 transactions across a range of investment banking products, totaling R$155.4 billion.

**Equities**

In variable income offers, Bradesco BBI closes the year of 2012 active in IPOs and *Follow-ons* that joined the market, where it achieved the second highest operation in ANBIMA Variable Income ranking. Taking into account the public offerings registered with CVM in 2012, it took part as an underwriter and Joint Bookrunner in: follow-on for Qualicorp in the amount of R$759 million; IPO for Banco BTG Pactual, the largest IPO in Brazil and one of the largest in the world in 2012, in the amount of R$3.2 billion; underwriter and Joint Bookrunner of the IPO for BR Pharma, in the amount of R$553 million; underwriter and Joint Bookrunner of the follow-on for Suzano Celulose e Papel, in the amount of R$1.5 billion; Equatorial Energia, in the amount of R$1.4 billion and Marfrig Alimentos, in the amount of R$1.1 billion.

**Fixed income**

With significant transactions carried out, Bradesco BBI closes 2012 with an outstanding presence in the fixed-income segment. In the rankings for the year, it was the leader in terms of value, according to ANBIMA ranking. In 2012, it coordinated 107 domestic-market offerings totaling more than R$46 billion.

In the international broker-dealer market, Bradesco BBI is constantly expanding its presence. In 2012, it acted as “Joint Bookrunner” for 14 bond issues, which exceeded the amount of US$12 billion.

Real estate financing

**Structured operations**

Bradesco BBI develops structures and solutions to its customers, in terms of financing, by using a number of funding tools by companies, including those involving securitization. Additionally, Bradesco BBI stands out in the acquisition finance segment. Notable examples include the financing by Cosan to acquire Comgás in the amount of R$3.3 billion, and the financing by Intercement to acquire Cimpor in the amount of R$1.5 billion.



Real estate financing

In 2012, it held outstanding positions in the ranking published by ANBIMA, in securitization and the issuance of real estate receivables certificates (CRI), when it structured 13 CRIs, in the amount of R$1.3 billion.

Bradesco also coordinated two significant offerings of real estate funds in the capital market, the “BB Progressivo II Fundo de Investimento Imobiliário” and the “FII BTG Pactual Corporate Office Fund” in the amount of R$3.6 billion.

**Mergers and acquisitions**

Bradesco BBI provides financial advisory services in Brazil and abroad, to Brazilian and foreign customers in mergers, acquisitions, sales of companies and assets, private placement, incorporation of joint ventures, financial and corporate restructurings and privatizations. In 2012 Bradesco BBI consolidated its position as one of main banks in the M&A segment in Brazil, ranking 2$^{nd}$ among the banks which most provide advisory services to mergers and acquisitions in Brazil, according to ANBIMA.

**Project finance**

Bradesco BBI offers financial advisory and structuring services to Project and Corporate Finance projects. Bradesco BBI has excellent relationships with various development agencies such as Banco Nacional de Desenvolvimento ("BNDES"), Banco Interamericano de Desenvolvimento ("BID") and International Finance Corporation ("IFC"), also searching for solutions through credit and capital markets in the local and foreign segments.

Bradesco BBI operates in power generation and transmission sectors, port complexes, mining operations, logistics, in addition to oil and gas. In 2012 Bradesco BBI took part in the financial advisory and structuring of over 30 projects, which totaled approximately R$60 billion in investments.

**Intermediation and trading services**

Bradesco S.A. CTVM (or "Bradesco Corretora") trades stocks, options, stock lending, public offerings and forwards. It also offers a wide range of products such as Brazilian government securities (under the *Tesouro Direto* program), BM&F trading and real estate funds, which are tailored to the needs of high net-worth individuals, major corporations and institutional investors.

In 2012, Bradesco Corretora traded more than R$86.0 billion in the BM&FBOVESPA equities market and the exchange ranked it 15th in Brazil in terms of total trading volume.

In addition, in the same period, Bradesco Corretora traded 27,412,044 futures, swaps and options totaling R$2,595.0 billion on the BM&FBOVESPA. According to the BM&FBOVESPA, in 2012, Bradesco Corretora ranked 9th 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 also the first in the market to provide its customers with DMA-Direct Market Access. DMA is an innovative computer order routing service that enables investors to buy or sell assets directly in BM&FBovespa's market, with all convenience and security, without leaving home or the office.

In 2012, BM&FBOVESPA, through its Operational Qualification Program, awarded the five Qualification Seals (Agro Broker, Carrying Broker, Execution Broker, Retail Broker and Web Broker) to Bradesco Corretora, indicating excellence in futures transactions.

Bradesco Corretora offers its customers the possibility to trade securities on the Internet through its "Home Broker" service. In 2012, "Home Broker" trading totaled R$10.5 billion, or 1.9% of all Internet transactions on BM&FBovespa, and Bradesco Corretora was the 15th largest Internet trader in the Brazilian market.

Bradesco Corretora offers its customers a full range of services in investment analysis with coverage of the main sectors and companies of the Brazilian market. With a team of 29 analysts, it is composed of sector specialists (senior and assistant analysts), who fairly disclose their opinions to the customers by way of follow-up reports and instruction guides, with a wide range of projections and comparison multiples. Bradesco Corretora also has a team of its own economists dedicated to the customers' specific demands, focused on the stock market. Over 700 reports, in English and Portuguese, are monthly forwarded to the most important investors domiciled in Brazil, the United States, Europe and Asia.

Through Bradesco Corretora's "Share Rooms Project," our customers have access to professionals that are able to advise on investing in the BM&FBOVESPA. Our constantly-expanding network of share rooms currently consists of 15 share rooms located throughout Brazil. This means that Bradesco Corretora provides direct customer service and closer relations with customers, training and certifying employees for a range of operations. This channel is very profitable and enjoys a high-level of take-up from investors, making for closer relations with our network of branches as loyal customers concentrate their funds with us.

Bradesco Corretora also offers its services as a representative of non-resident investors for transactions in the financial and capital markets, in accordance with CMN Resolution No. 2,689/00, which we refer to as "Resolution No. 2,689/00."

**Custody, depositary and controllership services**

In 2012, we were one of the main providers of capital market services and retained leadership in the domestic asset custody market, according to the ANBIMA ranking. Our modern infrastructure and specialized team offer a broad range of services such as: asset registration (shares, BDR - Brazilian Depositary Receipts, investment fund shares, Certificates of Real Estate Receivables or CRIs, and debentures); qualified custody for securities; custody of shares underlying Depositary Receipts (DRs); controllership services for investment funds ("CVM Instruction No. 409" Funds and Structured Funds) and managed portfolios; trustee and management services for investment funds; offshore funds; custody and representation for foreign investors; 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 10 quality related and three protection and data privacy certifications.

As of December 31, 2012, Bradesco Custódia offered:

• Controller and custody services for investment funds and managed portfolios and fiduciary asset management involving:

• R$973.2 billion in assets under custody for customers using custody services, as measured by methodology used for the ANBIMA ranking;

• R$1.2 trillion in equity investment funds and portfolios using our controller services, as measured by methodology used for the ANBIMA ranking;

• 26 registered DR programs with a market value of R$111.1 billion; and

- R$251.2 billion total assets under management in investment funds through BEM DTVM.

- Asset registration:

- Bradesco's share registration system comprised 246 companies, with a total of 4.5 million shareholders;

- our debenture registration system contained 232 companies with a total market value of R$216.0 billion;

- our fund share registration system contained 268 investment funds with a market value of R$52.8 billion; and

- we managed 25 registered BDR programs, with a market value of R$791.8 million.

**International banking services**

As a private commercial bank, we offer a wide range of international services, such as foreign exchange transactions, foreign trade finance, lines of credit and banking. As of December 31, 2012, our international banking services included:

- New York City, a branch and Bradesco Securities Inc., our subsidiary brokerage firm, or "Bradesco Securities U.S.," and our subsidiary Bradesco North America LLC, or "Bradesco North America;"

- London, Bradesco Securities U.K., our subsidiary, or "Bradesco Securities U.K.;"

- Cayman Islands, two Bradesco branches and our subsidiary, Cidade Capital Markets Ltd., or "Cidade Capital Markets;"

- Argentina, Banco Bradesco Argentina S.A., our subsidiary, or "Bradesco Argentina;"

- Luxembourg, Banco Bradesco Europa S.A. (current name of Banco Bradesco Luxemburgo S.A.) our subsidiary, or "Bradesco Europe;"

- Japan, Bradesco Services Co. Ltd., our subsidiary, or "Bradesco Services Japan;"

- in Hong Kong, our subsidiary Bradesco Trade Services Ltd, or "Bradesco Trade;" and also Bradesco Securities Hong Kong or "Bradesco Hong Kong;" and

- in Mexico, our subsidiary Bradescard México, Sociedad de Responsabilidad Limitada, or "Bradescard México."

Our international transactions are coordinated by our foreign exchange department in Brazil with support from 29 operational units specializing in foreign exchange businesses located at major exporting and importing areas nationwide.

**Foreign branches and subsidiaries**

Our foreign branches and subsidiaries are principally engaged in trade finance for Brazilian companies. Bradesco Europe 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 customers and extend financing to Brazilian and non-Brazilian customers. Total assets of the foreign branches, excluding transactions between related parties, were R$122.1 billion, as of December 31, 2012, denominated in currencies other than the *real*.

Funding required for import and export finance is mainly obtained from the international financial community, through credit lines granted by correspondent banks abroad. As an additional source of funding, we issued debt securities in international capital markets which amounted to US$15.4 billion in 2012.

**Bradesco Argentina** – To expand 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 locally and, to a lesser extent, to Argentinean companies doing business with Brazil. In order to start its operations, we capitalized that subsidiary with R$54.0 million from March 1998 to February 1999, and a further R$27.2 million in May 2007. In October 2011, we made another capital injection in the amount of R$70.1 million. As of December 31, 2012, Bradesco Argentina recorded R$154.5 million of total assets.

**Bradesco Europe (Bradesco Luxembourg's current business name)** – In April 2002, we acquired full 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 the surviving entity was named Banco Bradesco Luxembourg. In January 2011, we made a capital injection of US$200 million. As of December 31, 2012, its total assets were R$4.4 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, 2012, its assets totaled over R$1.5 million.

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

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

- The focus of Bradesco Securities U.S. is on facilitating the purchase and sale of shares, primarily in the form of ADRs and common shares ADRs. It is also an authorized dealer in bonds, commercial paper and deposit certificates, among other securities, and may provide investment advisory services. Currently, we act as custodian for 21 ADR programs of Brazilian companies traded on the New York Stock Exchange. As of December 31, 2012, Bradesco Securities U.S. had assets of R$58.7 million;

- Bradesco Securities U.K. focuses on the intermediation of equities and fixed income operations in the primary and secondary markets for companies needing to access international capital markets; it also operates in the distribution of BRAM (Bradesco Asset Management) funds in the European market. On December 31, 2012, Bradesco Securities U.K. had assets of R$16.2 million; and

- Bradesco Securities H.K. focuses on the trading of ADRs and public and private securities issued by Brazilian companies to global institutional investors. On December 31, 2012, Bradesco Securities H.K. had assets of R$9.1 million.

**Cidade Capital Markets -** In February 2002, Bradesco acquired Cidade Capital Markets in Grand Cayman, due to the acquisition of its controller in Brazil, Banco Cidade. As of December 31, 2012, Cidade Capital Markets had R$79.9 million in assets.

**Bradesco North América LLC –** was incorporated in August 2011 and will be used as a holding company focused on Bradesco's investments in non-bank businesses in the United States. As of December 31, 2012, its total assets was R$7.3 million.

**Banking operations in the United States**

In January 2004, the United States Federal Reserve Bank authorized us to operate as a financial controlling company in the United States. As a result, we may do business in the United States directly or through a subsidiary, and, among other lines, may sell insurance products and certificates of deposit, provide underwriting services, act as advisors on private placements, provide portfolio management and merchant banking services and manage mutual fund portfolios.

**Import and export finance**

Our Brazilian foreign-trade related business consists of export and import finance.

We provide foreign currency payments directly to foreign exporters on behalf of Brazilian importers, which are linked to the receipt of local currency payments by the importers. In export finance, exporters obtain advances in *reais* on closing an export forex contract for future receipt of foreign currency on the contract due date. Export finance arrangements prior to shipment of goods are known locally as Advances on Exchange Contracts or "ACCs," and the sums advanced are used to manufacture goods or provide services for export. If advances are paid after goods or services have been delivered, they are referred to as Advances on Export Contracts, or "ACEs."

Other types of export finance include export prepayments, onlendings from BNDES-EXIM funds, export credit notes and bills (referred to locally as "NCEs" and "CCEs"), and the PROEX rate equalization program.

Our foreign trade portfolio is funded primarily by credit lines from correspondent banks. We maintain relations with various American, European, Asian and Latin American financial institutions for this purpose, using our network of approximately 1,000 correspondent banks abroad, 74 of which extended lines of credit as of December 31, 2012.

As of December 31, 2012, our international unit had a balance of R$28.0 billion in export financing and R$8.2 billion in import financing and international finance.The volume of our foreign exchange contracts for exports reached US$45.2 billion in 2012. In the same period, the volume of our foreign exchange contracts for imports reached US$35.2 billion. In 2012, based on Central Bank data, we reached a 19.2% market share of trade finance for Brazilian exports and 16.4% for imports.

**Foreign exchange products**

In addition to import and export finance, our customers have access to a range of services and foreign exchange products such as:

- purchasing and selling travelers checks and foreign currency paper money;
- cross border money transfers;
- advance payment for exports;
- accounts abroad in foreign currency;
- domestic currency accounts for foreign domiciled customers;
- cash holding in other countries;
- collecting import and export receivables;
- cashing checks denominated in foreign currency;
- foreign loans to customers (Decree-Law No. 4,131/62);
- service agreements – receiving funds from individuals abroad via money orders;
- prepaid cards with foreign currency (individuals);
- structured foreign currency transactions through our foreign units; and
- international financial clearance certificate.

**Purchasing consortiums**

In Brazil, persons or entities that wish to acquire certain goods may set up a group known as a "consortium," in which members pool their resources to facilitate the purchase of certain consumer goods. The purpose of a consortium is solely the acquisition of goods, as Brazilian law prohibits the formation of consortia for investment purposes.

Our purchasing consortium company (Bradesco Consórcios) manages plans for groups of purchasers buying real estate, automobiles and trucks or tractors. In 2003, our subsidiary Bradesco Consórcios initiated the sale of consortium quotas, to our customers. According to the Central Bank, in 2004, Bradesco Consórcios became the leader in the real estate segment and, in December 2004, it also became the leader in the automobile segment. In 2008, Bradesco Consórcios became the leader in the truck and tractor segment. As of December 31, 2012, Bradesco Consórcios registered total sales of over 736,202 active quotas in the three segments, with total revenues of over R$29.7 billion and net income of R$387.7 million.

**Insurance, Pension Plans and Capitalization Bonds**

**Life and personal accident insurance**

We offer life and personal accident insurance, as well as insurance against miscellaneous events, such as job loss, through our subsidiary Bradesco Vida e Previdência. As of December 31, 2012, there were 23.5 million life insurance policyholders.

**Health insurance**

The health insurance policies cover medical/hospital expenses. We offer health insurance policies through Bradesco Saúde and its subsidiaries for small, medium or large companies wishing to provide benefits for their staff.

On December 31, 2012, Bradesco Saúde and its subsidiary Mediservice Administradora de Planos de Saúde S.A (“Mediservice”) had more than 3.9 million beneficiaries covered by company plans and individual/family plans. Approximately 57 thousand companies in Brazil pay into plans provided by Bradesco Saúde and its subsidiaries, including 50 of the top 100.

Bradesco Saúde currently has one of the largest networks of providers of health services in Brazil. As of December 31, 2012, it included 9,475 laboratories, 12,163 specialized clinics, 14,445 physicians, 2,552 hospitals located throughout the country.

**Automobiles, property/casualty and liability insurance**

We provide automobile, property/casualty and liability insurance through our subsidiary Bradesco Auto/RE. Our automobile insurance covers losses arising for vehicle theft, damage to the passenger and third-party injury. Retail property/casualty insurance is for individuals, particularly those with residential and/or equipment related risks and small- and medium-sized companies whose assets are covered by multi-risk business insurance.

Of the mass property/casualty lines for individuals, our residential note ("Bilhete Residencial") is a relatively affordable and highly profitable product. For corporate customers, Bradesco Auto/RE offers Bradesco Seguro Empresarial (business insurance), which is adapted to meet our customers' and business needs. For corporate property/casualty and liability insurance, Bradesco Auto/RE has an exclusive highly specialized team that provides large business groups with services and products tailor-made to the specific needs of each policyholder. Top sellers in this segment are insurance policies for transportation, engineering, operational and oil risks.

As of December 31, 2012, Bradesco Auto/RE had 1.6 million insured automobiles and 2.3 million property/casualty policies and notes, making it one of Brazil's main insurers.

**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 known as VGBL and PGBL are exempted from withholding taxes on income generated by the fund portfolio.

As of December 31, 2012, Bradesco Vida e Previdência accounted for 29.6% of the pension plan and VGBL market in terms of contributions, according to Fenaprevi. Also according to the same source, managed pension funds accounted for 29.5% of VGBL, 26.9% of PGBL and 39.0% of traditional pension plans in Brazil. As of December 31, 2012, Bradesco Vida e Previdência accounted for 33.4% of all supplementary pension plan assets under management, 31.0% of VGBL, 23.9% of PGBL and 55.7% of traditional pension plans, 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 wishing to join a benefit plan by making regular contributions. "Closed" private pension entities are those available to discrete 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 on the basis of periodic contributions from their members, or their employers, or both.

We manage pension and VGBL plans covering more than 2.3 million participants, 63.7% of whom have individual plans, and the remainder individuals covered by company plans. The company's plans account for approximately 36.3% of our technical reserves.

Under VGBL, PGBL and FAPI 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 when making their annual tax declaration. Under current legislation, redemptions and benefits are subject to withholding tax. VGBL plan participants may not deduct their contributions when declaring income tax. At the time of redemption, or when benefits are paid out, tax will be levied on these benefits, pursuant to current legislation.

VGBL and PGBL plans, and individual retirement fund plans (referred to as "FAPI") may be acquired by companies in Brazil for the benefit of their employees. In 2012, Bradesco Vida e Previdência managed R$65.0 billion in VGBL and R$17.9 billion in PGBL plans. Bradesco Vida e Previdência also managed R$30.1 billion in pension plans.

Bradesco Vida e Previdência also offers pension plans for corporate customers that are in most cases negotiated and adapted to specific needs of the corporate customer.

Bradesco Vida e Previdência earns revenues primarily from:

- Pension and PGBL plan contributions, life insurance and personal accidents premiums and VGBL premiums;

- Revenues from management fees charged participants in accordance with mathematical provisions; and

- Financial income.

**Capitalization bonds**

Bradesco Capitalização offers its customers capitalization bonds with the option of a lump-sum or monthly contributions. Plans vary in value (from R$8 to R$50,000), form of payment, contribution period, and periodicity of draws for cash prizes of up to R$2.0 million (gross premiums). Customers' contributions earn interest at a rate of TR plus 0.5% per month over the value of the mathematical provision. Capitalization bonds may be redeemed after a 12-month grace period. As of December 31, 2012, we had around 8.2 million "traditional" capitalization bonds and around 13.7 million incentive capitalization bonds. Given that the purpose of the incentive capitalization bonds is to add value to the products of a partner company or even to provide an incentive for its customer to avoid delinquency, the plans are for short terms and grace periods with low unit sales value. As of December 31, 2012, Bradesco Capitalização had approximately 21.9 million capitalization bonds and 3.5 million customers.

Bradesco Capitalização is the first and only Brazilian capitalization bonds company to be awarded "ISO" certification. In 2009, it was certified "ISO 9001:2008" for the scope of management of capitalization bonds. This certification, awarded by Fundação Vanzolini, attests to the quality of its internal processes and confirms the principle seen in the origin of Bradesco's plans: good products and services and continuous improvement.

Bradesco Capitalização is the only company in the sector holding "brAAA" grade, which is the highest ranking at national level assigned by Standard & Poor's Credit Rating Agency. This rating was reaffirmed, with a stable outlook, in the report issued by the S&P in November 2011. The robust level of financial and property protection Bradesco assures its customers contributed to this result.

**b) Characteristics of the distribution process**

**Distribution channels**

Our branch network is complemented by other distribution channels such as points of service, banking correspondents, 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.

By the end of 2012, we had 4,686 branches, 5,237 points of banking services and 43,053 banking correspondents (Bradesco Expresso) and 3,809 points of service outside of our own ATM network.

For information on our international branches as of December 31, 2012, see "International banking services."

We inform below the number of distribution channels of Banco Bradesco S.A.:

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| **Structural Information - Units** | **Dec12** |
|---|---|
| **Service Points** | **68,917** |
| - Branches | 4,686 |
| - (PAs) [1] | 3,781 |
| - Electronic Service Branch (PAEs) [1] | 1,456 |
| - Outplaced Bradesco ATM Network Terminals | 3,809 |
| - Banco24Horas network assisted branches | 10,818 |
| - Bradesco Expresso (Correspondent Banks) | 43,053 |
| - Bradesco Promotora de Vendas (sales promoters) | 1,301 |
| - Branches / Subsidiaries Abroad | 13 |
| **ATM Terminals** | **47,834** |
| - Rede Bradesco | 34,859 |
| - Rede Banco24Horas | 12,975 |

[1] PA (Service Center): resulted of consolidation of PAB (Banking Service Office), PAA (Advanced Service Office) and Foreign Exchange Offices, according to CMN Resolution no. 4,072/12; and PAE (Electronic Service Office in Companies) – Office located in a Company to provide electronic service.

The following table shows the distribution of sales of these products through our branches and outside our branches:

| **Total percentage of sales by product** | **2012** | **2011** | **2010** |
|---|---|---|---|
| **Insurance products:** | | | |
| Sales through branches | 38.10% | 45.30% | 40.00% |
| Sales outside branches | 61.90% | 54.70% | 60.00% |
| **Private pension products:** | | | |
| Sales through branches | 83.70% | 76.80% | 81.70% |
| Sales outside branches | 16.30% | 23.20% | 18.30% |
| **Certificated savings plans:** | | | |
| Sales through branches | 79.60% | 84.10% | 90.50% |
| Sales outside branches | 20.40% | 15.90% | 9.50% |

**Other distribution channels**

***Bradesco Dia & Noite* Digital channels**

The Bradesco Dia & Noite digital channels offer mobility and independence to customers so that they may expand their businesses with the Bank.

We aim to make the banking experience even more convenient, fast and safe. In addition to the traditional service channels, such as Self-Service, “Fone Fácil” (easy phone) and internet banking, customers and users have access to us via Bradesco Celular (mobile banking).

People with disabilities and reduced mobility have access to internet banking services for the visually impaired; personalized service for the hearing impaired using digital language at *Fone Fácil, Bradesco*

*Celular* for the visually impaired; visual mouse for motor disabled people; and ATM access for customers with visual and physical disabilities.

We are present on social networks, through which we monitor our brand, products and services, provide services and interact with users. We were the first bank to develop a Facebook access application, which enables making inquiries, payments, transfers and request of personal loans while navigating on the social network.

***Bradesco Celular* (Mobile banking)**

We were the first to use mobile banking. Through this channel the customer can check bank balances and statements, make payments, recharge prepaid mobile phones, make transfers, get loans, obtain quotes and follow stock purchase and sale orders, among other things. Our website www.bradescocelular.com.br provides detailed information on products and services. In 2012, 381.4 million transactions were carried out via Bradesco Celular.

Additionally, Bradesco Celular also provides the following services:

• Bradesco Direct Recharge: a service that enables recharging prepaid mobile phones with just a single call from the device itself, even if there are no credits available for making calls. This feature is currently available for mobile phone users who are registered customers of Brazilian mobile phone network operators, Vivo and Claro;

• Making payments via SMS: previously-registered customers receive messages to schedule payments in advance or make payments with their banking collection forms registered with the DDA or utility bills, by simply answering a SMS;

• InfoCelular (information on mobile phones): with this feature, our registered customers quickly and safely receive SMS messages reporting on banking transactions for their account in accordance with the period and amount they designate;

• Bradesco Net Empresa Celular (Bradesco Net Company Mobile Banking): made available for corporate customers using mobile phones to check bank balances and authorize transactions;

• Bradesco Mobile Bonus Account: in addition to providing access to a number of financial services, this package contains a feature that allows certain amounts to be converted into credits with specified mobile phone providers; and

• Token embedded in the mobile device: an innovative and pioneer service in the market, it is an additional convenience option for the customer to authenticate any transaction carried out on the device and other digital channels.

**Internet**

In 2011 we introduced more than 50 innovations. Notable examples include an “A” key for Quick Access, an Intelligent Payment feature which automatically recognizes the intended type of payment through a bar code, and a search box located on all pages.

Bradesco Portal has 65 institutional sites (information on us, detailing our products and services, guidelines on security, disclosure of social and environmental actions, and periodic publications for investors, among others) and 33 transaction sites (for making banking transactions).

In 2012 our customers, both individual and corporate, carried out 3.6 billion online transactions.

Our corporate customers can use Bradesco Net Empresa. With this feature, a corporate customer may carry out online banking transactions and transfers, quickly and safely.

**Self-service network**

Our self-service network has 34,859 ATMs strategically distributed across Brazil, providing quick and convenient access to products and services. In addition to Bradesco'sATMs, customers can access the pooled network of 12,975 Banco24Horas machines to effect transactions such as cash withdrawals, statements, balance status queries, loans, payments of payment voucher and transfers.

Our self-service network and Banco24horas ATMs executed 2.1 billion transactions in 2012.

Bradesco is a pioneer in Brazil in the use of biometric reading system, which identifies customers and authenticates ATM transactions through a sensor/invisible light beam capturing the image of the vascular pattern of the palm of the hand. This technology enables our customers to use only biometry and their card to check accounts and carry out transactions, without the need to type in a six-figure password, thus making services faster and easier, in addition to being one of the world's most advanced security technologies. This technology is available on 32,731 machines of the Bradesco Self-Service Network and 5,742 machines of the Banco24Horas Network.

Bradesco is the only bank accredited with INSS (Social Security National Service) to carry out the “proof of life” of customers benefitting from INSS benefits, with the automatic use of biometrics, without the need to go to the cashiers and submit a document, therefore expediting customer service.

**Telephone services – *Fone Fácil***

Bradesco Easy Phone is a telephone-based bank for the customer, focused on business and financial operations. The customized service system, with financial experts and virtual servicing, make Fone Fácil one of the most efficient service channels and we have one of the most awarded banking relationship centers in Brazil, which is available to customers on a 24/7 basis.

Through this channel, the customer may acquire products, obtain information on their account, credit card, social security benefits, capitalization bonds and carry out a number of transactions, such as: checking account balances, bank statements, payments, transfers, credit transactions, investments, registering with the Bradesco Token into the mobile device, registering and disabling a four-digit password, cancellation and reissuing of cards, among other services.

In addition to the customized digital service, customers have access, through a number of specific numbers, to several telephone service centers, the main of which are as follows: internet banking, Net Empresa, Consortium, Social Security, Bradesco Financing and *Alô Bradesco* (hello Bradesco).

During 2012, 370.5 million calls were registered, and 490.8 million transactions completed.

**Banking units in retail chains**

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

**c) Characteristics of the market segments, specially:**

**i) Participation in each market:**

Below, percentages of Banco Bradesco S.A participations are shown in relation to banking, insurance and call center markets:

| Market Share | In percentage (%) Dec12 |
|---|---|
| **Banks – Source: Bacen (Brazilian Central Bank)** | |
| Demand Deposits | 16.9 |
| Savings Account Deposits | 13.9 |
| Time Deposits | 11.6 |
| Loan operations | 11.2 |
| Loan operations to individuals – Vehicles (CDC + Leasing) | 14.7 |
| Paycheck-Backed Loans | 11.0 |
| Number of Branches | 21.4 |
| **Banks – Source: INSS/Dataprev** | |
| Payment of Benefits to Retirees and Pensioners | 24.7 |
| **Banks – Source: Anbima** | |
| Investment Funds + Portfolios | 19.4 |
| **Insurance, pension plan and capitalization – Source: Superintendence of Private Insurance (SUSEP) and Brazilian Health Agency (ANS)** | |
| Insurance, Pension Plan and Capitalization Premiums | 24.8 |
| Insurance Premiums (includes VGBL) | 24.6 |
| Life and Personal Accident Insurance Premiums | 18.0 |
| Auto/RE (extra-contractual liability) insurance premiums | 10.0 |
| Auto/RCF (optional civil liability) insurance premiums | 12.4 |
| Health insurance premiums | 45.3 |
| Income from Social Security Contributions (excludes VGBL) | 29.7 |
| Capitalization Certificates Income | 23.1 |
| Technical provisions for insurance, pension plan and capitalization | 29.5 |
| **Insurance and pension plan – Source: Fenaprevi** | |
| VGBL plan premium income | 29.5 |
| PGBL plan contribution income | 26.0 |
| Pension plan investments portfolio (includes VGBL) | 33.4 |
| **Leasing – Source: ABEL** | |
| Asset Operations | 19.5 |
| **Consortia – Source: Bacen (Brazilian Central Bank)** | |
| Real estate | 30.3 |
| Vehicles | 25.6 |
| Trucks, tractors and agricultural inputs | 19.2 |
| **International Area – Source: Bacen (Brazilian Central Bank)** | |
| Export market | 19.2 |
| Import market | 16.4 |

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**ii) competitive conditions in markets**

Real estate financing

We face significant competition in all of our principal areas of operation, since the Brazilian financial and banking services market are highly competitive and have been through an intensive consolidation process in the past few years.

As of December 31, 2012, publicly owned financial institutions held 44.4% of the National Financial System's assets, followed by private sector locally owned financial institutions (taking into consideration financial conglomerates) with a 39.1% share and foreign-controlled financial institutions, with a 16.5% share.

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

As of December 31, 2012, according to Central Bank data, there were 178 financial conglomerates providing a wide full range of services including: (i) 137 multiple banks; (ii) 22 commercial banks; (iii) 14 investment banks; (iv) 4 development banks;  and (v) 1 savings bank (namely Caixa Econômica Federal). For further information on risks related to competition, see "Item 3.D. Risk Factors-Risks Relating to Bradesco and the Brazilian banking industry-The increasingly competitive environment in the banking and insurance segments in Brazil may negatively affect the prospects of our business."

It should be noted that, on April 26, 2012, Circular No. 3,590 was issued, determining that the following transactions should be analyzed by the Central Bank with respect to their effects on competition, notwithstanding the review related to the stability of the financial system: (a) transfer of ownership control; (b) takeover; (c) merger; (d) business transfer; and (e) other means of business concentration. In August 2012 the National Monetary Council ("CMN") set out new requirements and procedures for incorporation, authorization for operations, cancellation of authorization, changes of control, corporate restructurings and conditions for exercising positions in statutory or contractual bodies.

**Credit cards**

The Brazilian credit card market is highly competitive, with approximately 203.0 million credit cards issued as of December 31, 2012, according to ABECS. Our primary competitors are Banco do Brasil, Itaú Unibanco, and Santander Brasil. Management believes that the primary competitive factors in this area are interest rates, annual fees, card distribution network and benefits offered.

**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 a larger service network than any of our private sector competitors.

**Asset management**

The asset management sector in Brazil ended 2012 with R$2.2 trillion in assets, a nominal growth of 15.4% as compared to 2011, according to ANBIMA. This increase was largely the result of assets revaluations and, to a lesser extent:

- the net funding of R$21.0 billion in multimarket funds, mostly in view of the creation of exclusive funds, and the positive funding in fixed income funds of approximately R$9.3 billion;

- the large inflow of funds into private supplementary pension plan funds, which ended 2012 with a positive balance of R$35.0 billion in net funding; and

- the consolidation of the market of funds in structured investments, and noteworthy was the real estate funds, which ended December with Shareholders' Equity of R$40.0 billion.

The Organization accounted for 19.4% of the asset management market in Brazil in December 2012 (ANBIMA). BRAM, one of the leaders in asset management, accounted for a 12.7% share of this market (ANBIMA).

The data provided by ANBIMA also indicate that the Organization was the leader in funding of managed assets in 2012 (R$28.7 billion), and BRAM led the funding of managed funds in the same year (R$28.9 billion). In the asset management segment, BRAM's main competitors are Banco do Brasil and Itaú Unibanco.

BRAM's competition strategy is to develop new alternative strategy products and to reaffirm its leadership in fixed income and equities management, supporting the portfolio managers' experience and success with a fundamental approach built from a strong team of analysts and an independent team of macroeconomists.



Real estate financing

In 2012 among the new products launched by BRAM are the “BDRs Tier I Funds,” intended for investors willing to invest in US companies’ shares, and “Quantitative Funds,” whose management strategies also benefit from statistical models and filters. Additionally, products with strategies on commodities were created, opening new frontiers for customers’ diversification of investments, as well as long-term hedged capital strategies, by which the investor may enjoy a possible stock exchange upward move without risking the invested capital.

In the international area, BRAM expanded its group of funds in Luxembourg – called “Bradesco Global Funds” – with the addition of two new funds: the “Short Duration and the Latin America Equity funds.” The Short Duration fund is aimed at obtaining returns higher than those of the Money Market funds, with low risk. The Latin America Equity fund invests in shares of companies in Latin America, including Mexico, Chile, Peru, Colombia and Brazil. Accordingly, the group is consolidated with the offering of six funds, with the “Small Cap” fund been granted the highest rating (five stars) from Morningstar.

**Insurance, pension plans and capitalization bonds**

**Insurance sector**

As of December 31, 2012, Grupo Bradesco de Seguros e Previdência, the leading insurance company in the Brazilian market with a 24.8% market share faced increased competition from a number of Brazilian and multinational corporations in all types of insurance segments.

Our principal competitors are Grupo Segurador Banco do Brasil and Mapfre, Itaú Unibanco Seguros S.A., Sul América Cia. Nacional de Seguros, Porto Seguros Cia. de Seguros Gerais, Caixa Seguros, Zurich Santander Previdência S.A. and HSBC Seguros, which account for a combined total of approximately 57.1% of all premiums generated in the market, as reported by SUSEP.

Although nationwide companies underwrite the majority most insurance business, we also face competition from local and regional companies in the health insurance segment.

Competition in the Brazilian insurance industry changed in the past few years as foreign companies started to form joint ventures with Brazilian insurance companies with more experience in the local market.

We believe that the principal competitive factors in this area are prices, financial stability, name recognition and services. At the branch level, we believe competition is primarily based on the level of services, including the handling of claims, level of automation and development of long-term relationships with customers. Our ability to distribute insurance products through our branch network gives us a competitive advantage over most other insurance companies because we benefit from cost savings and marketing synergies.

**Pension plan sector**

The monetary stabilization brought by the Real Plan stimulated the pension plan sector and the Brazilian market attracted new international players. Bradesco Vida e Previdência is currently the pension plan market leader with 29.6% of total contributions in the sector, according to SUSEP. We believe that the Bradesco brand name, together with our extensive branch network, strategy, our record of being in the forefront and our product innovation, are our competitive advantages.

**Capitalization bonds sector**

As of December 31, 2012, Bradesco Capitalização was the second in the industry ranking with 23.1% of revenues from capitalization bonds and 24.2% in terms of technical provisions, according to SUSEP. Our principal competitors in the capitalization bonds sector are: Brasilcap Capitalização S.A., Itaú Unibanco Capitalização S.A., Sul America Capitalização, Caixa Capitalização S.A., Zurich, Santander Capitalização S.A., Aplub Capitalização and Icatu Seguros. The principal competitive factors in this industry are offering low-cost products with more frequent prize draws, security, financial stability and brand recognition.

**d) Seasonality**

Due to the specific characteristics of some products and services of the issuer, such as consumer finance segment, particularly credit card, in general, they are impacted by the effect of seasonality at certain periods or circumstances, such as final year. Other factors such as number of weekdays in the month, holidays, vacation periods, tax payments or receive of 13th bonus, can influence products and services such as loans, use of credit cards and/or demand for investments. It is noteworthy that despite this influence, these factors have no significant impact on the income of the issuer.

**e) Main raw materials, stating:**

**i) description of relationships with suppliers, including whether they are subject to governmental control or regulation, with agencies and applicable legislation:**

Bradesco hires suppliers and establish business relationships with partners that operate with ethical standards compatible with the Organization, through a strict selection process and not negotiate with those who, verifiably, disrespect the provision of its Code of Ethical Conduct, and also guided its business relationship by the Sectorial Code of Ethical Conduct for the Purchasing Professional.

The Bank also has a program relationship with strategic suppliers to discuss about revaluation of the supply chain of the total acquisition cost, optimization of products, innovation and sustainability. There are regular meetings with executives of the Bank and suppliers, which established objectives and monitoring the results of actions taken.

**ii) Any dependence on a small number of suppliers:**

Not applicable. Bradesco has no dependence on suppliers to perform its activities.

**iii) Possible volatility affecting its prices:**

The prices volatility, as resources for loans, interest rates charged on products, among others, rely on macroeconomic conditions and market rates.

If there is expected growth rate of inflation, the Central Bank may increase the base interest rate, increasing, consequently, interest rates for loans. Another factor that can enhance loans is the increase in delinquency rate for customers. Moreover, variations in tax rates on loans also make these operations more expensive.

**7.4 - Customers accounting for more than 10% of total net revenues**
Bradesco does not have any customers that account for more than 10% of the institution’s total net revenues.

**7.5 - Material effects of state regulation for the business**
**a) need of governmental for the exercise of activities and historical relation with the public administration in order to obtain such authorizations**

The basic institutional framework of the Brazilian Financial System was established in 1964 by Law No. 4,595/64, known as the "Banking Reform Law." The Banking Reform Law dealt with monetary, banking and credit policies and institutions, and created the (CMN).

**Principal regulatory agencies**

**CMN**

CMN is responsible for overall supervision of monetary, credit, budgetary, fiscal and public debt policies. CMN has the following functions:

- regulating lending by Brazilian financial institutions;
- regulating Brazilian currency issue;
- supervising Brazil's reserves of gold and foreign exchange;
- determining saving, foreign exchange and investment policies in Brazil; and
- regulating capital markets in Brazil.

In December 2006, CMN asked the CVM to devise a new "Risk-Based Supervision System" in order to: (i) identify risks to which the market is exposed; (ii) rank these risks in order of severity; (iii) establish mechanisms for mitigating these risks and the losses they might cause; and (iv) control and monitor the occurrence of risk events. Among other effects, this system provides for a fast-track reviewing process for the issuance of securities.

**Central Bank**

The Central Bank is responsible for:

- implementing 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 Central Bank's chairperson 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, acquisition of interest in new companies and the establishment or transfer of principal places of business or branches (in Brazil or abroad);
- authorizing changes in shareholder 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 loans and advances 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 securities and capital-market policies established by CMN.

The CVM is responsible for the supervision and regulation of equity funds. In addition, since November 2004, the CVM has had authority to regulate and supervise fixed-income asset funds.

**Banking 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 beyond regulatory limits;
- may not lend more than 25.0% of its reference equity to any single person or group;
- may not own real estate, except for its own use; and
- may not lend to or provide 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 Committee for Audit 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 certain 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 executive board consists of the same or substantially the same members as its Institution's executive board; 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 share capital.

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

**Capital adequacy and leverage**

Brazilian financial institutions are subject to capital measurement and standards based on a weighted risk-asset ratio. The parameters of this methodology resemble the international framework for minimum capital measurements adopted for the Basel Accord. The Basel Accord requires banks to have a capital to risk-weighted assets ratio of at least 8.0%. At least half of total capital must consist of Tier I capital. Tier I, or core, capital corresponds to equity less certain intangibles. Tier II capital includes asset revaluation reserves, and contingency reserves and subordinated debt, subject to certain restrictions. Tier II capital must not exceed Tier I capital.

CMN requirements differ from the Basel Accord in some 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;

- requires fixed assets in excess of limits imposed by the Central Bank to be deducted from capital;

- requires additional capital in relation to off-balance-sheet interest rate and foreign currency swap transactions and for certain loans and advances utilizing third party funds;

- when determining equity, financial institutions may deduct costs, including taxes, incurred in connection with swap transactions used to hedge short positions associated with investments outside Brazil; and

- assigns different risk weightings to certain assets and credit conversion values, including a risk weighting of 300.0% on deferred tax assets for tax loss carryforwards of income and social contribution taxes but not for those arising from other temporary differences which have a weighting of 100.0%.

In October 2009, the Central Bank reduced minimum capital requirements from 11% to 5.5% on loans to micro and small companies that are backed by one of the two guarantee funds created by the government in 2009 with a R$4 billion budget. For further details see "Item 5.B. Liquidity and Capital Resources-Capital Compliance with capital requirements."

Financial institutions are also required to maintain their shareholders' equity at a certain level. A financial institution's Reference Equity is the sum of its Tier I and Tier II capital and is used to determine its operational limits. For purposes of CMN adjustments, financial institutions may deduct costs, including taxes, incurred in connection with swap transactions to hedge short 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 reference equity. In December 2009, the Central Bank established a single indicator for calculating the portion of capital to be maintained by financial institutions to cover, when needed, the operational risk for a non-financial company belonging to the conglomerate. In June 2010, the Central Bank issued rules amending the formula used to calculate required reference equity, which in practice led to higher levels of net equity being required of financial institutions and this will be in force as of 2012. The Central Bank says the purposes of this change include bolstering the robustness of financial institutions in terms of their ability to weather a global crisis. In February 2011, the Central Bank issued guidelines and a timetable for implementing the recommendations of the Basel Committee on Banking Supervision concerning capital structure and liquidity requirements (Basel III), including an initial timetable to implement recommendations regarding liquidity requirements.

As Brazilian capital requirements tend to be been more conservative than international requirements, we believe that the implementation of Basel III will be less onerous in Brazil. In accordance with the draft rules that the Central Bank submitted to public consultation in February 2012, Brazil will follow the agreed–international schedule for the gradual adoption of capital definitions and requirements over the coming years. The schedule that was originally proposed by the Central Bank to have effect from January 2013 until January 1, 2019, but in March 2013, CMN Resolutions No. 4,192/13, No. 4,193/13, No. 4,194/13 and No. 4,195/13 changed this timeline, so that it will become effective on October 2013, with the same end date. Following international recommendations, and in line with current practices, the minimum capital level will be stated as a percentage of risk weighted assets. The draft rule proposes three independent requirements to be met by financial institutions: (i) Principal Capital, consisting mainly of stocks, shares and retained earnings; (ii) Tier I Capital, consisting of principal capital plus other instruments capable of absorbing losses when the institution is a going concern; and (iii) Reference Equity, consisting of Tier I Capital and other instruments to absorb losses in the case of an institution in liquidation.

In addition, the standard being discussed is also likely to include Additional Principal Capital, which will act as the prudential buffer or "cushion" referred to in Basel III. By the end of the transitional period, in 2019, Additional Principal Capital will have to be 2.5 - 5% of risk weighted assets. The amount will be determined by the Central Bank depending on economic conditions. Under normal market conditions, financial institutions are expected to hold surplus capital in relation to minimum requirements in an amount exceeding Additional Principal Capital as defined. Failure to comply with Additional Principal Capital rules will lead to restrictions affecting distribution of bonuses, profit sharing and compensation incentives associated with performance of managers of institutions.

Financial institutions, except for credit cooperatives, must keep consolidated accounting records (for calculating their capital requirements) of their investments in companies whenever they hold, directly or indirectly, individually or together with partners, a controlling interest in the investee companies. If their interest does not result in control of a company, financial institutions may choose to recognize the interest as equity in the earnings of unconsolidated companies instead of consolidating such interests.

Under certain conditions and within certain limits, financial institutions may include subordinated debt when determining their capital requirements in order to calculate their operational limits, *provided that* this subordinated debt complies with the following requirements:

- it must be previously approved by the Central Bank;
- it must not be secured by any type of guarantee;
- its payment must be subordinated to the payment of other liabilities of the issuer in the event of dissolution;
- it cannot be redeemed by act of the holder;
- it must have a clause allowing postponement of the payment of interest or redemption if this would cause the issuer to fail to comply with minimum levels of reference equity or other operational requirements;
- it must be nominative if issued in Brazil, and if issued abroad may be in any other form permitted by local legislation;
- if issued abroad, it must contain a clause for elected jurisdiction;
- 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 any instrument that requires or permits payments between the issuer and the borrowing institution or that affects the subordinated status of the debt.

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

In June 2011, the CMN determined that financial institutions and other Central Bank authorized institutions required to calculate Reference Equity requirements must implement a capital management structure compatible with the nature of their operations, complexity of products, services offered, and the scale of their risk exposure.

Additionally, in September 2011, the CMN issued a rule which states that the Central Bank may undertake a discretionary assessment of the circumstances in each case and require a series of preventive prudential measures to be taken if it finds situations that compromise or may compromise the proper functioning of the Financial System or its institutions, or other Central Bank authorized institutions.

In November 2012 the Central Bank issued a notice guiding on the procedures for calculating Required Reference Equity.

**Risk Weighting**

By way of Circular No. 3,644, of March 4, 2013, the Central Bank consolidated the risk weighted factors to be applied to different exposures for purposes of calculating the capital requirement through a standardized approach. According to this standard, the following factors, in summary, should be applied:

**(i)** 0% of exposures of (a) amounts held in cash, in local currency; (b) amounts held in kind, in the foreign currencies, subject to certain requirements; (c) investments in gold, financial assets and foreign exchange instruments, as well as exposure to the underlying asset represented by the gold, financial assets and foreign exchange instruments; (d) operations with the National Treasury and the Central Bank, as well as securities issued by them, subject to certain requirements; (e) transactions with certain multilateral and Multilateral Development Entities (MDE), credit limits; and (f) advances from FGC contributions;

**(ii)** 2% of exposures of transactions to be settled in settlement systems from chambers or providers of clearing and settlement services, with the chamber or service provider acting as a central counterparty, which meets certain characteristics;

**(iii)** 20% of exposures of (a) bank demand deposits in local currency; (b) bank demand deposits in foreign currency, subject to certain requirements; (c) rights arising from the novation of the debt of the Salary Variations Compensation Fund (FCVS); (d) operations with maturities of less than three months, in local currency, with financial institutions and other institutions authorized to operate by the Central Bank, subject to certain requirements; (e) securities, subject to certain requirements; (f) loan operations maturing within three months, in local currency, carried out with chambers or providers of clearing and settlement services; (g) loan operations maturing within three months, in local currency, carried out in chambers or service providers of clearing and settlement services based abroad and subject to regulation consistent with the principles established by the Payment and Settlement Systems Committee (CPSS) and the International Organization from Securities Commissions (IOSCO); (h) rights representing certain operations of cooperatives; (i) transactions with central governments of foreign countries and their central banks as well as securities issued by them, subject to certain requirements; and (j) operations with maturities of less than three months, carried out with financial institutions based in the countries addressed in item "g" hereof, subject to certain requirements;

**(iv)** 35% of exposures related to financing for the purchase of new or used residential property, secured by liens on the financed property, whose contracted value is up to 80% of the appraised value of the guarantee the date the credit is granted;

**(v)** 50% of exposures of (a) transactions with financial and other institutions authorized to operate by the Central Bank, for which financial statements are not prepared on a consolidated basis, subject to certain requirements; (b) transactions with financial institutions based in countries in which events, such as the suspension of payment obligation on the external unilateral change of contractual terms relating to the payment of external obligations, among others, have not been verified in the last five years; (c) loan operations carried out with chambers or providers of clearing and settlement services deemed as systemically important under regulations in force, with maturity over three months; (d) loan operations carried out with chambers or providers of clearing and settlement services based abroad and subject to regulation consistent with the principles established by CPSS and IOSCO, with maturity over three months; (e) loans secured by liens on new or used residential property, whose contracted value is up to 50% of the appraised value of the guarantee, on the credit grant date; (f) financing for the purchase of new or used residential property, secured by a first-degree mortgage, residential property, new or used, whose contract value is up to 80% of the appraised value of the guarantee on the credit grant date; (g) financing for the construction of buildings, secured by liens or first-degree mortgages, provided that the assets for appropriation method is adopted; and (h) loans granted to the FGC;

**(vi)** except for those in which there is a specific risk-weighted factor, 75% of exposures related to (a) operations that have as counterparty a legal entity whose assets portfolio total balance in the Brazilian financial system is over one hundred million reais (R$100,000,000.00) and in which the assets portfolio with the counterparty is lower than 10% of the respective reference equity, subject to certain checking requirements; and (b) retail operations, that is, that have as counterparty an individual or small legal entity, assume the format of a financial tool intended for the counterparties mentioned in item “a” above, have a total current exposure with the one and same counterparty lower than 0.2% of the retail exposure amount, and have total current exposures with the one and same counterparty lower than six hundred thousand reais (R$600,000.00), subject to certain requirements;

**(vii)** 100% of exposures for which there is no Risk-Weighted Factor established by the Central Bank;

**(viii)** 150% of exposures contracted with individuals, except for (a) personnel credit not related to payroll loans, with or without a specific destination with term over 36 months, subject to certain requirements; (b) payroll loans taken out or renegotiated with contractual term over 60 months, subject to certain requirements; (c) financing for acquisition of automotive vehicle, with contractual term over 60 months; (d) financial leasing of automotive vehicle, with contractual term over 60 months; and (e) a loan for financing an unrelated credit-card debt, with the repayment of the card invoice scheduled by way of a payroll loan, in which the agreement sets  forth conditions that do not assure the debt settlement in a term of up to 36 months by way of discounts in payroll. This risk-weighted factor does not apply to rural loans, financing with funds from onlending of funds or special programs of the Federal Government, or those which subject is the automotive vehicle with loads of up to two tons, subject to certain requirements;

**(ix)** 300% of exposures of (a) personal loans without a specific destination with contractual term over 60 months, excluding payroll loans, taken out or negotiated with individuals, subject to certain requirements; and (b) deferred tax assets arising from income tax and social contribution tax loss carry-forwards on net income, pursuant to regulation in force; and

**(x)** 1,250% of exposures related to (a) acquisition of FIDCs subordinated class units and other investment funds, acquired from March 7, 2013; (b) acquisition of subordinated class of securitization bonds, acquired from March 7, 2013; and (c) interest in funds of guarantee of settlement of settlement systems of chambers or providers of clearing and settlement services.

**Reserve requirements**

The Central Bank periodically sets compulsory reserve and related requirements for Brazilian financial institutions. The Central Bank uses reserve requirements as a mechanism to control liquidity in the Brazilian Financial System. Historically, the reserves against demand deposits, savings deposits and time deposits have accounted for almost all amounts required to be deposited with the Central Bank. In December 2010, the Central Bank raised compulsory deposit and reserve requirements, and reduced any deductions applicable. In addition, the Central Bank introduced higher compulsory deposits and reserve requirements for savings, demand, and time deposits. Some of these rules were amended by the Central Bank in March 2011. In July 2011, the CMN consolidated and redefined rules for compulsory deposit requirements against short positions in foreign currency.

In December 2011, the Central Bank approved a circular consolidating and redefining certain rules for compulsory reserve requirements for time deposits. The main change was the inclusion of Brazilian Treasuries in the list of assets eligible for deduction from compulsory reserves for time deposits. Some provisions relating to compulsory reserve requirements against time deposits were again amended by the Central Bank in February, May, September, November and December 2012.

The total consolidated exposure of a financial institution in foreign currencies and gold cannot exceed 30.0% of its reference equity. 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.

**Asset composition requirements**

Brazilian financial institutions may not allocate more than 25.0% of their reference equity to loans and advances (including guarantees) to the same customer (including customer's parent, affiliates and subsidiaries) or to securities from any issuer. They may not either act as underwriters (excluding best efforts underwriting) of securities issued by any one issuer representing more than 25.0% of their reference equity.

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 reference equity.

CMN issued rules in October 2008 requiring financial institutions to record: (i) 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 those covered by leasing agreements, in fixed assets; and (ii) 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, in deferred assets. A subsequent rule further defined intangible assets, such as vested rights on non-material assets used for maintaining the institution's activities, including those corresponding to payroll services, income, salary, wages and retirement and pension payments, among others.

As of January 2012, a rule issued by the CMN came into effect in line with IASB, which states different accounting criteria in cases of assignment of receivables or other financial assets depending on whether or not there is retention or transfer of risks and benefits in conjunction with the assigned asset.

In July 2011, the CMN published a rule requiring registration of assigned receivables and financial settlement of assets authorized by the Central Bank.

**Repurchase transactions**

Repurchase transactions are subject to operational capital limits based on the financial institution's 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 reference equity. Within that limit, repurchase operations involving private securities may not exceed five times the amount of the financial institution's reference equity. 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 charge onlending commission only.

Furthermore, the amount of any loan in foreign currency should be limited to the sum of foreign transactions undertaken by the financial institution to which loan funds are to be directed. Lastly, pursuant to the Central Bank's Circular No. 3,434/09, the total of loans and advances made against these funds must be delivered to the Central Bank as collateral, 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 be conducted only by institutions authorized by the Central Bank to operate in the foreign exchange market.

As of 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 provides for settlement in foreign currency of any commitments in *reais* contracted between individuals and/or legal entities resident in Brazil and individuals or legal entities resident abroad, by submitting the relevant documentation.

Access to the Exchange Market may be granted by the Central Bank to multiple banks, commercial banks, investment banks, development banks, savings and loans entities, foreign exchange banks, development agencies, financing and investment associations, brokerage firms, securities dealers and currency-broker firms. Some foreign-exchange transactions may also be carried out by travel agencies and tourist hospitality organizations accepting foreign currency. The Central Bank currently does not impose limits on long positions in forex (*i.e.*, in which the aggregate amount of foreign currency purchases exceeds sales) of banks authorized to operate in the Exchange Market. As of December 2005, the Central Bank no longer limited short positions in forex (*i.e.*, in which the aggregate amount of foreign currency purchases is less than sales) for banks authorized to operate in the Exchange Market.

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 may be divided into three main categories:

**(i)** Consolidation of rules for foreign capital: registration of foreign direct investment, foreign credits, royalties, transfer of technology and leasing. 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 supporting documentation. These rules were amended several times in 2011. Additionally, the need for specific authorizations or prior statements from the Central Bank has been eliminated and there is no need to provide information that the Central Bank may obtain elsewhere;

**(ii)** Rules for sale of depositary receipts abroad: companies that issue depositary receipts have the option of keeping the proceeds abroad. This option, however, does not apply to financial institutions. Therefore, our procedures in this respect remain unchanged; and

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

Pursuant to CMN regulations of November 2011, the investment abroad of available funds in foreign currency must be limited to (i) securities issued by the Brazilian government; (ii) sovereign debt issued by foreign governments; (iii) securities issued by financial institutions, or entities under their responsibility; and (iv) time deposits in financial institutions. In February 2011, the Central Bank adopted new rules for investments by Brazilian entities or individuals in non-Brazilian companies. For the purposes of this rule, foreign currency holdings includes: (i) the institution's own foreign currency position; (ii) foreign currency balances in current accounts in Brazil, that have been opened and transacted in accordance with laws and regulations; and (iii) the institution's other foreign currency held in foreign accounts, including funds received to pay for Brazilian exports.

The rules addressing the foreign exchange market were again amended in April, May, June, August and December 2012.

**Registration of cross-border derivatives and hedging transactions and information on derivatives**

In December 2009, the Central Bank issued specific rules that became effective on February 1, 2010, requiring Brazilian financial institutions to register their cross-border derivative transactions with a clearing house regulated by the Central Bank and by the CVM. Specifically, cross-border derivative transactions must: (i) be registered within two business days; and (ii) cover details of underlying assets, values, currencies involved, terms, counterparties, means of settlement and parameters used.

In February 2010, registration rules were extended to cover hedging transactions in foreign OTC markets or exchanges.

In November 2010, to facilitate management of derivatives-related risk incurred by financial institutions, the CVM stipulated that market participants should create mechanisms in order to share information on derivatives contracts traded or registered in their systems, subject to banking confidentiality rules.

**Treatment of loans and advances**

According to the Central Bank, financial institutions are required to classify their loans and advances into nine categories, ranging from AA to H, based on 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.

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 and advance operation may be upgraded if it has credit support or downgraded if in default.

Doubtful loans are classified according to the loss perspective, as shown below:

| *Rating* | Bradesco Classification |
|---|---|
| E | Deficient |
| F | Bad |
| G | Critical |
| H | Uncollectible |

A similar nine-category ranking system exists for transactions with individuals. We grade credit based on data including the individual's income, net worth and credit history, as well as other personal data.

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 regulatory purposes, financial institutions are required to classify the level of risk of their loan operations according to Central Bank criteria, taking into consideration both the borrower and guarantors' characteristics and the nature and value of the operation, among others, in order to identify potential provision for loan losses.

This risk evaluation must be reviewed at least every six months for loans extended to a single customer or economic group whose aggregate loan amount exceeds 5.0% of the financial institution's reference equity, and once every 12 months for all loan operations, with certain exceptions.

Past due loans must be reviewed monthly. For this type of loan, regulatory provisions set the following maximum risk classifications:

Real estate financing

| 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 w ith maturities in excess of 36 months.

Financial institutions are required to determine, 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 loan and advance 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 w rite off any loan six months after its initial classification as an H loan.

Loans and advances of up to R$50,000 may be classified by the method used by the financial institution itself or the arrears 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 information relating to their loan portfolio to the Central Bank, together with their financial statements. This information must include:

- a breakdown of the business activities and nature of borrowers;
- maturities of their loans;
- amounts of rescheduled, written-off and recovered loans;
- loan portfolio diversification by the loan classification; and
- non-performing loans.

The Central Bank requires authorized financial institutions to compile and submit their loans and advances portfolio data in accordance with several requirements. The Central Bank may allow discrepancies in these statements of up to 5.0% per risk level and 2.5% in the reconciled total.

**Exclusivity in loans and advances to customers**

In January 2011, Central Bank Circular No. 3,522/11 prohibited financial institutions that provide services and loan transactions from entering into agreements, contracts or other arrangements that prevent or restrict the ability of their customers to access loans and advances offered by other institutions, including payroll-deductible loans. The purpose of this rule is to increase competition among credit providers and prevent exclusivity agreements between state-owned banks and government bodies with respect to payroll-deductible loans. While there is some uncertainty as to whether the new rules affect existing contracts, all new contracts are covered by the new regulations, allowing market competition and enabling employees in the public and private sectors to obtain payroll-deductible loans from any authorized financial institution.

Real estate financing

**Brazilian clearing system**

The Brazilian clearing system was regulated and restructured under legislation enacted in 2001. These regulations are intended to streamline the system by adopting multilateral clearing and boost security and solidity by reducing systemic default risk and financial institutions' credit and liquidity risks.

The subsystems in the Brazilian clearing system are responsible for maintaining security mechanisms and rules for controlling risks and contingencies, loss sharing among market participants and direct execution of custody positions of contracts and collateral by participants. In addition, clearing houses and settlement service providers, as important components to the system, set aside a portion of their assets as an additional guarantee for settlement of transactions.

Currently, responsibility for settlement of a transaction has been assigned to the clearinghouses or service providers responsible for it. Once a financial transaction has been submitted for clearing and settlement, it generally becomes the obligation of the relevant clearinghouse and/or settlement service provider to clear and settle, 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 authorized 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 risk management procedures;

- 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 the institution's management information and analysis for any liquidity risk identified, including any conclusions or measures taken; and

- develop contingency plans for handling liquidity crisis situations.

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

After a period of tests and gradual implementation, the new Brazilian clearing system started operating in April 2002. The Central Bank and CVM have the power to regulate and supervise the Brazilian payment and clearing system.

**Liquidation of financial institutions**

In February 2005, the "New Bankruptcy Law" was approved, replacing the previous legislation that had been in effect since 1945. The main goal of the “New Bankruptcy Law” is to avoid viable companies being unable to honor their debt obligations. The New Bankruptcy Law seeks to do this by providing greater flexibility in plan reorganization strategies while giving creditors more guarantees. 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 No. 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 mismanagement, putting creditors at risk;
- repeatedly violates banking regulations; or
- is insolvent.

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

Intervention may not exceed 12 months. During the intervention period, the institution's liabilities are suspended in relation to overdue obligations, maturity dates for pending obligations contracted prior to intervention, and liabilities for deposits in the institution existing on the date intervention was ordered.

**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 impair the institution's creditors.

As a consequence of administrative liquidation:

- lawsuits pleading claims on 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 that:

- repeatedly makes transactions contravening economic or financial policies under federal law;
- faces a shortage of assets;
- fails to comply with compulsory reserves rules;
- has reckless or fraudulent management; or
- has operations or circumstances requiring an intervention.

The adjudication of RAET does not affect the regular course of the institution's business operations, which are allowed to continue as normal, with the institution being allowed to perform all operations to which it is authorized, enabling the maintenance of the relationship with institution's creditors and debtors. There is no change in its undertakings with third parties, or with respect to its debts, which continue to mature in the originally contracted terms.

**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 *Fundo Garantidor de Créditos* - FGC (or 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 accepting deposits from customers.

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 December 2010, the CMN increased the maximum amount of the guarantee provided by the FGC from R$60,000 to R$70,000. Since 2006, it reduced the ordinary monthly FGC contribution from 0.025% to 0.0125% of the balance held in bank accounts covered by FGC insurance.

In December 2010, Brazilian Central Bank issued Resolution No. 3,931/10 with new rules for taking time deposits with a special guarantee from the FGC. Under these rules, the maximum value of the balance of such deposits is limited to the greater of the following (with a maximum of R$5 billion): (i) the equivalent of twice the reference equity, calculated on the base date June 30 earning interest monthly at the SELIC rate; (ii) the equivalent of twice the reference equity, calculated on December 31, 2008, earning interest monthly at the SELIC rate as of May 1, 2009; and (iii) the equivalent of the sum of balances in time deposits plus balances of bills of exchange held in the bank on June 30, 2008, earning interest monthly at the SELIC rate as of May 1, 2009.

The same rule reduced the limit on taking time deposits with special FGC guarantees on the following schedule: (i) twenty percent (20%) from January 1, 2012; (ii) forty percent (40%) from January 1, 2013; (iii) sixty percent (60%) from January 1, 2014; (iv) eighty percent (80%) from January 1, 2015; and (v) one hundred percent (100%) from January 1, 2016.

In May 2012 Resolution No. 4,087/12 was issued, amending and consolidating the rules addressing the FGC bylaws and regulation. This Resolution was later amended by Resolution No. 4,115/12. In June 2012 the provisions related to the calculation basis and payment of common contributions by the FGC-associated institutions was amended.

**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 Executive Board of a financial institution is responsible for implementing an effective structure for internal controls by defining responsibilities and control procedures and establishing corresponding goals and procedures at all levels of the institution. The Executive Board 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 representing non-voting shares offered abroad. Any investment in common shares would depend on government authorization. In January 2012, the Central Bank authorized Bradesco to create an ADR program for its common shares in the U.S. market. As part of this authorization, the Central Bank increased the limit of foreign interest in Bradesco's capital stock from the current 14% to 30%.

**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 No. 3,461/09, and subsequently in December 2010, through Circular No. 3,517/10, as amended by Circular No. 3,583/12, 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 convertible to 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 the bank is notified that a CVM investigation is underway, in which case the five-year obligation may be extended. Pursuant to Circular No. 3,641/08, 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 customers that makes it possible to identify the risks of occurrence of these crimes; (iii) define the criteria and procedures for selecting, training and monitoring the economic-financial status of the institution's employees; (iv) include a prior analysis of new products and services from the perspective of preventing these crimes; (v) be approved by the Board of Directors; and (vi) be broadly circulated internally. Current legislation allows us to develop internal procedures designed to identify any financial transactions or services that present a low level of risk of being used for money laundering or terrorist financing, which are exempted from the requirement to obtain customers' registration details. The procedures described herein shall be observed by our branches and subsidiaries in Brazil and abroad.

Along with these policies, Circular No. 3,641/08 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 of over R$100,000 in cash, and other transactions that require special attention.

Likewise, Circular No. 3,642/08 defined 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 bank account when applicable. Financial institutions shall also adopt measures to obtain information about methods and practices used by their correspondents abroad so as to prevent money laundering and terrorist financing practices, and report to government authorities whenever transactions with these characteristics are detected.

Brazilian regulations list a number of potential money-laundering transaction characteristics, such as: transactions involving amounts that are incompatible with the professional, 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 from or to countries or territories that do not apply the recommendations sufficiently or 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 customer's technical qualification; and transactions involving non-resident parties, trustees and companies, private banking customers and politically exposed individuals.

The CVM directed special attention to politically exposed individuals through Instruction No. 463/08 and consolidated in Circular No. 3,641/08, 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, senior politicians and civil servants, judges or high-ranking military officers, and leaders of state controlled enterprises 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 transactions involving politically exposed individuals; and (iv) pay special attention to people from countries with which Brazil maintains a high number of business and financial transactions, shared 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 for financing, terrorist activities.

Also regarding the control of politically exposed individuals' activities and in light of 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 of demand accounts for funds related to financing the 2010 election campaign. Those rules seek to avoid irregular use of said 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. Banking secrecy may also be breached by court order when necessary for the investigation of any illegal act. On June 9, 2011 Law No. 12,414 was enacted, governing the set up and consultation of data with default information on individuals and companies, in order to set up a history of credit. The provision of information by financial institutions was regulated by Resolution No. 4,172 of December 20, 2012.

Government officials and auditors from the Brazilian Federal Revenue Service may also inspect an institution's documents, books and financial records in certain circumstances.

In October 2008, the Central Bank broadened the reach of its rules for controlling financial transactions related to 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) 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 officials or by the closest members of their families, including companies owned by, or directly or indirectly controlled by them or by individuals under their management; and (iii) individuals perpetrating or attempting to perpetrate terrorist actions or who take part in or facilitate 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.

On July 9, 2012 Law No. 12,683/12 came into force, amending Law No. 9,613/98, and toughened the rules on money laundering offenses. According to the new law, any offense or misdemeanor – and not only serious offenses, such as drug traffic and terrorism – may be deemed as a precedent to the money laundering offense. Additionally, the law expands, to a great extent, the list of individuals and companies obliged to report transactions to COAF (Controlling Council of Financial Activities), including, among them, companies providing advisory or consulting services to operations in the financial and capital markets, under the penalty of fines of up to R$20 million.

**Change of independent accounting firm**

Under Brazilian regulations, all financial institutions must:

- be audited by an independent accounting firm; and

- the specialist in charge, director, manager or audit team supervisor must be periodically replaced without the need to change the independent auditor firm itself. Rotation must take place after five fiscal years at most and replaced professionals may be reintegrated three years later. Terms of responsible specialists, directors, managers or audit team supervisors begin on the day the team begins work on the audit.

Each independent accounting firm must immediately inform 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.

**Auditing requirements**

Because we are a financial institution registered with the local 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 their independent accounting firm's non-auditing services provided to the entity whenever such services accounted for more than 5.0% of the amount paid to the external auditors.

The independent auditors must also declare to the audited company's management that their providing these services does not affect the independence and objectivity required for external auditing services.

In May 2003, the CMN enacted new auditing regulations applicable to all Brazilian financial institutions; which 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 monitoring and supervising compliance with the accounting and auditing requirements set forth in the legislation.

Pursuant to this regulation, financial institutions having reference equity of more than R$1.0 billion, managing third party assets of at least R$1.0 billion or having an aggregate amount of third party deposits of over R$5.0 billion are also required to create a Committee for Audit consisting of independent members. The number of members, their appointment and removal criteria, their term of office and their responsibilities must be specified in the institutions' bylaws. Our Committee for Audit has been fully operational since July 1, 2004. The Committee for Audit is responsible for recommending to management which independent accounting firm to engage, 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 matters. Our Bylaws were revised in December 2003 to stipulate the existence of a Committee for Audit. In May 2004, our Board of Directors approved the internal regulations for the Committee for Audit and appointed its first members. In October 2006, the CMN enacted stricter requirements to be followed by the members of the Committee for Audit.

Since July 2004, we are required to publish a semi-annual Committee for Audit report together with our financial statements. Our Committee for Audit 's first report was issued together with our financial statements for the second half of 2004.

In September 2009, the Central Bank issued rules setting criteria for auditors on the latter's preparation of reports on the quality and compliance of the internal controls systems, and on non-compliance with legal and regulatory provisions. These norms, amended in January 2010, state 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, London, Buenos Aires, Tokyo, the Cayman Islands, Hong Kong, Mexico and Luxembourg. The Central Bank supervises Brazilian financial institutions' foreign branches, subsidiaries and corporate properties, and prior approval from the Central Bank is necessary to establish any new branch, subsidiary or representative office or to acquire or increase any interest in any company abroad. In any case, the subsidiaries activities’ should be complementary or related to our own principal activities. 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 No. 409/04 consolidating all previous regulations applicable to fixed-income asset funds and equity mutual funds. Prior to this ruling, fixed-income asset funds were regulated by the Central Bank, and equity mutual funds were regulated by the CVM.

CVM Rule No. 409/04 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 adapt to the new regulations.

Pursuant to CVM limits and our Bylaws, our investment funds must keep their assets invested in securities and types of trades available in the financial and capital markets.

Securities and all other financial assets in the investment fund's portfolio must be registered directly with specific custody deposit accounts opened in the name of the fund except for open investment funds quotas. Such accounts must be held in registration and clearance systems authorized by the Central Bank, or certain custody institutions authorized by the CVM.

In addition to the limitations specified in each financial investment fund's Bylaws, they may not:

- invest more than ten per cent (10.0%) of their net assets 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 funds;

- more than twenty percent (20.0%) of their net assets in securities issued by the same financial institution (including the fund administrator);

- invest more than five percent (5.0%) of their net assets if 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 ten percent (10.0%) of their net assets in real estate investment funds, receivables investment funds or credit rights participation funds.

There are no limits when the issuer is the federal government. For the purposes of these limits, the same issuer means the parent company, companies directly or indirectly controlled by the parent and its affiliates, or companies under common control with the issuer.

Depending on the composition of their assets, investment funds and funds of funds are classified as follows:

- Short-term funds – these funds invest exclusively in public, federal or private bonds pegged to the SELIC rate or another interest rate, or to price indices, 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 repo agreements backed by federal government bonds;

- Referenced funds – their name must state their benchmark indicator on which the financial asset structure of their portfolio is based (1) at least 80.0% of their net assets, separately or together, must be invested in (a) bonds issued by the Brazilian National Treasury and/or the Central Bank or (b) fixed-income securities from low credit-risk issuers; (2) they stipulate that at least 95.0% of their portfolio must be composed of financial assets that directly or indirectly track the variation of a specified performance indicator (benchmark); and (3) they may use derivatives only for hedging cash positions, limited to the amount of the latter;

- Fixed-income funds – These funds have at least 80.0% of their asset portfolios directly related to fixed-income assets or synthesized through derivatives;

- Equity funds – These funds have at least 67.0% of their portfolio invested in shares listed and traded on exchange or in organized over the counter markets;

- Forex 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 assets invested in Brazilian foreign-debt bonds issued by the federal government, and the remaining 20.0% in other debt 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 differing from the other classes stipulated in the classifications of the funds listed above.

Qualified investor funds require a minimum investment of R$1 million per investor and are subject to concentration limitations per issuer or per type of asset (while obeying the investment parameters for type of fund as described above), as long as this is stated in their bylaws.

In addition, CVM Instruction No. 409/04 states that funds may hold financial assets traded abroad in their portfolios as follows: (i) for foreign-debt funds and qualified investor funds that stipulate this possibility, there is no limit; (ii) for multimarket funds, up to 20% of net assets; and (iii) for other funds, up to 10% of net assets.

**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 authorized by the Central Bank and are the only institutions in Brazil authorized to trade on Brazil's stock exchanges and commodities and futures exchanges. Both brokers and dealers may act as underwriters for public placement of securities and engage in the brokerage of foreign currency in any exchange market.

Brokers must observe BM&FBOVESPA rules of conduct previously approved by the CVM, and must designate an executive officer responsible for observance of these rules.

Broker and dealer firms may not:

- with few exceptions, execute transactions that may be characterized as the granting loans to their customers, including the assignment of rights;

- collect commissions from their customers 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 for amounts not more than twice the firm's net assets.

Broker and dealer firms' employees, managers, partners, controlling entities and subsidiaries may trade securities on their own account only through the broker they are related to.

**Leasing regulation**

The basic legal framework governing leasing transactions is established by Law No. 6,099/74, as amended (the "Leasing Law") and related regulations issued periodically by the CMN. The Leasing Law provides general guidelines for the incorporation of leasing companies and the business activities they may undertake. The CMN, as regulator of the Financial System, is responsible for issuing Leasing Law related regulations and overseeing transactions made by leasing companies. Laws and regulations issued by the Central Bank for 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.

**Insurance regulation**

Brazilian insurance business is regulated by Decree Law No. 73/66, as amended, which created two regulatory agencies, the National Private Insurance Council, or "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. Investments covering these reserves must be diversified and meet certain liquidity criteria, rules for which were consolidated by CNSP Resolution No. 226/10 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 CMN rules and conditions for their investments and coverage of technical reserves.

Insurance companies may not, among other activities:

- act as financial institutions by lending or providing guarantees;

- trade in securities (subject to exceptions); or

- invest outside of Brazil without specific permission from the authorities.

Insurance companies must operate within certain retention limits approved by SUSEP pursuant to CNSP rules. These rules reflect the economic and financial situation of insurance companies and the conditions of their portfolios. Insurers must also meet certain capital requirements consolidated by SUSEP Resolution No. 227/10.

In January 2007, Complementary Law No. 126/07 created a new policy for reinsurance (whereby underwriters obtain secondary insurance for the risks that they are insuring), retrocession and intermediation in Brazil. In practical terms, this law ended IRB's monopoly in reinsurance and retrocession with regulatory duties and activities originally attributed to IRB transferred to CNSP and SUSEP.

Under Complementary Law No. 126/07, the ceding party (local insurer or reinsurer) must offer local reinsurers preference when contracting reinsurance or retrocession to the extent of the following percentages of risks ceded: (i) 60% in the first three years as of January 16, 2007; and (ii) 40% in subsequent years. Under SUSEP Resolution No. 225/10, insurance companies must have contracts with local reinsurers for at least 40% of ceded reinsurance in facultative or automatic contracts. The new rule will apply to existing automatic contracts upon renewal or as of March 31, 2012, whichever is earlier.

The new law also places more severe restrictions on ceding risk to foreign reinsurance companies and contracting of insurance abroad. Insurance companies must reinsure amounts exceeding their retention limits. Insurance companies must also file unaudited monthly and audited quarterly, semiannual and annual reports with SUSEP.

CNSP Resolution No. 232/11 established that the local insurance or reinsurance company may not transfer to affiliates or companies of the same financial conglomerate based abroad more than 20% of the Premium related to each coverage contracted. That ceiling shall not apply to guarantee, export credit and nuclear risks, for which insurance assignment or retrocession to affiliates or companies of the same financial conglomerate based abroad are allowed, taking into account the other legal and statutory requirements.

Insurance companies are exempt from ordinary financial liquidation procedures in case of bankruptcy, and instead follow a special procedure administered by SUSEP, under CNSP Resolution No. 227/10. Financial liquidation may be either voluntary or compulsory. The Minister of Finance undertakes compulsory dissolutions of insurance companies.

As was already the case in relation to entities subject to CMN, SUSEP issued rules in December 2008 with specific internal controls for preventing and fighting money laundering crimes. These rules include a series of provisions on notifying proposed transactions with politically exposed individuals and suppression of terrorist financing activities. These rules were amended and consolidated by Circular No. 445/12.

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. 9,656/98, as amended, which we refer to as the "Health Insurance Law," containing 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;
- prior conditions 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 Supplemental Health Council (*Conselho de Saúde Suplementar*).

Until 2002, SUSEP had authority over insurance companies, which were authorized to offer private health plans. Since 2002, pursuant to ANS regulations and supervision, only operators of private health 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 pertaining to private pension plans, particularly related to assets guaranteeing technical reserves.

Private pension entities must set aside reserves and technical provisions as collateral for their liabilities.

Open pension plans and insurance companies have been allowed to create, trade and operate investment funds with segregated assets since January 2006. Notwithstanding the above, certain provisions of Law No. 11,196/05 will only become effective when SUSEP and CVM issue regulatory texts. In September 2007, CVM issued Instruction No. 459, which addresses the set up, management, operation and disclosure of information on investment funds exclusively related to supplementary pension fund plans. In January 2013, the CMN determined new rules to govern the application of reserves, provisions and funds of insurance companies, capitalization companies and open supplementary pension fund entities.

**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 and make or accept an offer through electronic messages.

The CVM approved new regulations on Internet brokerage activities, which may be carried out only by registered companies. Brokers' web pages must contain details of their systems, fees, security and procedures for executing orders. 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 twice a year.

**Taxation**

**IOF (Tax on Financial Transactions)**

Tax on Financial Transactions (*Imposto Sobre Operações Financeiras*, or IOF) is a tax on loans and advances, foreign exchange transactions, insurance and trading in securities. The Minister of Finance sets the rate of the IOF subject to a 25.0% ceiling. Although the taxpayer is the one conducting the financial transaction subject to taxation, the tax is collected by the financial institution involved.

IOF is levied on the following main types of transactions: (i) foreign exchange transactions; (ii) bonds and securities transactions; (iii) loan transactions; and (iv) insurance transactions.

**IOF on foreign exchange transactions**

IOF may be levied on a variety of forex transactions, including the conversion of Brazilian currency into any foreign currency for the payment of dividends and repatriation of capital invested in our ADSs and common share ADSs. The general IOF rate on forex transactions is 0.38%, but 0% on forex transactions of an interbank nature or for the payment of dividends and interest on equity to foreign investors. IOF is also 0% for converting incoming funds or funds leaving the country since October 2008 in the form of foreign borrowing or financing.

Since March 2012, the tax rate on forex transactions settled by foreign investors' funds entering Brazil, including those doing so through simultaneous transactions related to foreign loans subject to registration with the Central Bank, is 6% for currency loans with repayment terms of less than 1,800 days, including both direct loans and those related to the issue of bonds in the international markets. If the repayment term of the loan is higher than 1,800 days the IOF rate is reduced to 0%.

As of October 2010, the IOF rate on forex transactions for foreign investors in the Brazilian financial and capital markets was raised from 0% to 2%. The remittance of the investment abroad is also subject to 0% of IOF.

There are several exceptions to the general rate of 6% above-mentioned, in which case the IOF rate is 0%:

**(i)** transfer of external resources for application in Brazil in equities on the stock exchange or futures and commodities exchange, except for derivative transactions that result in predetermined returns;

**(ii)** entry of funds in Brazil for acquisition of shares in public offerings registered or exempt from registration by CVM or for subscription of shares, provided that, in both cases, the issuing companies must be registered for trading of shares on stock exchanges;

**(iii)** entry of funds in Brazil for acquisition of shares in equity funds, venture capital funds and investment funds in shares of these funds, established as authorized by the CVM;

**(iv)** settlement of simultaneous foreign exchange transactions, entered into from January, 2011, for the purpose of funds entering due to cancellation of depositary receipts, for investment in shares traded on exchange;

**(v)** settlement of simultaneous foreign exchange transactions, entered into from January 1, 2011, for funds entering Brazil arising from altered arrangements for foreign investors, direct investment, investment in shares traded on exchanges;

**(vi)** settlement of foreign exchange transactions contracted by foreign investors for the acquisition of bond or securities issued in accordance with Articles 1 and 3 of Law No. 12,431/11; and

**(vii)** settlement of exchange transactions contracted by foreign investors, including through simultaneous transactions, related to foreign transfers of funds for application in Brazil in certificate deposit of securities, named Brazilian Depositary Receipts – BDR, as regulated by CVM.

In March 2011, Decree No. 7,454/11 increased the IOF rate on currency exchange transactions from 2.38% to 6.38% for payments made by credit card administrators or commercial or multiple banks acting as card issuers, when such amounts arise from the purchase of goods and services abroad by their cardholders.

The IOF rate is 0% for foreign exchange rate transactions related to revenues entering Brazil from exports of goods and services.

**IOF on bonds or securities transactions**

IOF rate may also be charged on issues of securities, including transactions on Brazilian stock, futures or commodities exchanges. The IOF rate levied on common or preferred share transactions in general is currently 0%. The Minister of Finance, however, has the legal authority to raise the rate to a maximum of 1.5% per day of the amount of taxable transactions during the period in which the investor holds securities, but only to the extent of gains made on the transaction, and not retrospectively.

In November 2009, the Brazilian government made use of its prerogative to raise the IOF rate from 0% to 1.5% on transactions assigning shares of any type (including preferred shares) traded on a stock exchange in Brazil, with the specific purpose of backing an ADS issue.

On September 2011, IOF was levied on transactions involving derivative contracts. The tax rate is 1% on the national amount, adjusted in the acquisition, sale or maturity of financial derivative contracts entered into in Brazil that, individually, result in an increase of the sold foreign exchange exposure or reduction of the purchased foreign exchange exposure.

The legislation allows for some deductions from the calculation basis, such as: (i) the sum of the national value adjusted by the acquisition, sale or maturity of financial derivative contracts entered into in Brazil, on the day, and that, individually, results in an increase of the purchased foreign exchange exposure or reduction of the sold foreign exchange exposure, (ii) the adjusted net foreign exchange exposure purchased, obtained on the previous business day, and (iii) the reduction of the net foreign exchange exposure sold and the increase of the net foreign exchange exposure purchased compared to the previous business day, not resulting from acquisitions, sales or maturities of financial derivatives contracts.

The new legislation also establishes several specific concepts related to the levy of IOF on derivative contracts. One is the concept of "national value set," which corresponds to the reference value of the contract – national value – multiplied by the price change of the derivative compared to the price change of foreign currency, noting that in the case of acquisition, sale or partial maturity, the adjusted national amount will be calculated proportionately.

IOF is also charged on gains from transactions with terms of up to 30 days for sale, assignment, repurchase or renewal of fixed-income securities such as redemption of shares in financial investment funds, equity funds or investment clubs. For more information on financial investment funds and equity funds. The maximum rate of IOF payable in such cases is 1.0% per day and decreases with the duration of the transactions, reaching zero for transactions with maturities of at least 30 days, except that the rate is currently 0% for the following types of transactions:

- transactions carried out by financial institutions and other institutions authorized by the Central Bank as principals;
- portfolio transactions carried out by mutual funds or investment clubs;
- transactions in equity markets, including stock, futures and commodities exchanges and similar entities;
- redemptions of shares in equity funds, noting that in case the investor redeems the shares before completing the grace period for credit income, the rate is 0.5% per day over the surrender value of shares in equity funds;
- Certificates of Agribusiness Credit Rights – CDCA, with Letter of Agribusiness Credit – LCA, and with Certificate of Agribusiness Receivables – CRA, established by Article 23 of Law No. 11,076/04; and
- debentures pursuant to Article 52 of Law No. 6,404/76, with Real Estate Receivables Certificates mentioned in Article 6 of Law No. 9,514/97, and with Financial Letters mentioned in Article 37 of Law No.12,249/10.

**IOF on loans transactions**

IOF is levied on all types of domestic loans, including overdrafts, at a daily rate of 0.0041% applicable to legal entities. For individual taxpayers, the daily rate has been 0.0068% since December 2011. This IOF rate will be charged on principal available to borrowers, but for cases in which the amount of principal is not predetermined, in addition to the IOF levied on principal, there will be additional IOF at the same rate levied on interest and other charges, so that the calculation base will comprise the sum of daily outstanding debt balances calculated on the last day of each month. In cases in which the IOF calculation base is not the sum of outstanding debt balances, IOF shall not exceed the amount resulting from applying the daily rate to each amount of principal stipulated for the transaction, multiplied by 365 days, plus an additional rate of 0.38% even if the loan is to be repaid by installment. In any case, IOF is subject to a maximum daily rate of 1.5% on the amount loaned. Furthermore, since January 2008, loans and advances have been subject to IOF in the form of an additional rate of 0.38% irrespective of the repayment period or whether the borrower is an individual or a legal entity.

**IOF on insurance transactions**

IOF tax is levied on insurance transactions at a rate of:

- 0%, in the case of reinsurance or mandatory insurance pertaining to housing finance provided by an agent of the housing finance system, export transactions, international transportation of goods, aviation insurance or premiums designated to fund life insurance plans containing life coverage;

- 0.38% of premiums paid, in the case of life insurance and similar policies, for personal or workplace accidents, including mandatory insurance for personal injuries caused by vehicles or ships or cargo to persons transported or others;

- 2.38% private health insurance business; and

- 7.38% of premiums paid, in the case of other segments of insurance.

**Income and social contribution taxes on profits**

Federal taxes on company income include two components, income tax known as "IRPJ" and tax on net profits, known as "Social Contribution" or "CSLL." Current year and deferred income tax charges are calculated based on a rate of 15.0% plus a surcharge of 10.0% on taxable income exceeding R$240,000. Considering the above, the IRPJ is assessed at a combined rate of 25.0% of adjusted net income. Current year and deferred social contribution tax is calculated based on a general rate of 9.0% of adjusted net income. However, since May 2008, financial institutions and affiliated companies have been taxed at a rate of 15.0%.

Companies are taxed based on their worldwide income rather than 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 taxable profits. A Brazilian entity is allowed to offset income tax paid abroad against tax on the same income due in Brazil (i) under double taxation agreements (ii) up to the amount of Brazilian income taxes charged on the same income, if there is reciprocal treatment between Brazil and the country where the profit or gain was obtained, as is the case with the United States. Profits computed at the end of each year by an offshore entity which is a branch, subsidiary or affiliate of a Brazilian entity are regarded as available to the Brazilian entity and therefore subject to income tax in Brazil.

Profits or dividends generated and paid by Brazilian entities since 1996 are not subject to withholding income tax, nor are they included in the calculation of income tax for corporates or individual beneficiaries domiciled in Brazil or abroad.

Since payment of dividends is not tax deductible for the corporation distributing them, Brazilian legislation allows an alternative means of compensating shareholders in the form of "interest on equity" which may be deducted from taxable income. This deduction is limited to the product of (i) the *pro rata die* variation of the long-term interest rate announced by the Brazilian government, known as the "TJLP," times (ii) the corporation's equity calculated in accordance with accounting practices adopted in Brazil, not exceeding:

- 50.0% of net income (before the above distribution and any deductions for income taxes) for the year in respect of which the payment is made, in accordance with accounting practices adopted in Brazil; or

- 50.0% of retained earnings for the year prior to the year in which payment is made, in accordance with generally accepted accounting principles in Brazil.

Distributions of interest on equity paid to holders of shares, including payments to the depositary bank in respect of shares underlying ADSs or common shares ADSs, are subject to Brazilian withholding tax at a rate of 15.0%, except for payments to: (i) persons exempt and immune from tax in Brazil or (ii) persons situated in tax havens in which case, payments are subject to income tax at a rate of 25.0%.

Tax losses of Brazilian companies accrued in prior years may offset income from future years up to 30.0% of annual taxable income.

Gains realized by persons resident in Brazil on any disposition of common or preferred shares in Brazilian stock exchanges or similar markets are generally taxed at the following rates:

- 20.0% if the transaction is "day-trade" on a stock exchange; or

- 15.0% for all other transactions.

In addition, persons resident in Brazil who trade on an exchange, or in commodities, futures or similar markets, except for day-trades, are subject to a withholding income tax of 0.005% as follows:

- in the futures market, the sum of the daily adjustments, if positive, determined when closing out the position, in advance or on the settlement date;

- in the options market, the result, if positive, of the sum of the premiums paid and received on the same day;

- for forward contracts, which provide for delivery of the assets on a set date, the difference, if positive, between the forward price and cash price on delivery date;

- with respect to forward contracts for financial settlement, the settlement amount as specified by the contract; and

- for the spot market, the sale value of shares, gold, financial assets or other securities traded therein.

This taxation system was created in order to facilitate the Brazilian tax authority's supervision of transactions in the financial and capital markets. Withholding income taxes as mentioned above may be (i) deducted from income tax levied on net monthly gains; (ii) offset with tax due in subsequent months; (iii) offset in annual income tax declaration of adjustment (if there is withheld tax to be returned); or (iv) offset with the outstanding withholding income tax due on capital gains from the sale of shares.

Brazilian residents day-trading on stock, commodities or futures exchanges, or similar markets, are also subject to an additional withholding tax similar to the described above, at a rate of 1%. This tax may also be (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 on disposition of shares in Brazil by investors who reside in a jurisdiction deemed to be a "tax haven" under Brazilian law (any country that (i) does not charge income tax, (ii) charges income tax at a rate of less than 20.0% or (iii) a country whose corporate law opposes confidentiality on ownership of corporate entities) are subject to the same rates applicable to holders resident in Brazil, as previously described.

Gains obtained on disposition of shares in Brazil by holders who are resident overseas, in a country that, according to Brazilian laws, is not deemed a tax haven, are exempted from Brazilian tax if:

- proceeds obtained from the disposition of shares were remitted from Brazil within five business days of the cancellation of the ADSs or common share ADSs, which were represented by the shares sold; or

- the foreign investment in shares is registered with the Central Bank pursuant to CMN Resolution No. 2,689/00.

Otherwise, the same treatment afforded to residents in Brazil will be applicable.

There is zero income tax rate on income from transactions involving Brazilian government bonds purchased as of February 2006, except those for which buyers enter into resell agreements under CMN rules and conditions. This zero income tax rate is also applicable to income of non-residents that invest in shares of investment funds exclusively for non-resident investors, if their portfolio is at least, 98% government bonds. This zero tax rate is not applicable if the beneficiary is resident or domiciled in a country deemed a tax haven.

The income tax rate is also zero, under certain conditions, on income from investments in private equity investment funds, investment funds in quotas of private equity investment funds and emerging markets investment funds if income is paid, credited, delivered or remitted to individual or collective beneficiaries resident or domiciled abroad (except tax havens), whose investments in Brazil are in compliance with CMN regulations and conditions. These funds must comply with CVM regulations on limits for portfolio composition, diversification and investment rules in order to benefit from the zero income tax rate.

Income of Brazilian residents from redemption, sale or amortization of shares in investment funds, private equity funds, funds of funds and emerging markets investment funds, including income resulting from liquidation of the fund, is subject to an income tax rate of 15% on the positive difference between redemption or sale value and 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 governing 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 from the 2008 fiscal year.

In June 2010, legislation introduced thin capitalization rules, and limited deduction for interest paid or credited by a Brazilian company to (i) an addressee domiciled abroad, whether or not holding equity interest in the company paying, and (ii) an addressee resident, domiciled or incorporated in a tax haven or locality with a low or privileged tax regime.

In cases where the creditor is a related party domiciled abroad and holds an equity interest in the Brazilian company making a payment, debt may not exceed the equivalent to twice such shareholders' interest in the total equity of the Brazilian company. In case of a related party with no shareholding interest, the limit will be equivalent to twice the total shareholders’ equity of the Brazilian company resident in Brazil. If there is more than one creditor, total debt owed foreign companies may not exceed the equivalent of twice the total value of the interests of all the related parties in the shareholders’ equity of the company resident in Brazil. If the debt is exclusively related to foreign companies that have no ownership interest in the Brazilian company, the overall limit is twice 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 and social contributions taxes.

Also beginning in June 2010, tax deductions for any payment to a beneficiary resident or domiciled in a country considered a tax haven became subject to the following requirements in addition to others already stipulated 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.

In November 2010, the Brazilian tax authorities issued a normative instruction altering the tax treatment applicable to variation in the monetary value of taxpayers' credit rights and obligations due to varying exchange rates. Under this new instrument, as of the 2011 calendar year, the election of tax regime for taxation of exchange-rate variations (i) may only be exercised in January of each calendar year and (ii) may only be altered during the fiscal year if there is "material variation in the exchange rate," as published by a Finance Ministry directive.

Real estate financing

**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 earnings from 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 equity.

Brazilian legislation authorizes 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 of PIS and Cofins taxes, allowing taxpayers to deduct from their calculation basis credits originating from certain transactions. In order to offset these credits, the rates of both PIS and Cofins were substantially increased. Subsequent to the changes made to PIS and Cofins, as of May 2004, both taxes are applicable on imports of goods and services when the taxpayer is the importing company domiciled 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 charged on payments of interest on equity were maintained.

Certain economic activities are expressly excluded from the non-cumulative collection system of 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 and similar institutions.

Before February 1999, we were not a Cofins taxpayer. In February 1999, Cofins was imposed on our gross revenues at a rate of 3.0%. After September 2003, this tax rate was increased to 4.0% for financial and similar institutions. The calculation base for Cofins is the same as that for PIS.

In July 2010, the Brazilian tax authorities introduced digital tax records for PIS and Cofins taxes. Under the new rule, financial and similar institutions must keep digital records for PIS and Cofins taxes relating to taxable events occurring as of January 2012.

**b) issuer environmental policy and costs incurred for compliance with environmental regulation, and other environmental practices if applicable, including adherence to international standards of environmental protection**

Bradesco's corporate sustainability policy includes the commitment to adopt responsible lending policies and procedures and to adopt action plans for projects that may involve environmental risk.

Additionally, the Organization's credit standards and procedures cover management of environmental risk and require all applications for loans, regardless of their type or purpose, to be appraised from the point of view of environmental risk. As part of these rules, there are alert and restriction notices listing high-risk sectors and situations, which require stricter appraisal before lending, as well as 69 business activities that require critical analysis from the socioenvironmental point of view.

Bradesco has been a signatory to the Equator Principles since 2004 and applies IFC social and environmental criteria to project finance for new projects and / or extensions involving sums of US$ 10 million or more, as well as other types of lending for new projects and / or extensions involving US$ 50 million or more.

The Organization has two areas specializing in the analysis and management of environmental risk. The Credit Department's Environmental Risk Analysis area undertakes risk analysis and produces reports, in order to assist the Executive Committee, or any other decision making body, and to make recommendations to the areas responsible for continuing to lend.

Record restrictions are established to comprise customers included in lists related to interdicted areas disclosed by IBAMA, and contaminated areas disclosed by environmental authorities of São Paulo (CETESB), Rio de Janeiro (INEA) and Minas Gerais (FEAM), as well in “black list” of the Ministry of Labor and Employment, for alleged use of child and slave labor; also, information provided by customers upon the completion of the sector-related *check list* is also used.

Once finance has been approved, the Investor Relations department's Project Management and Environmental Monitoring area begins to act together with other areas involved in lending to coordinate the inclusion of socioenvironmental obligations in financing agreements, and to monitor compliance through full repayment of debt.

With respect to investments, in 2010 Bradesco Asset Management (BRAM) adhered to UNPRI (United Nations Principles for Responsible Investments) and, in line with its strategy, Bradesco signed in 2011 the Declaration of United Nations Environment Programme - Finance Initiative (UNEP-FI), thus reasserting its commitment to the integration of socioenvironmental matters to business decisions.

The UNEP-FI platform was developed by the United Nations Program for the Environment especially for financial institutions committed to sustainable finance. Over 200 UNEP-FI signatory banks and insurance companies comprise an important forum disseminating best practices for the industry.

Through its membership of the Brazilian Federation of Banks (FEBRABAN), Bradesco is a signatory to the Ministry for the Environment's Green Protocol implementing a shared sustainability agenda for the Brazilian banking industry. The initiative encourages banks to engage with the Ministry for the Environment.

We also take part in discussions in the context of Equator Principles signatory banks on the updating of this commitment, which are held with the involvement of NGOs, customers, industry associations and consultants worldwide.

**c) dependence on relevant patents, trademarks, licenses, concessions, franchises, or royalty agreements to develop business**

There is no dependence on patents, trademarks, licenses, concessions, franchises, royalty agreements relevant for the development of Banco Bradesco’s activities.

**7.6 - Material revenues from other countries**

Bradesco does not obtain significant revenues from its holdings in foreign countries.

**7.7 - Effects of foreign regulation on business activities**

Since they do not provide significant revenues, the specific regulations of other countries in which Bradesco has business do not have significant impacts on the Bank's operations.

**7.8 - Material long-term relationships**

Concerning the other activities developed by the issuer, we highlight the Sustainability Report of the Bradesco Organization that expresses our vocation and commitment towards sustainable development and the dissemination of a corporate culture of socio-environmental responsibility. Published since 2002, it is one of the main instruments of disclosure of information to our stakeholders. For more information please visit the site http://www.bancodoplaneta.com.br.

**7.9 - Other material information**

There is no further information that we believe to be significant.

# 8. Conglomerate

## 8.1 - Description

### a) Direct and indirect controllers

On March 31, 2013, our Capital Stock was represented by 2,103,637,129 common shares (including 2,898,610 treasury shares) and 2,103,636,910 preferred shares (including 5,265,370 treasury shares) with no face value.

For a better visualization of companies integrating the Economic Group, refer to the organizational chart shown in item 8.2 of this Reference Form.

**Cidade de Deus Companhia Comercial de Participações**

Cidade de Deus – Companhia Comercial de Participações is a holding company that owns 48.60% of voting capital and 24.34% of Bradesco's total capital.It also manages, buys and sells securities and other assets on its own account. Its shareholders are: Nova Cidade de Deus, with 44.91% of its common shares and total capital; Fundação Bradesco, with 33.20% of its common shares and total capital; and the Aguiar Family, with 21.89% of its common shares and total capital, in March 31, 2013. Its capital stock consists of common, nominative book-entry shares with no par value.

**Nova Cidade de Deus Participações S.A.**

Nova Cidade de Deus Participações S.A. is a holding company for investments in other companies, especially those directly or indirectly owning Bradesco's voting capital. In March 31, 2013, through its interest in Cidade de Deus Companhia Comercial de Participações, the company indirectly owned 23.28% of our common shares and 11.86% of Banco Bradesco S.A.'s total shares.

The capital stock of Nova Cidade de Deus Participações S.A. is divided in class A and class B common shares and preferred shares. Ownership of class B common shares is restricted to:

- members of our Board of Executive Officers;
- former members of our Board of Executive Officers who have become members of our Board of Directors;
- former members of our Board of Executive Officers who have become members of the Board of Directors of one or more of our subsidiaries; and
- business corporations or civil-law corporations in which a majority of voting shares is owned by the above mentioned persons.

Ownership of Nova Cidade de Deus Participações S.A. class A common stock is restricted of persons entitled to own class B common shares, as well as of civil-law associations or foundations under private law, whose management is in the hands of the above persons or persons designated by them. Only Nova

Cidade de Deus Participações S.A. class A and class B common shareholders have voting rights.

**Aguiar Family**

Three members of the Aguiar Family and the estate of Mr. Amador Aguiar indirectly owned in March 31, 2013, through their interest in Cidade de Deus Companhia Comercial de Participações, 11.35% of common shares and 5.78% of Banco Bradesco S.A.'s total shares.

**Fundação Bradesco**

Fundação Bradesco, is an institution, the major corporate object of which is to promote social inclusion through education, and act as a multiplier of best pedagogical-educational practices among the socioeconomically underprivileged Brazilian population, which holds, directly and indirectly, through its interest in Cidade de Deus Companhia Comercial de Participações, Nova Cidade de Deus Participações S.A. and NCF Participações 56.42% of common shares, 1.99% of our preferred shares and 29.21% of Banco Bradesco S.A.'s total shares. In accordance with the bylaws of the foundation, Fundação Bradesco, its board of governors, as the highest decision-making body, consists of our Board of Directors, Board of Executive Officers and Departmental Directors, as well as Directors and Officers of Cidade de Deus Companhia Comercial de Participações, with no right to compensation.

**BBD Participações S.A.**

BBD Participações S.A. indirectly owned 6.07% of our common shares and 3.09% of our total shares in March 31, 2013, through its interest in Nova Cidade de Deus Participações S.A. BBD is a holding company that was set up to hold shares in our capital and the capital of our direct and indirect shareholders. In 1999, BBD acquired an indirect holding of 5.51% of our voting shares from a number of shareholders. BBD shares may be held only by members of the Board of Directors and Statutory Board of Bradesco, as well as qualified employees of Bradesco, Bradespar or our subsidiaries and national non-profit legal entities or national companies under their control, whose managers include exclusively employees and/or managers of Bradesco Organization. However, only members of the Board of Directors and Statutory Board may hold shares with voting rights. The majority of the members of our Board of Directors and Statutory Board hold BBD shares.

**NCF Participações S.A.**

NCF Participações is a holding company controlled by Cidade de Deus Participações S.A. and Fundação Bradesco. In March 31, 2013, NCF Participações S.A. directly held 8.20% of common shares and 5.22% of Banco Bradesco S.A.'s total shares.

**b) Subsidiaries and Affiliates**

Principal companies with direct and indirect holdings, included in consolidated financial statements:

| | **Business sector** | **Holding i** | |
|---|---|---|---|
| **12/31/2012** | **12/31/2011** | **12/31/2010** | |
| Alvorada Cartões, Crédito Financiamento e Investimento S.A. | Banking | 100.00% | 10 |
| Banco Alvorada S.A. | Banking | 99.95% | 9 |
| Banco Bradesco Financiamentos S.A. | Banking | 100.00% | 10 |
| Banco Bankpar S.A. | Banking | 100.00% | 10 |
| Banco Boavista Interatlântico S.A. | Banking | 100.00% | 10 |
| Banco Bradesco Argentina S.A. | Banking | 99.99% | 9 |
| Banco BERJ S.A.(1) | Banking | 100.00% | 9 |
| Banco Bradescard S.A. (2) | Cards | 100.00% | 10 |
| Banco Bradesco BBI S.A. | Investment bank | 98.35% | 9 |
| Banco Bradesco Cartões S.A. | Cards | 100.00% | 10 |
| Bradesco Administradora de Consórcios Ltda. | Administering Purchaser Consortiums | 100.00% | 10 |
| Bradseg Participações S.A. | Holding | 100.00% | 10 |
| Bradesco Auto/RE Cia. de Seguros | Insurer | 100.00% | 10 |
| Bradesco Capitalização S.A. | Saving Plans | 100.00% | 10 |
| Odontoprev S.A.(3) | Dental Health | 43.50% | 4 |
| Bradesco Leasing S.A. Arrendamento Mercantil | Leasing | 100.00% | 10 |
| Ágora Corretora de Títulos e Valores Mobiliários S.A. | Brokers | 100.00% | 10 |
| Bradesco S.A. Corretora de Títulos e Valores Mobiliários | Brokers | 100.00% | 10 |
| Bradesco Saúde S.A. | Insurer/Health Care | 100.00% | 10 |
| Bradesco Seguros S.A. | Insurer | 100.00% | 10 |
| Bradesco Vida e Previdência S.A. | Pension Plan/Insurer | 100.00% | 10 |
| Bradesplan Participações Ltda. | Holding | 100.00% | 10 |
| BRAM – Bradesco Asset Management S.A. DTVM | Asset management | 100.00% | 10 |
| Tempo Serviços Ltda. | Services | 100.00% | 10 |
| União Participações Ltda. | Holding | 100.00% | 10 |

(1) Participation increase by purchase of shares, occurred in May-June 2912;
(2) Current name of Banco Ibi S.A.; and

(3) Company consolidated in view of the control derived from shareholders' agreement.

**c) Issuer's holdings in the group of companies**

Banco Bradesco holdings in group companies are listed in item 8.1."b".

**d) Holdings of the group's companies in the issuer**

There are no participations of companies of the Economic Group in Bradesco, other than direct and indirect controllers.

**e) Companies under common control**

Banco Bradesco S.A. has the same controlling shareholders as Bradespar S.A.

**8.2 - Organizational Chart of the Economic Group**

The organizational chart below shows our equity structure on March 31, 2013:

Note: Holdings were calculated based on total capital, including shares in treasury.

**8.3 - Restructuring**

***Reasons for not filling out table:***

Information relating this field is shown in section 6.5 in this Reference Form.

**8.4 - Other material information**

There is no further information that we believe to be significant.

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**9. Material assets**

**9.1 - Material non-current assets – other**

There are no other significant non-current assets that have not been disclosed in this item.

**9.1 - Significant non-current asset items/9.1.a – Fixed assets**

| Description of real estate asset | Country – location | State – location | Municipality – location | Type of property |
|---|---|---|---|---|
| Head office – Cidade de Deus | Brazil | SP | Osasco | Leased |
| Alphaville Center | Brazil | SP | Barueri | Leased |
| Administrative Center | Brazil | AM | Manaus | Leased |

## 9.1 - Significant non-current asset items/9.1.b – Patents, trademarks, licenses, concessions, franchises and technology transfer agreements

***Reasons for not filling out table:***

There are no significant non-current assets for the development of Bradesco's business that are covered by this item.

## 9.1 - Significant non-current asset items/9.1.c – Equity interests in companies

| Corporate name<br><br>Fiscal year | National Register of Legal Entities (CNPJ)<br><br>Book Value – Variation % | CVM Code<br><br>Market Value - Variation % | Type of company<br><br>Amount of dividends received (reais) | Country - Head Office | Head office - Federal Unit<br><br>Date | Municipality – Head office<br><br>Amount (reais) | Description of business developed | Issuer interest (%) |
|---|---|---|---|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Banco Bradesco BBI S/A** | 06.271.464/0001-19 | - | Subsidiary | Brazil | SP | Osasco | Investment bank | 98.35000 |
| **12/31/2012** | 6.271551 | 0.000000 | [redacted] | **Market value Book value** | | | | |
| **12/31/2011** | 7.300000 | 0.000000 | [redacted] | | 12/31/2012 | 7,402,449,000.00 | | |
| **12/31/2010** | 9.900000 | 0.000000 | [redacted] | | | | | |

**Reasons for acquiring and holding this interest**

The company is part of Bradesco Organization's strategy and was founded to consolidate, provide focus and develop new niche in business related to local and international capital markets.

| **Corporate name**<br><br>**Fiscal year** | **National Register of Legal Entities (CNPJ)**<br><br>**Book Value – Variation %** | **CVM Code**<br><br>**Market Value - Variation %** | **Type of company**<br><br>**Amount of dividends received (reais)** | **Country - Head Office** | **Head office - Federal Unit**<br><br>**Date** | **Municipality – Head office**<br><br>**Amount (reais)** | **Description of business developed** | **Issuer interest (%)** |
|---|---|---|---|---|---|---|---|---|
| **Banco Bradesco Cartões S/A** | 59.438.325/0001-01 | - | Subsidiary | Brazil | SP | Osasco | Cards | 100.00000 |
| **12/31/2012** | 27.485897 | 0.000000 | 0.00 | **Market value Book value** | | | | |
| **12/31/2011** | 14.000000 | 0.000000 | 104,038,081.10 | | 12/31/2012 | 3,743,028,000.00 | | |
| **12/31/2010** | 644.700000 | 0.000000 | 364,969,831.33 | | | | | |

**Reasons for acquiring and holding this interest**

The company is part of Bradesco Organization's strategy and was founded to consolidate, centralize and develop focus in credit card related business.

| **Corporate name**<br><br>**Fiscal year** | **National Register of Legal Entities (CNPJ)**<br><br>**Book Value – Variation %** | **CVM Code**<br><br>**Market Value - Variation %** | **Type of company**<br><br>**Amount of dividends received (reais)** | **Country - Head Office** | **Head office - Federal Unit**<br><br>**Date** | **Municipality – Head office**<br><br>**Amount (reais)** | **Description of business developed** | **Issuer interest (%)** |
|---|---|---|---|---|---|---|---|---|
| **Banco Bradesco Financiamentos S.A.** | 07.207.996/0001-50 | - | Subsidiary | Brazil | SP | Osasco | Banking | 100.00000 |
| **12/31/2012** | 4.240784 | 0.000000 | 0.00 | **Market value Book value** | | | | |
| **12/31/2011** | 5.000000 | 0.000000 | 912,472,570.90 | | 12/31/2012 | 26,760,302,000.00 | | |
| **12/31/2010** | 5.100000 | 0.000000 | 6,681,049.33 | | | | | |

**Reasons for acquiring and holding this interest**

The company is a part of the Bradesco Organization, basically operating in the financing and lease of vehicles to customers and non-customers of the Bradesco Organization.

| **Corporate name**<br><br>**Fiscal year** | **National Register of Legal Entities (CNPJ)**<br><br>**Book Value – Variation %** | **CVM Code**<br><br>**Market Value - Variation %** | **Type of company**<br><br>**Amount of dividends received (reais)** | **Country - Head Office** | **Head office - Federal Unit**<br><br>**Date** | **Municipality – Head office**<br><br>**Amount (reais)** | **Descript of busin develop** |
|---|---|---|---|---|---|---|---|
| **Bradesco Administradora de Consórcios Ltda** | 52.568.821/0001-22 | - | Subsidiary | Brazil | SP | Osasco | Administe Purchas Consortiu |
| **12/31/2012** | 39.970480 | 0.000000 | 3,224,650.89 | | | | |
| **12/31/2011** | 53.800000 | 0.000000 | 135,000,000.00 | **Market value Book value** | 12/31/2012 | 1,344,702,000.00 | |
| **12/31/2010** | 23.400000 | 0.000000 | 160,000,000.00 | | | | |

**Reasons for acquiring and holding this interest**

The company is part of the Bradesco Organization, operating in the consortia for real estates, cars, trucks and tractors.

| **Corporate name**<br><br>**Fiscal year** | **National Register of Legal Entities (CNPJ)**<br><br>**Book Value – Variation %** | **CVM Code**<br><br>**Market Value - Variation %** | **Type of company**<br><br>**Amount of dividends received (reais)** | **Country - Head Office** | **Head office - Federal Unit**<br><br>**Date** | **Municipality – Head office**<br><br>**Amount (reais)** | **Descript of busin develop** |
|---|---|---|---|---|---|---|---|
| **Bradesco Leasing S.A. - Arrendamento Mercantil** | 47.509.120/0001-82 | 1964-0 | Subsidiary | Brazil | SP | Osasco | Leasin |
| **12/31/2012** | -53.915529 | 0.000000 | 335,883,414.23 | | | | |
| **12/31/2011** | 6.700000 | 0.000000 | 331,500,000.00 | **Market value Book value** | 12/31/2012 | 4,321,857,000.00 | |
| **12/31/2010** | 162.500000 | 0.000000 | 0.00 | | | | |

**Reasons for acquiring and holding this interest**

The company is part of the Bradesco Organization, operating in the lease segment.

| Corporate name<br>Fiscal year | National Register of Legal Entities (CNPJ)<br>Book Value – Variation % | CVM Code<br>Market Value - Variation % | Type of company<br>Amount of dividends received (reais) | Country - Head Office | Head office - Federal Unit<br>Date | Municipality – Head office<br>Amount (reais) | Descript of busin develop |
|---|---|---|---|---|---|---|---|
| **Bradseg Participações S/A** | 02.863.655/0001-19 | - | Subsidiary | Brazil | SP | Osasco | Holding - Company exclusive purpose i holding interest in capital sto of Banco Bradesco S.A and/o other companie directly or indirectly holding portions o the capita stock of th company |
| **12/31/2012** | 44.285527 | 0.000000 | 3,091,117,594.65 | **Market value** | | | |
| **12/31/2011** | 11.600000 | 0.000000 | 1,461,543,465.22 | **Book value** | 12/31/2012 | 19,202,880,000.00 | |
| **12/31/2010** | 7.040000 | 0.000000 | 1,500,000,000.00 | | | | |

**Reasons for acquiring and holding this interest**

A company incorporated with the purpose of centralizing the entity's share in the insurance, pension plan and capita segment, it owns 100% of shares in companies: Bradesco Auto /RE Companhia de Seguros; Bradesco Capitalizaç Bradesco Saúde S.A.; Bradesco Seguros S.A.; and Bradesco Vida e Previdência S.A.

**9.2 - Other material information**
**Item 9.1.c)**

In 2012, the amount for dividends received includes and interest on shareholders' equity net of income tax.

On October 10, 2012, the Central Bank homologated the Minutes of the Extraordinary General Meeting held on October 8, 2012, deliberating on the reduction of the institution's capital by R$ 5,500,000,000 without cancellation of shares, in order to adjust the capital surplus to its needs upon a cash refund to Banco Bradesco S.A., as the sole shareholder of the Company, from R$ 7,127,800,000 to R$ 1,627,800,000.

## 10. Directors’ Comments

### 10.1 - General financial and equity conditions

**a) general financial and equity conditions**

Bradesco Directors understand that the Bank has all general financial and equity conditions to ensure the performance of its obligations and the strategy for business expansion both in the short and long term.

Bradesco Directors’ analysis is based on the information from the financial statements for the last three corporate years, as shown below:

**2012**

The year of 2012 showed a strongly challenging scenario. It is important that changes perceived in the financial system as a result of the period crossed by the sector over the last years are evaluated. As a result, institutions have intensified their attention to operation flow, while expanding the range of general services offered to customers.

In mid-2012, the world’s major central banks, in an unprecedented and aggressive way renewed or increased their commitment to providing liquidity to the market, what contributed significantly to reduce the risks of extreme events in the international scenario. On the other side, the need of fiscal adjustments in USA and Europe has maintained a downward bias for global growth in 2013.

Brazil is not immune to that global context, in spite of advances in macroeconomic foundations over the last recent years. However, the Country now starts to reap the fruits of its greater margin of countercyclical strategy as compared to other nations. The several incentive actions adopted over the last months are already having the expected results as far as economic activity recovery is concerned, while some significant steps have been taken to improve infrastructure, adjust tax distortions, and increase the productive sector efficiency, which are significant factors to increase economy growth.

Notwithstanding the Country’s incontestable export vocation, the major economic activity performance driver has been and will continue to be the domestic demand, in particular the family consumption and investments, which are benefiting of the upcoming sport events over the next three years. In this context and taking into account the continuous social mobility process and the preparation of national institutions for the rules governing the capital structure and limitations to be implemented as from 2013, perspectives for the Brazilian banking system remain favorable.

In Bradesco Organization, among the significant events in the period, the following stand out:

- **on March 5, the start of operation of the subsidiary Bradesco Securities Hong Kong Limited, in Hong Kong, China,** focused on the identification of opportunities and distribution of fixed and variable-income products. As such, Bradesco expands its international distribution channels and strengthens its contact with global investors operating in that market, in addition to giving access to a new base of institutional investors;

- **on March 7, increase of 10% in the amount of Monthly Dividends paid for each share to shareholders, as from May 2012,** in conformity with the Monthly Remuneration System, from R$0.014541175 to R$0.015995293 per common share, and from R$0.015995293 to R$0.017594822 per preferred share. **On June 20,** the Board of Directors approved the **payment of Monthly Interest on Own Capital, to replace the Monthly Dividends,** as from August 2012;

- **on March 13, start of operations with ADRs – American Depositary Receipts guaranteed by common shares in New York Stock Exchange, USA.** This Program meets the demand of institutional investors, including international investment funds, under which Bradesco preferred and common shares start to be negotiated in that country;

- **on August 30, opening of Bradesco Next – the bank of the future** – a forefront space for presentation and trial of new technologies, products and services for customers;

- **on September 13, Bradesco was again selected to join the Dow Jones Sustainability World Index**, which is a selected list in New York Stock Exchange comprising the companies with the best practices for sustainable development;

- **on November 14, Bradesco nominative common shares were selected to integrate the MSCI Brasil Index,** a leading provider of tools to support investment decisions, effective as from December 2012; and

- **on November 30, Bradesco was again selected to join the Business Sustainability Index (ISE)** of BM&FBOVESPA, which reflects the return of a portfolio composed of shares of those companies that achieved the best performance in all factors that measure business sustainability.

Net income attributed to controllers was R$11.292 billion in the year, corresponding to 18.1% annualized return on average shareholders' equity. Annualized return on average total assets was 1.5%. Consolidated Shareholders' Equity attributed to the controlling shareholders amounted to R$71.138 billion and total assets stood at R$801.187 billion.

**Credit Operations and Fund Raising and Management**

Bradesco maintains, among the basic guidelines of its strategy, credit democratization and, through its diversified offers and more attractive interest rates, has increasingly boosted its volume of loans made directly or in partnership with other agents in the market, and other lines of credit for individual customers, such as paycheck-backed loans, through its extensive Branches Network, Points of Service, Sales Promoters and the Customer Service Center 0800 call Loans.

Details of performance on our loans and our sources of funding are shown below:

- R$269.652 billion was the end-year balance of Loans and Advances to Customers, net of provision for losses, showing evolution of 9.7% in the period, highlighting the following products: Working Capital, BNDES/Finame onlendings, Vehicles - CDC, Personal Loans and Export Finance;

- R$220.826 billion in deposits from financial institutions, including: Demand deposits, Interbranch accounts, Money market funding and Borrowings and Onlending obligations showed an increase of 8.1% on 2011;

- R$210.771 billion in deposits from customer, comprising: Demand Deposits, Savings Accounts, Time Deposits and Other Deposits, with a 2.6% decrease on the previous year;

- R$118.769 billion in Technical Provisions for Insurance and Pension Plans, showing an increase of 19.8% over the previous year;

- R$34.852 billion of Subordinated Debts, being R$26.045 billion issued in the country and R$8.807 billion issued abroad, increasing by 29.5% over 2011; and

- R$51.552 billion of Funds for Issuance of Bonds, being R$37.171 billion issued in the country and R$14.381 billion issued abroad, increasing by 23.8% over the previous year, with emphasis on the increase of R$6.3 billion in euronotes.

Bradesco's market value on December 31, 2012 was R$131.908 billion. Prices of Bradesco common and preferred shares increased by 34.2% and 14.4%, respectively, in 2012 against 2011, taking the last quotation each year, adjusted for corporate events, except for distribution of earnings. Note that the Ibovespa stock index rose 7.4% over the same period.

***2011***

In 2011, the real depreciated by 12.6% in relation to the US dollar, reaching R$1.8758 per US$1.00 on December 31, 2011 as compared to R$1.6662 per US$1.00 on December 31, 2010. The Central Bank increases the basic interest rate from 10.75% in December 2010 to 11.00% in December 2011.

At the end of the year of 2011, the global economic scenario remained characterized by signs of deceleration and existence of risks, especially in developed countries. Evidences of accommodation in American economy have been quickly counteracted by political efforts on the eve of 2012 presidential elections. In Europe, the experiment of a monetary and customs alliance that has not developed toward a political and fiscal alliance may require a greater effort of certain governments to address current constraints.

Being involved in the unprecedented and rising trend toward transparency that has characterized developed nations over the last few decades, at the same time favored by it, developing countries have been able to take appropriate preventive measures in good time to avoid the mistakes presumably made by the former, thus enabling faster and less painful adjustment for their exchange rate, fiscal and monetary policies.

Under such a scenario that has partly affected the more optimistic forecasts prevailing in the beginning of 2011, it is possible to make a relatively calm consideration of Brazil performance and potential in socioeconomic area. Having reached the historic milestone of over 50% of its population becoming middle class, Brazil's domestic market has been a powerful aid to maintain growth in the 2011/2012 biennium, although not as fast as in 2010. On the other hand, the world recognition of the full development of its democratic regime, freedom of speech, Law independence, and consumption expansion, has transformed Brazil in a preferential destination for direct foreign investments.

Among the most significant events of 2011 for Bradesco, the following stand out: a) we opened 1,009 new branches, taking our total number of branches and points of service to 9,063 all over Brazil, showing the wide coverage and robustness of our structure, our confidence in Brazil, and our determination to invest; b) we acquired shareholder control of Banco do Estado do Rio de Janeiro S.A. (BERJ), which enabled Bradesco to provide payroll services for state government employees, and mobilized our teams all over the country, to turn the registration of 400,000 new accounts into great momentum to expand the Bank's business in the state; c) the incorporation of BSP Empreendimentos Imobiliários S.A., a subsidiary of the Bank, in order to consolidate management of the Bradesco Organization's real estate assets, with a portfolio of 840 properties. Other highlights in terms of recognition: a) Bradesco continued listing on the NYSE's Dow Jones Sustainability Index; b) BM&FBOVESPA's Corporate Sustainability Index; and c) reputable consultants recognized "Bradesco" as Brazil's most valuable brand. Also significant was August's 10% increase in the value of the monthly dividends paid out by the Bank.

Net income attributed to controllers was R$10.958 billion in the year, corresponding to 20.9% annualized return on average shareholders' equity. Annualized return on average total assets was 1.7%. Consolidated Shareholders' Equity attributed to the controlling shareholders amounted to R$59.139 billion and total assets stood at R$722.087 billion.

**Loan operations**

Bradesco's commitment to democratized access to credit through its diversified offering has increasingly boosted its volume of loans made directly or in partnership with other agents in the market, and other lines of credit for individual customers, such as loans repaid from payroll deductions, through its extensive Branches Network, Points of Service and the Customer Service Center 0800 call Loans.

**Funding and Asset Management**

Details of performance on our loans and our sources of funding are shown below:

- R$245.875 billion was the end-year balance of Loans and Advances to Customers, net of provision for losses, showing evolution of 16.9% in the period, highlighting the following products: Working Capital, BNDES/Finame onlendings, Vehicles - CDC, Personal Loans and Housing Finance;

- R$204.290 billion in deposits from financial institutions, including: Demand deposits, Interbranch accounts, Money market funding and Borrowings and Onlending obligations showed an increase of 18.8% on 2010;

- R$216.321 billion in deposits from customer, comprising: Demand Deposits, Savings Accounts, Time Deposits and Other Deposits, with a 12.4% increase on the previous year;

- R$99.112 billion in Technical Provisions for Insurance and Pension Plans, showing an increase of 18.7% over the previous year;

- R$26.910 billion of Subordinated Debts, being R$20.506 billion issued in the country and R$6.404 billion issued abroad, increasing by 2.3% over 2010; and

- R$41.631 billion in funds from securities issued, of which R$33.094 billion were issued in Brazil and R$8.537 billion abroad, showing an increase of 133.8% on the previous year, highlighting the R$19.3 billion increase in financial notes issues.

Bradesco's market value on December 31, 2011 was R$106.971 billion. Bradesco's common and preferred stock posted falls of 1.6% and 5.8% respectively in 2011 against 2010, taking the last quotation each year, adjusted for corporate events, except for distribution of earnings. Note that the Ibovespa stock index fell 18.1% over the same period.

***2010***

In 2010, the Brazilian Real appreciated 4.3% against the US dollar, reaching R$1.6662 per US$1.00 on December 31, 2010 compared to R$1.7412 per US$1.00 on December 31, 2009. The Central Bank increased the interest rate from 8.75% in December, 2009 to 10.75% in December, 2010.

The year 2010 was marked by the world economic growth though at a moderate pace and uneven across countries. If, on one hand, some developed countries will still have to overcome some difficulties generated by economic destabilization occurred in 2008/2009, on the other hand, there remains the clear perception that this scenario opens new opportunities for emerging countries, in particular for countries like Brazil, where the democratic environment is consolidated and the business sector has achieved a capacity consistent with such new challenges.

In spite of many challenges linked to long-term growth, Bradesco is prudently optimistic on perspectives for the next years. The Brazilian economy since the end of 2009 returned to presenting a solid basis for renewed growth, which was confirmed at the closing of 2010 marked by a robust expansion in GDP that reached the highest level recorded since 1985.

Politically speaking, 2010 was a year in which the full exercise of citizenship unveiled a democratic system with very deep roots, solidifying the freedoms of expression and of choice as the expected framework.

The advances have occurred not only with economic metrics, but also in social indicators. The improvements in people's quality of life have been encouraging, especially in spending power, which are achievements that have brought most of the population into the middle class, a significant statistic in the country's history.

Among the most significant events of 2010, the following stand out: a) the expressive volume of credit operations that increased by 19.3% over 2009, and the recovery of overdue credits, which increased by 57.9% over the previous year; b) the expansion of Customer Service Network operating in all Brazilian municipalities through the opening of 178 new Branches; c) the reorganization of facilities abroad to meet properly the demands of the international market; d) Bradesco's presence as the leading coordinator of Petrobras capitalization process, the greatest operation of the kind in Brazilian and world stock markets; e) the acquisition of the whole capital stock of Ibi Services in Mexico, in which partnership with local C&A was part of the deal; f) partnership with Banco do Brasil and Caixa Econômica Federal for creation and management of a Brazilian card brand - ELO; g) Bradesco's permanence in the Dow Jones Sustainability World Index and in the Corporate Sustainability Index - ISE; and h) from a socioenvironmental liability standpoint, the launch of the Corporate Code of Ethics of Bradesco Organization in Braille.

Net income attributed to controllers was R$9.940 billion in the year, corresponding to 22.3% annualized return on average shareholders' equity. Annualized return on average total assets at 1.8% was unchanged compared to previous year. Consolidated Shareholders' Equity attributed to controlling shareholders amounted to R$51.051 billion and total assets stood at R$602.954 billion.

**Loan operations**

Bradesco is working to democratize access to credit by continuously expanding and diversifying its offer, thus raising its volume of operations, including through direct financing and partnerships with market agents, as well as individual lines, such as payroll-deductible loans through its extensive Branches Network, Points of Service and Banco Postal, and the Customer Service Center 0800 Loans.

**Funding and Asset Management**

Details of performance of our loans and our sources of funding are shown below:

- R$210.280 billion was the end-year balance of Loans and Advances to Customers, net of provision for losses, showing evolution of 20.7% in the period, highlighting the following products: Working Capital, BNDES/Finame onlendings, Vehicles - CDC, Personal Loans, Credit Card, and Housing Finance;

- R$171.921 billion in deposits from financial institutions, including: Demand deposits, Interbranch accounts, Money market funding and Borrowings and Onlending obligations showed an increase of 43.2% on 2009;

- R$192.476 billion in deposits from customer, comprising: Demand Deposits, Savings Accounts, Time Deposits and Other Deposits, with a 13.3% increase on the previous year;

- R$83.493 billion in Technical Provisions for Insurance and Pension Plans, showing an increase of 15.0% over the previous year;

- R$26.315 billion in Subordinated Debt, R$21.236 billion issued in Brazil and R$5.079 billion abroad, showing an increase of 13.9% on 2009; and

- R$17.810 billion in funds from securities issued, R$12.298 billion issued in Brazil and R$5.512 billion abroad, showing an increase of 131.8% on the previous year.

On December 31, 2010 market capitalization of Bradesco was R$109.759 billion, with emphasis on preferred share valuation of 12.1% in the year, as compared to 1.0% valuation of Ibovespa.

The following are our key indicators:

Note that comments regarding Return on Average Equity (ROAE) and Return on Average Assets (ROAA) are shown in section 10.2.a). More analyses pertaining to our financial condition and position inherent to sources of liquidity and levels of indebtedness are shown in items 10.1.d) 10.1.e) 10.1.f) and 10.1.h).

## I) Basel Index

Brazilian financial institutions are subject to methodology for capital metrics and levels based on a risk-weighted asset index. The parameters of this methodology resemble the international framework for minimum capital measurements adopted for the Basel Accord. In Brazil, Bacen requires banks to have a minimum capital ratio in relation to total weighted assets of 11.0%, using definitions and calculations of reference equity for purposes of verifying compliance with its operational limits pursuant to Central Bank Resolutions Nos. 3,444/07 and 3,490/07 of the National Monetary Committee (CMN).

**R$ million**

| Calculation base | Dec12 | Dec11 | Dec10 | Variation Dec12 x Dec11 | | Dec11 x Dec10 | |
|---|---|---|---|---|---|---|---|
| | | | | R$ | % | R$ | % |
| **Reference equity (local acronym PR)** | **96,933** | **71,476** | **56,147** | **25,457** | **35.6** | **15,329** | **27.3** |
| **Tier I** | **66,194** | **58,714** | **49,897** | **7,480** | **12.7** | **8,817** | **17.7** |
| Shareholder equity | 70,047 | 55,582 | 48,043 | 14,465 | 26.0 | 7,539 | 15.7 |
| Mark to market adjustments | (4,229) | 2,765 | 1,678 | (6,994) | - | 1,087 | 64.8 |
| Deferred asset reduction | (212) | (248) | (296) | 36 | (14.5) | 48 | (16.2) |
| Minority / Other | 588 | 615 | 472 | (27) | (4.4) | 143 | 30.3 |
| **Tier II** | **30,867** | **12,865** | **6,373** | **18,002** | **139.9** | **6,492** | **101.9** |
| Mark to market adjustments | 4,229 | (2,765) | (1,678) | 6,994 | - | (1,087) | 64.8 |
| Subordinate Debt | 26,638 | 15,630 | 8,051 | 11,008 | 70.4 | 7,579 | 94.1 |
| **Deduction funding instruments** | **(128)** | **(103)** | **(123)** | **(25)** | **24.3** | **20** | **(16.3)** |
| **Risk-weighted assets** | **600,520** | **474,173** | **380,844** | **126,347** | **26.6** | **93,329** | **24.5** |
| **Required reference equity (local acronym PRE)** | **66,057** | **52,159** | **41,892** | **13,898** | **26.6** | **10,267** | **24.5** |
| Credit risk | 55,345 | 47,422 | 38,938 | 7,923 | 16.7 | 8,484 | 21.8 |
| Operational risk | 3,432 | 2,810 | 2,574 | 622 | 22.1 | 236 | 9.2 |
| Market risk | 7,281 | 1,927 | 380 | 5,354 | 277.8 | 1,547 | 407.1 |
| **Margin (excess/sufficient Ref Eq)** | **30,876** | **19,317** | **14,255** | **11,559** | **59.8** | **5,062** | **35.5** |
| **Leverage margin** | **280,691** | **175,609** | **129,591** | **105,082** | **59.8** | **46,018** | **35.5** |
| **Basel Index** | **16.1%** | **15.1%** | **14.7%** | **1.0p.p.** | | **0.4p.p.** | |
| Tier I | 11.0% | 12.4% | 13.1% | -1.4p.p. | | -0.7p.p. | |
| Tier II | 5.1% | 2.7% | 1.7% | 2.4p.p. | | 1.0p.p. | |
| Deductions | - | - | -0.1% | 0.0p.p. | | 0.1p.p. | |

In December 2012, Bradesco's Reference Equity reached R$96.933 million, against a Required Reference Equity of R$66.057 million, thus making for a capital margin of R$30.876 million. Most of the requirement was due to the credit risk portion (local acronym PEPR), which accounted for 83.8% of risk-weighted assets, reflecting partially the expansion of lending.

On an annual comparison basis, Basel Index increased by 1.0 p.p. from 15.1% in December 2011 to 16.1% in December 2012, mainly due to: (i) eligibility of Subordinated Debt to compose Tier II, in the amount of R$12,695 million; (ii) increase of 26.0% in net worth, basically due to the effect of increased price of some securities formerly classified as “Maintained to Maturity” and moved to the category “Available for Sale,” due to the adoption of CPC’s 38 and 40 by the Insurance Group; and partly offset: (iii) by the increase of 26.6% in risk-weighted assets.

It is worth mentioning that in December 2012, R$26,638 million of the total subordinated debt were used in the calculation of the Basel Index, given the respective maturity.

In December 2011, Bradesco’s Reference Equity reached R$71,476 million, against a Required Reference Equity of R$52,159 million, thus making for a capital margin of R$19,317 million. Most of the requirement was due to the credit risk portion (local acronym PEPR), which accounted for 90.9% of risk-weighted assets, reflecting partially the expansion of lending.

The Basel ratio rose 0.4 p.p. from 14.7% in December 2010 to 15.1% in December 2011, impacted mainly by (i) subordinated financial notes (Letras Financeiras) counted as Tier II capital, in the amount of R$9,402 billion, and (ii) Central Bank of Brazil’s Circular No. 3,563/11 lowering capital requirements for certain lending and leasing transactions (revoking Circular No. 3,515/10) and shares of investment funds for open pension plans (local acronyms PGBL and VGBL) as of November 2011.

It is worth mentioning that in December 2011, R$15,630 million of the total subordinated debt were used in the calculation of the Basel Index, given the respective maturity.

In December 2010, Bradesco’s Reference Equity reached R$56,147 million, against a Required Reference Equity of R$41,892 million, thus making for a capital margin of R$14,255 million. Most of the requirement was due to the credit risk portion (local acronym PEPR), which accounted for 93% of risk-weighted assets, reflecting mainly expansion of lending.

The Basel Index ended the period at 14.7%, thus showing a fall of 3.1 p.p. against December 2009, primarily due to: (i) the exclusion of R$3.0 billion of additional provisions in response to Central Bank Resolution No. 3,825/09, which revoked Central Bank Resolution No. 3,674/08, which allowed full additional provisions for doubtful accounts in the calculation of Tier I Reference Equity; and (ii) the R$4.9 billion reduction due to maturing subordinated debt and escalation of these debts in the last 5 years, which was offset by R$2.0 billion of new foreign debt eligible as Tier II capital.

It is worth mentioning that in December 2010, R$8,051 million of the total subordinated debt were used in the calculation of the Basel Index, given the respective maturity.

**II) Operating Efficiency Ratio (OER) and Operating Coverage Ratio**

**R$ million**

| **Calculation Base** | **2012** | **2011** | **2010** | **Variation** | | | |
|---|---|---|---|---|---|---|---|
| | | | | **Dec12 x Dec11** | | **Dec11 x Dec10** | |
| | | | | **R$** | **%** | **R$** | **%** |
| Personnel Expenses [1] | (10,639) | (10,221) | (7,998) | (418) | 4.1 | (2,223) | 27.8 |
| Administrative Expenses | (11,900) | (11,477) | (9,761) | (423) | 3.7 | (1,716) | 17.6 |
| **Total (A)** | **(22,539)** | **(21,698)** | **(17,759)** | **(841)** | **3.9** | **(3,939)** | **22.2** |
| Net interest income | 43,493 | 35,611 | 32,771 | 7,882 | 22.1 | 2,840 | 8.7 |
| Net fee and commission income | 12,805 | 10,834 | 9,395 | 1,971 | 18.2 | 1,439 | 15.3 |
| Income from insurance and pension plans | 1,413 | 3,076 | 2,578 | (1,663) | (54.1) | 498 | 19.3 |
| Income from equity interests in affiliates | 871 | 682 | 577 | 189 | 27.7 | 105 | 18.2 |
| Other operational revenues (expenses) | (8,529) | (4,859) | (6,003) | (3,670) | 75.5 | 1,144 | (19.1) |
| **Total (B)** | **50,053** | **45,344** | **39,318** | **4,709** | **10.4** | **6,026** | **15.3** |

| **Ratios** | **2012** | **2011** | **2010** | **Variation** |
|---|---|---|---|---|

| | | | | Dec12 x Dec11 | Dec11 x Dec10 |
|---|---|---|---|---|---|
| **OER - Operating Efficiency Ratio [2] (A)/(B)** | **45.0%** | **47.9%** | **45.2%** | **-2.9 p.p.** | **2.7 p.p.** |
| **Operating Coverage [3]** | **54.4%** | **47.9%** | **50.6%** | **6.5 p.p.** | **-2.7 p.p.** |

(1) It does not consider the employees' profit sharing (PLR) amounting to R$1,017 million in 2012, R$930 million in 2011 and R$796 million in 2010. Total Personnel Expenses amounts to R$11,656 million in 2012, R$11,151 million in 2011 and R$8,794 million in 2010;

(2) IEO = (Personnel expenses – Profit sharing + Administrative expenses) / (Net interest income + Net fee and commission income + Income from insurance and pension plans + Equity in the earnings of associates + Other operating revenues – Other operating expenses; and

(3) Operational Coverage Ratio = (Net fee and commission income) / (Administrative expenses + Personnel expenses).

**Operating Efficiency Ratio (OER)**

By comparing the year of 2012 to the year of 2011, we note a 2.9 p.p. increase in the operational efficiency rate, which reflects basically: (i) higher revenues from services provided and commissions, which were influenced by the increase in average business volume; and (ii) control of administrative and personnel expenses, which remained practically stable in spite of the strong organic growth recorded in the period.

A 2011-2010 comparison shows a 2.7 p.p. increase in the ratio, which primarily reflected a faster pace of organic growth, particularly in the second half of 2011, impacting personnel and administrative expenses due to 11,030 new points of service, in particular 1,009 new branches.

**Operating Coverage**

In 2012, operational coverage rate increased by 6.5 p.p. over the previous year, reflecting basically the increase of revenues from services provided and commissions combined with the continuous efforts to control expenses, including the actions of our Efficiency Committee in the period.

Comparing 2011 to 2010, operational coverage ratio fell by 2.7 p.p. reflecting: (i) higher personnel and administrative expenses, basically due to: (a) the impact of collective bargaining; and (b) higher expenses incurred, partly due to growth of business and points of service, in particular the faster pace of organic growth that led to 11,030 new points of service and in particular new 1,009 branches in the period; which was partly offset by: (ii) evolution of revenues from services and commissions.

**III) Loans and advances to customers**

Loans and advances to customers are classified as:

- Not overdue and not impaired;
- Overdue, but not impaired; and
- Reduction to recoverable amount, which includes loans and advances classified as impaired and loans and advances that are individually assessed for loss.

The Organization's loans and advances to customers are classified as impaired if they: (a) are overdue for more than 90 days, (b) have incurred losses, (c) have been renegotiated in a way to grant the borrower a right that normally would not be considered, (d) have been reclassified to high-risk levels, and/or (e) have been subject to bankruptcy events (order of bankruptcy or application for, grant or homologation of judicial or extrajudicial recovery).

**R$ million**

| **(International Financial Reporting Standards - IFRS)** | **December 31** | | | | | |
|---|---|---|---|---|---|---|
| | **2012** | **% (*)** | **2011** | **% (*)** | **2010** | **% (*)** |
| Not yet due and not subject to impairment (i) | 253,920 | 87.7 | 230,870 | 87.6 | 196,615 | 87.1 |
| Arrears but no impairment losses (ii) | 6,871 | 2.4 | 6,353 | 2.4 | 6,038 | 2.7 |
| Impairment (iii) | 28,899 | 10.0 | 26,299 | 10.0 | 22,983 | 10.2 |
| **Total loans and advances to clients** | **289,690** | **100.0** | **263,522** | **100.0** | **225,636** | **100.0** |
| Impairment losses | (20,038) | 6.9 | (17,647) | 6.7 | (15,356) | 6.8 |
| **Net value** | **269,652** | **-** | **245,875** | **-** | **210,280** | **-** |

(*) Proportion of total loans and advances to clients.

The improvement recorded in the portfolio of loans and advances to customers, by comparing both 2012 to 2011 and 2011 to 2010, is evidenced by the increase of credits not overdue  or subject to losses from the reduction to their recoverable amount, which increased by 10.0% and 17.4% respectively, thus increasing their representativeness to 87.7% in 2012.

In addition, it should be highlighted as a positive factor the maintenance: (i) of representativeness of loss due to the reduction to the recoverable amount over the last 3 corporate years at an average of 6.8%; and (ii) of the portfolio, due to the reduction to the recoverable amount, at an average representativeness of 10.0% on the portfolio.

**Loans and advances to customers not overdue or subject to impairment**

Loans and advances to customers classified as not overdue or subject to impairment reached R$253.9 billion in December 2012. The proportion of these transaction classified as low risk remained at 98% for the last three years, showing that credit rating policies, processes and tools used by the organization were adequate and consistent.

**R$ million**

| **(International Financial Reporting Standards - IFRS)** | **December 31** | | | | | |
|---|---|---|---|---|---|---|
| | **2012** | **% (*)** | **2011** | **% (*)** | **2010** | **% (*)** |
| Low risk | 247,192 | 97.4 | 226,629 | 98.2 | 194,270 | 98.8 |
| Medium risk | 5,894 | 2.3 | 3,676 | 1.6 | 1,919 | 1.0 |
| Greater risk | 834 | 0.3 | 565 | 0.2 | 426 | 0.2 |
| **Total** | **253,920** | **100.0** | **230,870** | **100.0** | **196,615** | **100.0** |
| **Proportion of total loans and advances to clients (%)** | **87.7** | **-** | **87.6** | **-** | **87.1** | **-** |

Low risk: Ratings AA1 – C3; Medium risk: Rating D; High risk: Ratings E – H.
(*) Proportion of total.

**Loans and advances to customers overdue but not subject to impairment**

The table below shows a breakdown by days overdue of loans and advances not marked as impaired in the collective analysis or subject to impairment by individual analysis.

For the purposes of this analysis, an asset is considered as being in arrears and included in the table when any payment is late or is not made strictly pursuant to contractual terms. The amount included in the category refers to the total financial asset, meaning not the overdue payment alone, but the contractual amount plus interest.

Non-Individually significant loans and advances to customers, such as retail operations that have not been classified as impaired, are being shown in this category.

Individually significant loans and advances may be shown in this category if individual analysis did not identify a need to record individual impairment loss and are therefore directed to collective loss analysis.

**R$ million**

| **(International Financial Reporting Standards - IFRS)** | **December 31** | | | | | |
|---|---|---|---|---|---|---|
| | **2012** | **% (*)** | **2011** | **% (*)** | **2010** | **% (*)** |
| Arrears up to 60 days | 5,767 | 83.9 | 5,401 | 85.0 | 5,185 | 85.9 |
| Arrears 61 – 90 days | 1,044 | 15.2 | 921 | 14.5 | 823 | 13.6 |
| Arrears over 90 days | 60 | 0.9 | 31 | 0.5 | 29 | 0.5 |
| **Total** | **6,871** | **100.0** | **6,353** | **100.0** | **6,038** | **100.0** |
| **Proportion of total loans and advances to clients (%)** | **2.4** | **-** | **2.4** | **-** | **2.7** | **-** |

(*) Proportion of total.

The above table shows loans and advances that did not show signs of possible impairment loss despite arrears being recorded. This amount accounted for 2.4% of the “loans and advances to customers” portfolio in December 2012 (2.4% in December 2011 and 2.7% in December 2010).

10. Directors'Comments

**Loans and advances to customers subject to impairment**

| (International Financial Reporting Standards - IFRS) | December 31 | | | | | R$ million |
|---|---|---|---|---|---|---|
| | **2012** | **% (*)** | **2011** | **% (*)** | **2010** | **% (*)** |
| Portfolio to mature | 12,192 | 42.2 | 11,126 | 42.3 | 11,677 | 50.8 |
| Arrears up to 60 days | 3,238 | 11.2 | 3,156 | 12.0 | 2,144 | 9.3 |
| Arrears 61 – 90 days | 1,464 | 5.1 | 1,357 | 5.2 | 878 | 3.8 |
| Arrears over 90 days | 12,005 | 41.5 | 10,660 | 40.5 | 8,284 | 36.0 |
| **Total** | **28,899** | **100.0** | **26,299** | **100.0** | **22,983** | **100.0** |
| **Proportion of total loans and advances to clients (%)** | **10.0** | **-** | **10.0** | **-** | **10.2** | **-** |

(*) Proportion of total.

In 2012, loans and advances subject to impairment totaled R$28.9 billion and maintained a representativeness of 10.0% of the total portfolio of loans and advances to customers, like in the previous year. In 2011, such loans amounted to R$26.3 billion and accounted for 10.0% of the total portfolio, as compared to 10.2% in the same period of 2010.

Lower ratios of these credits to total portfolio and, impairment to total lending reflect improvement across the entire credit cycle, as mentioned above.

**b) capital structure and possibility of shares or fund shares being redeemed, stating: i) cases of redemption and ii) formula for calculating redemption value**

By analyzing the table below, Bradesco Directors understand that the Bank's current capital structure is adequate and consistent with its business expansion strategy. The major source of financing of its operations is third party's capital.

| | | | In millions |
|---|---|---|---|
| **Capital structure *** | **Dec12** | **Dec11** | **Dec10** |
| ON | 1,909,762 | 1,909,911 | 1,880,830 |
| PN | 1,907,611 | 1,907,931 | 1,881,225 |
| **Subtotal** | **3,817,373** | **3,817,842** | **3,762,055** |
| Shares in Treasury | 7,422 | 6,953 | 395 |
| **Total** | **3,824,795** | **3,824,795** | **3,762,450** |

(*) Does not include splits or reverse made during the periods.

In December 2012, total capital stock of Bradesco amounted to R$30.1 billion, represented by 3,824,795,000 shares, including 1,912,398,000 book-entry common shares and 1,912,397,000 book-entry preferred shares with no par value.

In December 2011, total capital stock of Bradesco amounted to R$30.1 billion, represented by 3,824,795,000 shares, including 1,912,398,000 book-entry common shares and 1,912,397,000 book-entry preferred shares with no par value.

In December 2010, total capital stock of Bradesco amounted to R$28.5 billion, represented by 3,762,450,000 shares, including 1,881,225,000 book-entry common shares and 1,881,225,000 book-entry preferred shares with no par value.

| | | | | | | **R$ million** |
|---|---|---|---|---|---|---|
| | **12/31/2012** | **% in relation to total liabilities** | **12/31/2011** | **% in relation to total liabilities** | **12/31/2010** | **% in relation to total liabilities** |
| Shareholders' equity of the controlling shareholders | 71,138 | 8.9% | 59,139 | 8.2% | 51,051 | 8.5% |
| Capital from third parties (1) | 730,049 | 91.1% | 662,948 | 91.8% | 551,903 | 91.5% |
| **Total liabilities** | **801,187** | **100.0%** | **722,087** | **100.0%** | **602,954** | **100.0%** |

(1) Total liabilities excluding shareholders' equity.

Over the last 3 years, Bradesco has kept its proportion of capital held by third parties at around 91%, which is seen as a normal level for institutions in the financial intermediation business.

There are no ways of redeeming the company's shares other than those legally stipulated.

**c) capacity to pay financial commitments**

Bradesco has full ability to pay all its financial commitments, because it reviews daily its asset and liability management policy to ensure sufficient liquidity to honor withdrawals, deposits, repay other obligations at maturity, extend loans or other forms of credit to its customers and meet its own needs of working capital for investment. The following table presents our consolidated balance sheet by maturity.

**Consolidated balance shown by maturity (in accordance with the International Financial Reporting Standards, IFRS):**

| | **1 to 30 days** | | | **31 to 180 days** | | | **181 to 360 days** | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2012** | **2011** | **2010** | **2012** | **2011** | **2010** | **2012** | **2011** | **2010** | **20** |
| **Assets** | | | | | | | | | | |
| Cash and cash equivalents with banks | 59,993 | 93,778 | 80,960 | | - | - | | - | - | |
| Financial assets held for trading | 28,613 | 30,919 | 29,343 | 5,238 | 1,576 | 5,448 | 2,215 | 8,972 | 5,317 | 40 |
| Financial assets available for sale | 18,411 | 105 | 2,004 | 706 | 93 | 393 | 517 | 557 | 13 | 11 |
| Investments held to maturity | 2 | 608 | - | 9 | - | 106 | - | 126 | - | |
| Assets assigned as guarantee | 14,473 | 27,583 | 6,222 | 60,287 | 33,651 | 25,443 | 1,019 | 423 | 2,153 | 19 |
| Loans and advances to financial institutions | 50,284 | 50,031 | 31,869 | 26,826 | 9,027 | 19,293 | 5,088 | 1,679 | 1,091 | 10 |
| Loans and advances to clients | 37,725 | 35,661 | 35,562 | 71,776 | 67,729 | 57,240 | 43,465 | 39,982 | 34,974 | 98 |
| Other financial assets (1) | 30,230 | 25,434 | 18,657 | - | - | - | - | - | - | |
| **Total financial assets** | **239,731** | **264,119** | **204,617** | **164,842** | **112,076** | **107,923** | **52,304** | **51,739** | **43,548** | **180** |
| **Percentage in relation to total** | **31.7** | **38.8** | **35.7** | **21.8** | **16.5** | **18.8** | **6.9** | **7.6** | **7.6** | |
| **Liabilities** | | | | | | | | | | |
| Deposits from financial institutions | 98,782 | 105,430 | 79,761 | 62,974 | 21,549 | 21,915 | 14,122 | 14,475 | 13,983 | 40 |
| Client funds (2) | 122,543 | 105,722 | 96,622 | 14,323 | 13,789 | 7,498 | 10,055 | 11,507 | 20,769 | 63 |
| Financial liabilities held for trading | 2,791 | 205 | 292 | 182 | 183 | 198 | 202 | 76 | 110 | |
| Funds from Issuance of Securities | 3,461 | 335 | 209 | 14,697 | 6,122 | 2,485 | 12,120 | 8,033 | 2,273 | 20 |
| Subordinated debt | 196 | 104 | 1,122 | 550 | 2,789 | 4,461 | 1,397 | 4,617 | 2,417 | 13 |
| Technical reserves of the insurance and pensions (2) | 91,389 | 75,346 | 60,032 | 2,011 | 1,697 | 2,101 | 492 | 475 | 1,285 | 24 |
| Other financial liabilities (3) | 38,060 | 29,933 | 26,140 | - | - | - | - | - | - | |
| **Total financial liabilities** | **357,222** | **317,075** | **264,179** | **94,737** | **46,129** | **38,659** | **38,388** | **39,183** | **40,837** | **163** |
| **Percentage in relation to total** | **52.6** | **51.2** | **50.9** | **14.0** | **7.5** | **7.5** | **5.7** | **6.3** | **7.9** | |

(1) Including basically forex transactions, debtors arising from guarantee deposits and brokerage for securities;

(2) Demand deposits, savings accounts, and technical reserves for insurance and pension plans in the form of our ‘
historical turnover; and

(3) Including basically credit card and forex transactions, and trading and brokering securities and certificated savin

**d) financing sources used for working capital and investments in non-current assets**

**Principal Sources of Funding (in accordance with the International Financial Reporting Standards - IFRS)**

R$ million

| | Dec12 | Dec11 | Dec10 | Vertical analysis % Dec12 | Dec11 | Dec10 | Horizontal analysis Dec12xDec11 R$ | % | Dec11xDec10 R$ | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Demand deposits + Other | 37,684 | 32,536 | 36,882 | 11.0 | 9.6 | 13.4 | 5,148 | 15.8 | (4,346) | (11.8) |
| Savings accounts | 69,042 | 59,656 | 53,436 | 20.2 | 17.6 | 19.4 | 9,386 | 15.7 | 6,220 | 11.6 |
| Time deposits | 104,045 | 124,129 | 102,158 | 30.5 | 36.7 | 37.2 | (20,084) | (16.2) | 21,971 | 21.5 |
| **Subtotal – Clients funds** | **210,771** | **216,321** | **192,476** | **61.7** | **64.0** | **70.0** | **(5,550)** | **(2.6)** | **23,845** | **12.4** |
| Borrowing and Onlending | 44,186 | 53,247 | 38,196 | 12.9 | 15.7 | 13.9 | (9,061) | (17.0) | 15,051 | 39.4 |
| Funds from Issuance of Securities | 51,552 | 41,631 | 17,810 | 15.1 | 12.3 | 6.5 | 9,921 | 23.8 | 23,821 | 133.8 |
| Subordinated debt | 34,852 | 26,910 | 26,315 | 10.2 | 8.0 | 9.6 | 7,942 | 29.5 | 595 | 2.3 |
| **Total** | **341,361** | **338,109** | **274,797** | **100.0** | **100.0** | **100.0** | **3,252** | **1.0** | **63,312** | **23.0** |

**Deposits**

Deposits are our most important source of funding. Our deposits balance over these years progressed in the following manner:

- In December 2012, balance of deposits recorded a reduction of 2.6% as compared to December 2011, mainly due to: (i) reduction in time deposits; and partly offset: (ii) by the greater volume of savings and sight deposits; and

- In December 2011, the balance of our deposits increased approximately 12.4% as compared to December 2010, mainly due to increased funding volume in the form of time and saving deposits.

Deposits accounted for approximately 62% of all obligations in December 2012. Our deposits consist primarily of real-denominated, interest-bearing time and savings deposits and real-denominated, non-interest-bearing demand deposits. The R$14,534 million increase in the balance of our savings and demand deposits between 2012 and 2011 was due primarily to: (i) the net evolution of 5.2 million new savings accounts; (ii) the net increase of 583,000 new current accounts; and (iii) increased funding volume from institutional investors and the branch network, respectively as well as updating the deposit portfolio.

With respect to time deposits, a reduction of R$20,084 million, or 16.2% was recorded, caused mainly by: (a) new business opportunities offered to customers; and (b) migration of funds to other investment sources, such as Financial Notes and Debentures, which resulted in the increase of average fund raising terms, which offset the increase of new raised volumes and the update of deposit portfolio.

**Borrowing and Onlending**

In 2012, balance of Loans and On-lending Operations recorded a reduction of 17.0%, or R$9,061 million, in relation to 2011, to R$44,186 million. That decrease in the comparative period was basically due to the reduction of R$9,171 million in loans and on-lending operations denominated in and/or indexed to foreign currency, the balance of which decreased from R$17,340 million in December 2011 to R$8,169 million in

December 2012, mainly due to: (a) settlement of operations; and partly offset by: (b) positive exchange variation of 8.9% in the period.

Comparing 2011 against 2010, growth was due primarily to a rising volume of loans and onlending in Brazil through Finame and BNDES.

**Funds from Issuance of Securities**

By comparing December 2012 to the same period of the previous year, the increase of 23.8%, or R$9,921 million, derived basically from: (i) the increase of volumes of operations with bonds issued abroad amounting to R$5,844 million, which reflected the new issuances in the period and the positive exchange variation of 8.9%; (ii) the increase in operations with Housing Credit Notes in the amount of R$2,086 million; (iii) the greater volume of operations with Agribusiness Credit Notes in the amount of R$1,355 million; (iv) new issuances of Financial Notes, the balance of which increased by R$1,119 million; and partly offset by: (v) reduction of R$483 million in the balance of Mortgage Notes.

Comparing December 2011 to December 2010, the growth of 133.8% or R$23,821 million in funds from securities issued was primarily from: (i) new issues of financial notes (Letras Financeiras), the balance of which rose by R$19,300 million, from R$7,801 million in December 2010 to R$27,101 million in December 2011; (ii) a R$3,026 million increase in the volume of transactions in securities issued abroad, reflecting a favorable positive exchange rate variation and new issues placed in the period; (iii) a R$1,367 million increase in real estate credit notes transactions; (iv) a R$839 million increase in the volume of Agribusiness notes of credit; and partly offset by: (v) a reduction of R$743 million in the balance of debentures, due to their maturing.

**Subordinated debt**

In December 2012, Bradesco Subordinated Debts amounted to R$34,852 million (R$8,807 million abroad and R$26,045 million in Brazil), representing an increase of 29.5%, or R$7,942 million, over the same period of 2011. In the 12-month period, R$19,837 million of Subordinated Debts were issued.

In December 2011, Bradesco's Subordinated Debt totaled R$26,910 million (R$6,404 million abroad and R$20,506 million in Brazil). In this period, R$9,626 million of Subordinated Debt was issued.

In December 2010, Bradesco's Subordinated Debt totaled R$26,315 million (R$5,079 million abroad and R$21,236 million in Brazil). Issuance of subordinated notes in August 2010, in the amount of US$1.1 billion, stands out.

The tables below show the last three years' funding through subordinated debt securities:

| Maturity | Original term in years | Transaction value | Currency | Remuneration | R$ million December 31 2012 | 2011 |
|---|---|---|---|---|---|---|
| **In Brazil:** | | | | | | |
| **CDB – subordinated:** | | | | | | |
| | | | | 100.0% of the CDI rate + (0.3440% p.a. – 0.4914% p.a.) | | |
| 2012 (1) | 5 | - | R$ | IPCA + 7.632% p.a. | - | 2,707 |
| | | | | 100.0% of the CDI rate + (0.344% p.a. – 1.0817% p.a.) | - | - |
| 2013 | 5 | 575,000 | R$ | IPCA + (7.74% p.a. – 8.1863% p.a.) | 973 | 882 |
| 2014 | 6 | 1,000,000 | R$ | 112.0% of CDI rate | 1,554 | 1,420 |
| | | | | IPCA + (6.92% p.a. – 8.55% p.a.) | - | - |
| 2015 | 6 | 1,274,696 | R$ | 108.0% to 112.0% of the CDI rate | 2,028 | 1,775 |
| 2016 | 6 | 500 | R$ | IPCA + 7.1292% p.a. | 1 | 1 |
| | | | | 100.0% of the CDI rate + 0.87% p.a. | - | - |
| 2012 (2) | 10 | - | R$ | 101.5% of the CDI rate | - | 2,026 |
| 2019 | 10 | 20,000 | R$ | IPCA + 7.76% p.a. | 31 | 27 |
| **Financial Notes:** | | | | | - | - |
| 2012 (3) | 5 | - | R$ | 103.0% of the CDI rate | - | 1,639 |
| | | | | IGPM + 6.3874% p.a. | - | - |
| | | | | IPCA + (6.7017% p.a. – 6.8784% p.a.) | - | - |
| | | | | PRÉ rate of 13.0949% p.a. | - | - |
| 2016 | 6 | 102,018 | R$ | 108.0% to 110.0% of the CDI rate | 131 | 117 |

| | | | | | | |
|---|---|---|---|---|---|---|
| | | | | 100% of the CDI rate + (1.2685% p.a – 1.3656% p.a.) | - | - |
| | | | | IGPM + (5.7745% p.a. – 6.9588% p.a.) | - | - |
| | | | | IPCA + (5.6030% p.a. – 7.5482% p.a.) | - | - |
| | | | | PRÉ rate of (11.7493% p.a. – 13.8609% p.a.) | - | - |
| 2017 | 6 | 8,630,999 | R$ | 104% to 112.5% of the CDI rate | 9,180 | 9,009 |
| | | | | 100.0% of the CDI rate + (0.7855% p.a – 1.3061% p.a.) | - | - |
| | | | | IGPM + (4.0147% p.a. – 6.2626% p.a.) | - | - |
| | | | | IPCA + (3.6712% p.a. – 6.2822% p.a.) | - | - |
| | | | | PRÉ rate of (9.3991% p.a. – 12.1754% p.a.) | - | - |
| 2018 (4) | 6 | 8,262,799 | R$ | 105.0% to 112.0% of the CDI rate | 8,511 | - |
| | | | | IPCA + 7.4163% p.a. | - | - |
| 2017 | 7 | 40,100 | R$ | PRÉ rate + 13.1763% p.a. | 56 | 49 |
| | | | | IGPM + 6.6945% p.a. | - | - |
| 2018 | 7 | 141,050 | R$ | IPCA + (5.9081% p.a. – 7.3743% p.a.) | 170 | 149 |
| 2018 | 8 | 50,000 | R$ | IGPM + 7.0670% p.a. | 66 | 57 |
| | | | | 100.0% of the CDI rate + (1.0079% p.a – 1.0412% p.a.) | - | - |
| | | | | IGPM + 4.17468% p.a. | - | - |
| | | | | IPCA + (4.0262% p.a. – 6.1757% p.a.) | - | - |
| | | | | PRÉ rate of (10.1304% p.a. – 11.7550% p.a.) | - | - |
| 2019 (5) | 7 | 3,172,835 | R$ | 110.5% to 112.2% of the CDI rate | 3,205 | - |
| | | | | IGPM + 5.8351% p.a. | - | - |
| | | | | IPCA + (5.8950% p.a. – 6.3643% p.a.) | - | - |
| 2019 | 8 | 12,735 | R$ | PRÉ rate of 13.3381% p.a. | 15 | 13 |
| | | | | IGPM + 5.5341% p.a. | - | - |
| | | | | IPCA + (3.9941% p.a. – 6.1386% p.a.) | - | - |
| | | | | PRÉ rate of (11.1291% p.a. – 11.8661% p.a.) | - | - |
| 2020 (8) | 8 | 28,556 | R$ | 110.0% to 110.7% of the CDI rate | 30 | - |
| 2021 | 9 | 7,000 | R$ | 111.0% of the CDI rate | 7 | - |
| 2012 | 10 | - | R$ | 100.0% to 101.5% of the CDI rate | - | 607 |
| | | | | IGPM + (6.0358% p.a. – 6.6244% p.a.) | - | - |
| | | | | IPCA + (5.8789% p.a. – 7.1246% p.a.) | - | - |
| | | | | PRÉ rate of 12.7513% p.a. | - | - |
| 2021 | 10 | 19,200 | R$ | 109.0% of the CDI rate | 22 | 20 |
| | | | | IGPM + (3.9270% p.a. – 4.2994% p.a.) | - | - |
| | | | | IPCA + (4.1920% p.a. – 6.0358% p.a.) | - | - |
| | | | | PRÉ rate of (10.3489% p.a. – 12.4377% p.a.) | - | - |
| 2022 (6) | 10 | 54,143 | R$ | 110.0% to 111.3% of the CDI rate | 57 | - |
| **CDB Linked to Loans Operations:** | | | | | - | - |
| 2012 to 2016 | from 2 to 5 | 6,017 | R$ | 100% of the CDI rate | 7 | 8 |
| **Subtotal – in Brazil** | | | | | **26,045** | **20,506** |
| | | | | | - | - |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Abroad:** | | | | | - | - |
| 2012 (3) | 10 | - | Yen | Rate of 4.05% p.a. | - | 427 |
| 2013 | 10 | 1,434,750 | US$ | Rate of 8.75% p.a. | 1,033 | 932 |
| 2014 | 10 | 801,927 | Euro | Rate of 8.00% p.a. | 613 | 552 |
| 2019 | 10 | 1,333,575 | US$ | Rate of 6.75% p.a. | 1,552 | 1,440 |
| 2021 | 11 | 2,766,650 | US$ | Rate of 5.90% p.a. | 3,335 | 3,053 |
| 2022 (8) | 11 | 1,886,720 | US$ | Rate of 5.75% p.a. | 2,274 | - |
| **Subtotal - abroad** | | | | | **8,807** | **6,404** |
| | | | | | **-** | **-** |
| **Total** | | | | | **34,852** | **26,910** |

(1) Advanced payment of subordinated debt in the amount of R$461,505,000 in February 2012, and maturity of subordinated debt operations in November 2012;

(2) Advanced payment of subordinated debt in the amount of R$1,065,699,000 in February 2012; and maturity of subordinated debt operations in the amount of R$570,470,000 in March 2012, and R$994,000,000 in November 2012, respectively;

(3) Maturity of subordinated debt in April 2012;

(4) Financial Notes were issued, being: (i) R$362,979,000 in January 2012; (ii) R$2,030,486,000 in February 2012; (iii) R$859,438,000 in March 2012; (iv) R$789,635,000 in April 2012; (v) R$3,926,706,000 in May 2012; (vi) R$16,008,000 in June 2012; (vii) R$56,300,000 in July 2012; (viii) R$30,060,000 in August 2012; (ix) R$36,825,000 in September 2012; (x) R$128,927,000 in October 2012; (xi) R$300,000 in November 2012; and (xii) R$25,135,000 in December 2012, maturing in 2018;

(5) Financial Notes were issued, being: (i) R 23,633,000 in July 2012; (ii) R$4,025,000 in August 2012; (iii) R$922,816,000 in October 2012; (iv) R$1,100,400,000 in November 2012; and (v) R$1,066,700,000 in December 2012, maturing in 2019;

(6) Financial Notes were issued, being: (i) R$1,197,000 in January 2012; (ii) R$820,000 in February 2012; (iii) R$435,000 in March 2012; (iv) R$2,400,000 in April 2012; (v) R$11,000,000 in May 2012; (vi) R$10,662,000 in June 2012; (vii) R$748,000 in July 2012; (viii) R$8,000,000 in August 2012; (ix) R$7,223,000 in September 2012; (x) R$10,600,000 in October 2012; and (xi) R$1,058,000 in December 2012; maturing in 2022;

(7) In March 2012, subordinated debts were issued abroad amounting to US$1,100,000,000, at the rate of 5.75% per annum and maturing in January 2022; and

(8) Financial Notes were issued, being: (i) R$601,000 in September 2012; R$5,000,000 in October 2012; and R$901,000 in December 2012; maturing in 2020.

| Maturity | Original term in years | Transaction value | Currency | Remuneration | R$ million December 31 2011 | 2010 |
|---|---|---|---|---|---|---|
| **In Brazil:** | | | | | | |
| **CDB – subordinated:** | | | | | | |
| 2011 (1) | 5 | - | R$ | 103.0% of the CDI rate | - | 7,685 |
| 2012 (2) | 5 | 2,713 | R$ | 103.0% of the CDI rate or 100.0% of the CDI rate + (0.344% p.a. to 0.4914% p.a.) or IPCA + (7.102% p.a. – 7.632% p.a.) | 4,346 | 4,589 |
| 2013 | 5 | 575 | R$ | 100.0% of the CDI rate + (0.344% p.a. – 1.0817% p.a.) or IPCA + (7.74% p.a. – 8.20% p.a.) | 883 | 780 |
| 2014 | 6 | 1,000 | R$ | 112.0% of the CDI rate | 1,420 | 1,256 |
| 2015 | 6 | 1,275 | R$ | 108.0% to 112.0% of the CDI rate or IPCA + (6.92% p.a. – 8.55% p.a.) | 1,775 | 1,538 |
| 2016 | 6 | 101 | R$ | IPCA + (6.7017% p.a. – 7.1292% p.a.) 100.0% IGPM + 6.3874% p.a. 108.0% to 110.0% of the CDI rate or 100.0% PRÉ + (13.0949% p.a.) | 118 | 1 |
| 2012 (2) | 10 | 702 | R$ | 100.0% to 101.5% of the CDI rate + (0.75% p.a. – 0.87% p.a.) | 2,633 | 5,164 |
| 2019 | 10 | 20 | R$ | IPCA + 7.76% p.a. | 27 | 24 |
| **Financial Notes / Other:** | | | | | | |
| 2011 to 2016 | up to 5 | 7 | R$ | 100.0% of the CDI rate | 7 | - |
| 2017 (3) | 6 | 2,991 | R$ | 100.0% of the CDI rate + (1.2685% p.a. – 1.3656% p.a.) | 3,117 | - |
| 2017 to 2021 (3) | from 6 to 10 | 5,166 | R$ | 104% to 112.5% of the CDI rate | 5,383 | 33 |
| 2017 to 2021 (3) | from 6 to 10 | 221 | R$ | IGPM rate + (5.8351% p.a. – 7.0670% p.a.) | 233 | 51 |
| 2017 to 2021 (3) | from 6 to 10 | 407 | R$ | IPCA rate + (5.8137% p.a. – 7.7600% p.a.) | 442 | 92 |
| 2017 to 2021 (3) | from 6 to 10 | 109 | R$ | PRÉ rate of 11.7493% p.a. – 13.8609% p.a. | 122 | 23 |
| **Subtotal – in Brazil** | | | | | **20,505** | **21,236** |
| **Abroad:** | | | | | | |
| 2011 (4) | 10 | - | US$ | Rate of 10.25% p.a. | - | 251 |
| 2012 (5) | 10 | 315 | Yen | Rate of 4.05% p.a. | 429 | 366 |
| 2013 | 10 | 1,435 | US$ | Rate of 8.75% p.a. | 937 | 831 |
| 2014 | 10 | 802 | Euro | Rate of 8.00% p.a. | 555 | 507 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2019 | 10 | 1,334 | US$ | Rate of 6.75% p.a. | 1,446 | 1,285 |
| 2021 (6) | 11 | 1,600 | US$ | Rate of 5.90% p.a. | 3,067 | 1,867 |
| Costs of issues on funding | | | | | (30) | (28) |
| **Subtotal - abroad** | | | | | **6,404** | **5,079** |
| **Total** | | | | | **26,910** | **26,313** |

(1) Maturity of subordinated debt transactions in the amount of R$3,981,022 thousand;

(2) Early settlement of subordinated debt in the amount of R$3,719,703 thousand;

(3) Financial notes were issued in the amount of R$8,176,489 thousand, maturing up to 2021;

(4) Maturity of subordinated debt in December 2011;

(5) Including dollar "swap" cost, the rate rose to 10.15% per annum; and

(6) In January 2011, foreign subordinated debts were issued in the amount of US$500,000 thousand, with a rate of 5.90% per annum and maturity in 2021.

**e) financing sources for working capital and investments in non-current assets that it intends to use to cover liquidity deficits**

Bradesco Directors inform that, as financing sources for working capital and investment in non-current assets used to cover liquidity deficiencies, the Company may use the following resources: (i) Deposit Raising; (ii) Issuance of Debentures; (iii) Loans; (iv) Issuance of Bonds; and (v) Capital Contribution by controlling shareholders. Note that Bradesco Conglomerate's Treasury Department acts as a support center for our business segments by managing funding and liquidity positions and executing investment objectives in accordance with asset and liability management policies. It is also responsible for setting the rates for our products, including interfinancial rates. The treasury department covers any funding shortfall through borrowing in the interbank market, investing any surpluses in liquid instruments in the interbank market.

In some limited circumstances we may obtain emergency funds from the Central Bank of Brazil through a transaction referred to as "discount." A discount is a loan from the Central Bank of Brazil to a financial institution, that loan being guaranteed by Federal 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 discount transactions. Bradesco did not enter into discount transactions for liquidity purposes.

**f) indebtedness levels and characteristics of related debts, also describing: i) relevant loan and financing contracts; ii) other long-term relationships with financial institutions; iii) level of subordination among debts; iv) any restrictions binding the issuer, in particular in relation to limits on indebtedness and new debt, distribution of dividends, disposal of assets, issue of new securities, and transfer of controlling interest.**

There are no loans or financing or long-term relationships with financial institutions that we consider relevant to Bradesco.

Financial institutions are subject to operational limits established by the National Monetary Council (CMN) and the Central Bank of Brazil to operate according to the provisions of regulation in force, in particular Law No. 4,595/64, which instituted the National Financial System.

Among such established limits, the following stand out (i) Reference Net Worth consistent with the risks of their activity, (ii) constitution of fixed assets, which limits to 50% of Reference Equity the total funds recorded in Permanent Assets, (iii) exposure per customer, which is limited to 25% of the Reference Equity, (iv) exposure in gold, foreign currency and operations subject to exchange variation, limited to 30% of the Reference Equity, and (v) maximum limits of paid-up capital and shareholders' equity to operate.

Rules also restrict the financial institution from making such operations, as (i) grant of loans or advances to related companies, managers and their relatives, and (ii) acquisition of new properties not intended for their own use.

**g) limits for use of contracted financing**

There are no limits on use of funds already contracted.

**h) significant changes to each item of financial statements**

Directors understand that the Bank has all general financial and equity conditions to ensure the performance of its obligations and the strategy for business expansion.

Below, we present the comments on items that the Directors consider important and relevant, as evidenced in the Balance Sheet and Statement of Income.

**Balance Sheet**

Regarding the significant changes in the company's consolidated balance sheet items, we present below a comparison between the main significant events in the following periods:

| | | | | **Vertical analysis %** | | | **Hori** |
|---|---|---|---|---|---|---|---|
| | **Dec12** | **Dec11** | **Dec10** | **Dec12** | **Dec11** | **Dec10** | **Dec1 Dec R$** |
| **Assets** | | | | | | | |
| Cash and cash equivalents with banks | 59,993 | 93,778 | 80,960 | 7.5 | 13.0 | 13.4 | (33,785) |
| Financial assets held for trading | 111,840 | 96,597 | 75,234 | 14.0 | 13.4 | 12.5 | 15,243 |
| Financial assets available for sale | 81,561 | 45,248 | 40,179 | 10.2 | 6.3 | 6.7 | 36,313 |
| Investments held to maturity | 3,716 | 4,111 | 3,394 | 0.5 | 0.6 | 0.6 | (395) |
| Assets assigned as guarantee | 106,133 | 97,122 | 79,701 | 13.2 | 13.5 | 13.2 | 9,011 |
| Loans and advances to financial institutions | 92,821 | 72,664 | 64,716 | 11.6 | 10.1 | 10.7 | 20,157 |
| Loans and advances to clients, net of provision for losses | 269,652 | 245,875 | 210,280 | 33.7 | 34.1 | 34.9 | 23,777 |
| Non-current assets for sale | 533 | 445 | 412 | 0.1 | 0.1 | 0.1 | 88 |
| Investments in affiliates | 2,755 | 2,391 | 2,298 | 0.3 | 0.3 | 0.4 | 364 |
| Property, plant and equipment | 4,532 | 4,267 | 3,669 | 0.6 | 0.6 | 0.6 | 265 |
| Intangible assets and goodwill | 7,756 | 7,217 | 5,412 | 1.0 | 1.0 | 0.9 | 539 |
| Taxes for offset | 5,347 | 4,573 | 1,590 | 0.7 | 0.6 | 0.3 | 774 |
| Deferred taxes | 17,984 | 17,093 | 12,734 | 2.2 | 2.4 | 2.1 | 891 |
| Other assets | 36,565 | 30,706 | 22,374 | 4.6 | 4.3 | 3.7 | 5,859 |
| **Total** | **801,187** | **722,087** | **602,954** | **100.0** | **100.0** | **100.0** | **79,100** |
| **Liabilities** | | | | | | | |
| Deposits from financial institutions | 220,826 | 204,290 | 171,921 | 27.6 | 28.3 | 28.5 | 16,536 |
| Client funds | 210,771 | 216,321 | 192,476 | 26.3 | 30.0 | 31.9 | (5,550) |
| Financial liabilities held for trading | 4,050 | 747 | 733 | 0.5 | 0.1 | 0.1 | 3,303 |
| Funds from Issuance of Securities | 51,552 | 41,631 | 17,810 | 6.4 | 5.8 | 3.0 | 9,921 |
| Subordinated debt | 34,852 | 26,910 | 26,315 | 4.4 | 3.7 | 4.4 | 7,942 |
| Technical reserves for insurance and pensions | 118,769 | 99,112 | 83,493 | 14.8 | 13.7 | 13.8 | 19,657 |
| Other provisions | 21,047 | 17,926 | 13,328 | 2.6 | 2.5 | 2.2 | 3,121 |
| Current taxes | 3,354 | 2,759 | 1,923 | 0.4 | 0.4 | 0.3 | 595 |
| Deferred taxes | 3,092 | 2,247 | 1,981 | 0.4 | 0.3 | 0.3 | 845 |
| Other liabilities | 61,527 | 50,761 | 41,816 | 7.7 | 7.0 | 6.9 | 10,766 |
| **Shareholders' equity of the controlling shareholders** | **71,138** | **59,139** | **51,051** | **8.9** | **8.2** | **8.5** | **11,999** |
| **Minority interest – non-controlling shareholders** | **209** | **243** | **107** | **-** | **-** | **-** | **(34)** |
| **Total** | **801,187** | **722,087** | **602,954** | **100.0** | **100.0** | **100.0** | **79,100** |

**Cash and cash equivalents with banks**

In 2012, balance of cash and cash equivalents with banks amount to R$59,993 million, decreasing by R$33,785 million, or 36.0%, in relation to the previous year. That reduction reflects basically the reduction of compulsory deposits and funds available in local currency.

In 2011, the R$12,818 million increase was due primarily to a R$6,014 million increase in compulsory deposits, as well as R$4,623 million an increase in foreign currency.

**Financial assets held for trading**

In 2012, financial assets for trading amounted to R$111,840 million, showing an increase of 15.8% on the previous year. That increase derived basically from the increase of R$11,769 million in the portfolio of bonds and shares issued by non-financial companies, and the increase of R$7,662 million in the portfolio of bonds issued by financial institutions.

In 2011, financial assets for trading amounted to R$96,597 million, showing an increase of 28.4% on the previous year. This growth resulted primarily from a R$7,892 million increase in the Brazilian government bond portfolio and a R$6,039 million increase in the portfolio of stocks and bonds issued by financial institutions.

**Assets assigned as guarantee**

In a comparison between the years of 2012 and 2011, the 9.3% increase resulted basically from the increase of interfinancial liquidity operations partly offset by the reduction in the portfolio of Brazilian public bonds given in guarantee.

Comparing 2011 to 2010, the increase of 21.9% reflects growth in the portfolio of Brazilian government bonds assigned as collateral.

**Loans and advances to financial institutions**

In a comparison between the years of 2012 and 2011, there was an increase of R$20,157 million, 27.7%, in loans and advances to financial institutions, mainly due to the increase of R$26,881 million in investments in committed operations from R$41,787 million to R$68,668 million.

Comparing 2011 to 2010, the increase in loans and advances to financial institutions was mainly due to the R$4,604 million increase in investments in federal funds sold and securities purchased under agreements to resell, which rose from R$37,183 million to R$41,787 million.

**Loans and advances to customers, net of provision for losses**

In 2012, loans and advances to customers accounted for 33.7% of our total assets (2011 – 34.1% and 2010 – 34.9%).

Comparing 2012 to 2011, the evolution of 9.7%, or R$23,777 million, was due primarily to increased volume of operations, highlighting the following products: (i) personal credit; (ii) housing finance; (iii) working capital; (iv); vehicles - CDC; (v) credit card; and (vi) export financing.

Comparing 2011 to 2010, the evolution of 16.9% relates primarily to increased volume of operations, highlighting the following products: (i) working capital; (ii) BNDES/Finame onlendings; (iii) vehicles - CDC; (iv) personal credit; (v) credit card; and (ii) housing finance.

**Technical reserves for insurance and pensions**

In 2012, balance of technical provisions for insurance and social security amounted to R$118,769 million, increasing by R$19,657 million in relation to the previous year. This performance was mainly due to growth of the VGBL, PGBL and Health products.

In 2011, the R$99,112 million balance of technical provisions for insurance and pension plans was mainly due to the R$10,446 million increase in the VGBL product.

We also note that the main funding sources: (i) Deposits; (ii) Debentures; (iii) Borrowings and onlendings; (iv) Funds from securities issued; and (v) Subordinated Debt, are being commented in item 10.1 d.

**Statement of Income**

For a better understanding of major impacts that have affected our results (revenues and expenses), below are the consolidated financial statements for the years ended on December 31, 2012, 2011 and 2010, which were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

R$ million

| Consolidated managerial statement of income | 2012 | 2011 | 2010 | Vertical analysis % 2012 | 2011 | 2010 | Horizontal analysis 2012x2011 R$ | % | 2011x2010 R$ | % |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenues for interest and similar | 83,134 | 82,367 | 63,772 | 100.0 | 100.0 | 100.0 | 767 | 0.9 | 18,595 | 29.2 |
| Interest and similar expenses | (39,641) | (46,756) | (31,001) | (47.7) | (56.8) | (48.6) | 7,115 | (15.2) | (15,755) | 50.8 |
| **Net interest income** | **43,493** | **35,611** | **32,771** | **52.3** | **43.2** | **51.4** | **7,882** | **22.1** | **2,840** | **8.7** |
| Fee and commission income | 12,841 | 10,868 | 9,421 | 15.4 | 13.2 | 14.8 | 1,973 | 18.2 | 1,447 | 15.4 |
| Fee and commission expenses | (36) | (34) | (27) | - | - | - | (2) | 5.9 | (7) | 25.9 |
| **Net fee and commission income** | **12,805** | **10,834** | **9,394** | **15.4** | **13.2** | **14.7** | **1,971** | **18.2** | **1,440** | **15.3** |
| Net gain / (loss) on financial assets / liabilities for trading | 2,110 | (608) | 2,213 | 2.5 | (0.7) | 3.5 | 2,718 | - | (2,821) | - |
| Net gain / (loss) on financial assets and available for sale | 1,896 | 365 | 754 | 2.3 | 0.4 | 1.2 | 1,531 | 419.5 | (389) | (51.6) |
| Net gain / (loss) of foreign exchange operations | (951) | 2,626 | (683) | (1.1) | 3.2 | (1.1) | (3,577) | - | 3,309 | - |
| Income from insurance and pension plans | 1,413 | 3,076 | 2,578 | 1.7 | 3.7 | 4.0 | (1,663) | (54.1) | 498 | 19.3 |
| Losses due to impairment of loans and advances | (11,510) | (8,296) | (5,756) | (13.8) | (10.1) | (9.0) | (3,214) | 38.7 | (2,540) | 44.1 |
| Personnel Expenses | (11,656) | (11,151) | (8,794) | (14.0) | (13.5) | (13.8) | (505) | 4.5 | (2,357) | 26.8 |
| Other administrative expenses | (11,900) | (11,477) | (9,761) | (14.3) | (13.9) | (15.3) | (423) | 3.7 | (1,716) | 17.6 |
| Depreciation and amortization | (2,538) | (2,120) | (1,966) | (3.1) | (2.6) | (3.1) | (418) | 19.7 | (154) | 7.8 |
| Other operating income/(expenses) | (8,529) | (4,859) | (6,003) | (10.3) | (5.9) | (9.4) | (3,670) | 75.5 | 1,144 | (19.1) |
| **Income before income taxes and equity in the earnings of associates** | **14,632** | **14,001** | **14,747** | **17.6** | **17.0** | **23.1** | **631** | **4.5** | **(746)** | **(5.1)** |
| Income from equity interests in affiliates | 871 | 682 | 577 | 1.0 | 0.8 | 0.9 | 189 | 27.7 | 105 | 18.2 |
| **Income before income taxes** | **15,502** | **14,683** | **15,324** | **18.6** | **17.8** | **24.0** | **819** | **5.6** | **(641)** | **(4.2)** |
| Tax Income and social contribution | (4,151) | (3,594) | (5,272) | (5.0) | (4.4) | (8.3) | (557) | 15.5 | 1,678 | (31.8) |
| **Net income for the period** | **11,352** | **11,089** | **10,052** | **13.7** | **13.5** | **15.8** | **263** | **2.4** | **1,037** | **10.3** |

| Attributable to shareholders: | 2012 | 2011 | 2010 | Variation - % 2012x2011 | 2011x2010 |
|---|---|---|---|---|---|
| Controlling shareholders | 11,292 | 10,958 | 9,940 | 3.0 | 10.2 |
| Non-controlling shareholderws | 60 | 131 | 112 | (54.2) | 17.0 |

**Selected financial indices**

| On December 31 | In thousands of Reais, except for percentage and share information 2012 | 2011 | 2010 |
|---|---|---|---|
| | 11,291,570 | 10,958,054 | 9,939,575 |

| | | | |
|---|---|---|---|
| Net income attributable to controlling shareholders | | | |
| Total average assets | 750,476,230 | 652,797,332 | 538,774,478 |
| Average shareholders’ equity of the controlling shareholders | 62,463,588 | 52,424,391 | 44,535,636 |
| Controlling shareholders’ equity of the controlling shareholders | 1.5% | 1.7% | 1.8% |
| Controlling shareholders’ net income as a percentage of average shareholders’ equity attributable to controlling shareholders | 18.1% | 20.9% | 22.3% |
| Shareholders’ equity attributable to controlling shareholders as a percentage of total average assets | 8.3% | 8.0% | 8.3% |
| Dividend payment per share ratio (1) | 0.35 | 0.34 | 0.34 |

(1) Total dividends declared divided by net income attributable to controlling shareholders.

In 2012, Net Income reached R$11,352 million, corresponding to an increase of 2.4%, or R$263 million, over the previous year. Net Income attributed to controllers was R$11,292 million and up 3.0% on the same period of the previous year.

Return on average equity (ROAE) reached 18.1%, while Return on Average Assets (ROAA) for the year was 1.5%.

In 2011, Net Income reached R$11,089 million, corresponding to an increase of 10.3%, or R$1,037 million, over the previous year. Net Income attributed to controllers was R$10,958 million and up 10.2% on the same period of the previous year.

Return on average equity (ROAE) reached 20.9%, while Return on Average Assets (ROAA) for the year was 1.7%.

Next, we comment on the main line items that influenced results when comparing the years ended on December 31, 2012, 2011 and 2010:

**Net interest income**

In 2012, our net interest income increased by 22.1% in relation to 2011, from R$35,611 million to R$43,493 million. That increase is mainly related to the increase of: (i) the average interest rate from 6.2% in 2011 to 6.7% in 2012, affecting positively the result in R$4,178 million, mainly due to the 3.2 p.p. reduction in the average interbank interest rate from 11.6% in 2011 to 8.4% in 2012; and (ii) the average business volume, which contributed R$3,704 million, reflecting the 13.1% increase in the average balance of interest-yielding assets, which increased our revenues by R$10,005 million, with emphasis on the increase of: (a) 11.9% in the average balance of loans and advances to customers; (b) 25.2% in the average balance of assets given as guarantee; and (c) 99.5% in the average balance of assets available for sale.

Net interest income in 2011 totaled R$35,611 million, showing an increase of R$2,840 million (8.7%) on 2010 due to the following factors: (i) R$7,701 million growth in interest and similar income from loans and leases, reflecting 16.9% growth in loans to customers, (ii) R$3,243 million evolution in revenue from compulsory deposits; and partly offset by: (iii) a R$4,016 million increase in interest expenses arising from federal funds purchased and securities sold under agreements to repurchase; and (iv) a R$4,925 million increase in borrowings and onlendings.

**Fee and commission income**

In 2012, revenues from services and commissions amounted to R$12,841 million, increasing by R$1,973 million in relation to the same period of the previous year, mainly due to: (i) the increase of R$580 million in the credit card segment, as a result of the increase of the card/customer base; (ii) the increase of R$458 million in revenues from current account as a result of increase of business and account holder base, where 583,000 new accounts were recorded in the period; (iii) the increase of R$162 million, or 26.3%, in revenues from guarantees granted; (iv) the increase of R$104 million in revenues from collection; and (v) the increase of R$87 million in revenues from consortium management.

Revenues from services and commissions in 2011 showed an increase of R$1,447 million, primarily due to: (i) the credit card segment performing well, with its growing customer base; (ii) higher current account revenues reflecting growth in business and the customer base for current accounts, which showed net evolution of about 2.0 million new accounts in the period, and (iii) higher revenues from collection.

**Net gain / (loss) on financial assets / liabilities for trading**

In 2012, net income from financial assets/liabilities for negotiation amounted to R$2,110 million, increasing by R$2,718 million in relation to the previous year, reflecting basically the higher result from fixed and variable-income bonds.

In 2011, net loss on financial assets/liabilities held for trading reached R$608 million, while in 2010, there was a R$2,213 million gain. The variation was due to weaker results from derivatives used to hedge foreign investments.

**Net gains (losses) of foreign exchange operations**

Variations recorded between the years of 2012 and 2011 and between the years of 2011 and 2010 were basically due to the exchange variation that affected our investments linked to foreign currency.

**Income from insurance and pension plans**

In 2012, the reduction of 54.1% recorded in the result of insurance and social security was substantially due to: (i) increase in expenses from variations of technical provisions for insurance and social security in the amount of R$5,114 million, derived basically from: (a) the increase of 19.8% in the average volume of technical provisions for insurance and social security in light of the greater volume of business; and (b) the constitution of an additional technical provision derived from the adoption of a lower real interest rate for its respective calculation; (ii) the increase of R$1,955 million in retained claims mainly derived from: (a) the increase of notified damages in the amount of R$1,336 million; and (b) variations of IBNR provision in the amount of R$721 million; partly offset by: (iii) the increase of R$5,763 million in premiums issued.

In 2011, the "result of insurance and pension plans" line showed evolution of 19.3%, due to: (i) an increase of 22.7% or R$6,521 million in written premiums and pension plan contributions, which reached R$35,198 million, partly offset by: (ii) increased variation in technical provisions, in the amount of R$3,940 million; and (iii) increase in retained claims, amounting to R$1,591 million.

**Losses due to impairment of loans and advances**

The 38.7% evolution in net impairment losses on loans and advances was related to: (i) the increase of 9.9% in loans and advances to customers with reduction to the recoverable amount, which reflected basically the slow recovery of the world economic scenario; and (ii) the increased default.

Comparing 2011 to 2010, the 44.1% evolution in net impairment losses on loans and advances was related to: (i) growth in our loans and advances to customers, showing evolution of 16.8% in 2011; and (ii) 14.4% evolution in impaired transactions reflecting primarily the deteriorating global economic scenario.

**Personnel Expenses**

In 2012, there was an increase of R$505 million in relation to 2011, mainly due to the increase of expenses related to salaries, benefits and payroll charges, which were affected by: (i) the increase of salaries, according to collective bargaining agreements in 2011 and 2012; and (ii) net increase of the staff concentrated in the 2$^{nd}$ half of 2011 derived from the organic growth.

In 2011, there was a R$2,357 million increase on 2010, mainly related to: (i) increased expenses for salaries, social contribution, and benefits, impacted by higher salary levels, (ii) a net increase in our 9,436 head count; (iii) higher expenses for our profit sharing program for management and staff; and (iv) higher costs of provisions for labor claims.

**Administrative Expenses**

Comparing 2012 to 2011, the increase of 3.7% was due primarily to increased expenses for: (i) increase of business and service volume in the period; (ii) agreement adjustments; (iii) expenses related to organic growth as from the 2$^{nd}$ half of 2011, which led to the expansion of 9,196 call centers, partly offset by lower expenses related to: (iv) third parties' services mainly related to the end of partnership with Brazilian Post Office and Telegraph Company – ECT in December 2011 (Postal Bank); and (v) advertisement and publicity.

Comparing 2011 to 2010, the increase of 17.6% was due primarily to increased expenses for: (i) outsourced services, primarily variable expenses related to sales/business or trading volume (e.g. banking corresponding, Call Center, etc.); (ii) contractual adjustments; and (iii) accelerated organic growth in the period, in particular 1,009 new branches opened.

**Other operating income/(expenses)**

In 2012, a R$3,670 million increase in other expenses net of other operating revenues was due mainly to: (i) inclusion in 2012 of expenses related to the analysis of assets recovery – impairment; (ii) income from reimbursable fiscal credits from beneficial acquisition of BERJ included in the year of 2011; partly offset by: (iii) income from the disposal of Serasa shares in the amount of R$793 million.

In 2011, other expenses net of other operating revenues showed a fall of R$1,144 million due primarily to: (i) revenue from taxes to be offset in the amount of R$2,912 million; partly offset by: (ii) provisioning for tax risk amounting to R$786 million; and (iii) higher tax expenses in the amount of R$521 million.

**Tax Income and social contribution**

Income tax (IR) and social contribution (CSLL) expense rose from R$3,594 million in 2011 to R$4,151 million in 2012. This variation was due principally to: (i) the increase of taxable income from R$14,683 million in 2011 to R$15,502 million in 2012; and (ii) the greater fiscal benefit resulted from the distribution of interest on own capital to shareholders, which increased from R$1,174 million in 2011 to R$1,305 million in 2012.

As a percentage of our result before income tax and social contribution, the effective tax rate rose from an expense of 24.5% in 2011 to an expense of 26.8% in 2012.

Income tax (IR) and social contribution (CSLL) expense fell from R$5,272 million in 2010 to R$3,594 million in 2011. This variation was due principally to: (i) lower taxable income due to the US dollar's appreciation against the Brazilian real impacting our foreign borrowing; (ii) non-deductible expenses and non-taxable exchange-rate gains on foreign investment, which generated a positive adjustment of R$528 million in 2011 against a negative adjustment of R$657 million in 2010; and (iii) higher tax benefit obtained on distribution to shareholders of interest on shareholders' equity, which rose from R$986 million in 2010 to R$1,174 million in 2011.

As a percentage of our result before income tax and social contribution, the effective tax rate rose from an expense of 34.4% in 2010 to an expense of 24.5% in 2011.

# 10.2 - Operating and financial income

**Directors should comment:**

**a) results of issuer's operations, in particular:**

**i) description of any major components of revenue;**

We highlight below our main operating income that increased by R$8,401 million, or 6.6%, in the comparison between 2012 and 2011, mainly impacted by the increase of: (i) income from retained insurance and pension plan premiums; (ii) income from credit and leasing operations; (iii) result from operations with financial assets; and (iv) income from services and commissions. By comparing the year of 2011 to the year of 2010, revenues increased by 26.3%, with emphasis on: (i) income from credit and leasing operations; (ii) income from retained insurance and pension plan premiums; and (iii) result from operations with financial assets.

| Principal Operating Income | 2012 | 2011 | 2010 | Vertical analysis % | | | Horizontal analy | | R$ m |
|---|---|---|---|---|---|---|---|---|---|
| | | | | 2012 | 2011 | 2010 | 2012x2011 R$ | % | 2011x R$ |
| Loans and advances to clients (1) | 48,541 | 45,466 | 37,765 | 35.7 | 35.6 | 37.3 | 3,075 | 6.8 | 7,701 |
| Loans and advances to financial institutions | 6,800 | 9,194 | 6,060 | 5.0 | 7.2 | 6.0 | (2,394) | (26.0) | 3,134 |
| Financial assets: | 23,947 | 21,554 | 17,042 | 17.6 | 16.9 | 16.8 | 2,393 | 11.1 | 4,512 |
| Result of Compulsory Investments | 3,808 | 6,112 | 2,869 | 2.8 | 4.8 | 2.8 | (2,304) | (37.7) | 3,243 |
| Other financial interest income | 38 | 41 | 36 | 0.0 | 0.0 | 0.0 | (3) | (7.3) | 5 |
| **Revenues for interest and similar** | **83,134** | **82,367** | **63,772** | **61.1** | **64.5** | **63.0** | **767** | **0.9** | **18,595** |
| Premiums retained – insurance and pension plans | 40,177 | 34,516 | 27,994 | 29.5 | 27.0 | 27.7 | 5,661 | 16.4 | 6,522 |
| Revenue from services and commissions | 12,841 | 10,868 | 9,421 | 9.4 | 8.5 | 9.3 | 1,973 | 18.2 | 1,447 |
| **Total Principal Operating Income** | **136,152** | **127,751** | **101,187** | **100.0** | **100.0** | **100.0** | **8,401** | **6.6** | **26,564** |

(1) It consists of Credit and Leasing Operations; and
(2) It considers: (i) Securities for Negotiation; (ii) Securities Available for Sale; (iii) Securities Held to Maturity; and (i
Securities given in guarantee.

**Loans and advances to customers**

Revenues from credit and leasing operations, by comparing the balances in 2012 and 2011, increased by 6.8%, or R$3,075 million, while between 2010 and 2011 they increased by R$7,701 million, or 20.4%, provided that such variations resulted from the increase of our credit portfolio, as shown below.

| Loans and advances to clients | R$ million | | | Vertical analysis % | | | Horizontal analysis | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Dec12 | Dec11 | Dec10 | Dec12 | Dec11 | Dec10 | Dec12xDec11 R$ | Dec12xDec11 % | Dec11xDec10 R$ | Dec11xDec10 % |
| Working capital | 53,298 | 49,462 | 39,997 | 18.4 | 18.8 | 17.7 | 3,836 | 7.8 | 9,465 | 23.7 |
| BNDES/Finame onlendings | 35,704 | 35,399 | 29,554 | 12.3 | 13.4 | 13.1 | 305 | 0.9 | 5,844 | 19.8 |
| Vehicles - CDC | 33,821 | 30,651 | 25,193 | 11.7 | 11.6 | 11.2 | 3,170 | 10.3 | 5,458 | 21.7 |
| Personal loans | 32,287 | 24,618 | 20,368 | 11.1 | 9.3 | 9.0 | 7,669 | 31.2 | 4,249 | 20.9 |
| Export financing | 22,666 | 20,505 | 16,660 | 7.8 | 7.8 | 7.4 | 2,161 | 10.5 | 3,845 | 23.1 |
| Credit Card | 22,646 | 20,252 | 18,474 | 7.8 | 7.7 | 8.2 | 2,394 | 11.8 | 1,778 | 9.6 |
| Real estate financing | 22,303 | 15,931 | 10,187 | 7.7 | 6.0 | 4.5 | 6,372 | 40.0 | 5,744 | 56.4 |
| Rural Loans | 11,580 | 11,036 | 10,180 | 4.0 | 4.2 | 4.5 | 544 | 4.9 | 856 | 8.4 |
| Guaranteed account | 9,801 | 9,671 | 9,042 | 3.4 | 3.7 | 4.0 | 129 | 1.3 | 629 | 7.0 |
| Leasing | 8,035 | 11,551 | 16,366 | 2.8 | 4.4 | 7.3 | (3,515) | (30.4) | (4,815) | (29.4) |
| Importação | 6,580 | 5,073 | 3,834 | 2.3 | 1.9 | 1.7 | 1,507 | 29.7 | 1,238 | 32.3 |
| Overdraft | 2,989 | 2,746 | 3,207 | 1.0 | 1.0 | 1.4 | 243 | 8.8 | (462) | (14.4) |
| Insurance premiums receivable | 2,894 | 2,473 | 2,048 | 1.0 | 0.9 | 0.9 | 421 | 17.0 | 425 | 20.7 |
| Other | 25,086 | 24,155 | 20,525 | 8.7 | 9.2 | 9.1 | 932 | 3.9 | 3,630 | 17.7 |
| **Total** | **289,690** | **263,522** | **225,636** | **100.0** | **100.0** | **100.0** | **26,168** | **9.9** | **37,886** | **16.8** |

By comparing the balances in 2012 and 2011, loans and advances to customers increased by 9.9%, where the types that most contributed to that increase were: (i) personal credit; (ii) housing finance; (iii) working capital; and (iv) vehicles - CDC.

Between 2010 and 2011, balances of credit and leasing operations increased by 16.8%, with emphasis on the following products: (i) working capital; (ii) BNDES/Finame onlendings; (iii) housing finance; and (iv) vehicles - CDC.

**Loans and advances to financial institutions**

The revenue reduction of 26.0% between 2011 and 2012 reflected basically the reduction of the average rate of operations from 12.1% to 8.6%. With respect to the comparison between 2011 and 2010, the increase of 51.7% is related to the increase of: (i) the average rate from 9.4% to 12.1%; and (ii) the average volume that increased by 4.4%.

**Result of Financial Assets (Operations with Securities)**

By comparing the years of 2012, 2011 and 2010, variations recorded in revenues from Operations with Securities refer to the higher volume of operations with fixed-income securities.

**Result of Compulsory Investments**

By comparing the balances in 2012 and 2011, the revenue reduction of 37.7% derived basically from the decrease of: (i) 16.2% in the balance of time deposits; and (ii) interest rates (Selic).

By comparing the balances in 2011 and 2010, the revenue increase of 113.0% derived basically from: (i) the increase of 21.5% and 11.6%, in time deposit and savings deposit balances, respectively; and (ii) macroprudential actions adopted by the Central Bank of Brazil.

**Income from Retained Insurance Premiums, Pension and Capitalization Plans and Services Provided**

With respect to variations in income from retained insurance premiums, pension and capitalization plans, and services provided, comments are included in item 10.1.h.

**ii) factors that materially affected the operating results.**

Directors state that no factors occurred to affect substantially the company's operating results in the last corporate years, other than those described in item 10.1.h and 10.2.a.-i.

**b) variations in income from price changes, foreign exchange rates, inflation, changes in volumes and introduction of new products and services**

Directors inform that there were no significant variations in the issuer's financial revenues or income attributable to changing prices of our main inputs and products, exchange rates, inflation, altered volumes or the introduction of new products and services for the years ended on December 31, 2012, 2011 and 2010.

**c) impact of inflation, variation of prices of main inputs and products, and foreign exchange and interest rates on the issuer's operating income and financial income**

During periods of high interest rates, our financial income increases because the interest rates on our interest-earning assets are higher too. At the same time, we incur higher financial expenses since interest rates on interest-bearing liabilities are also higher. Changes in volumes of our assets and liabilities that incur interest also affect our revenues and expenses. For example, an increase in our interest income attributable to higher interest rates may be offset by a reduction in the volume of our outstanding loans.

Additionally, in the event of the Brazilian real depreciating, we: (i) incur losses on our liabilities denominated in/or indexed to, foreign currencies, such as our long-term debt denominated in dollars and foreign currency borrowings to the extent that the cost in Brazilian reais if the related financial expense is higher; 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 Brazilian real appreciates: (i) incur losses on assets denominated in/or indexed to foreign currencies; and (ii) incur gains on our liabilities denominated in/or indexed to foreign currencies.

In 2012, our net interest income increased by 22.1% in relation to 2011, from R$35,611 million to R$43,493 million. That increase is mainly related to the increase of: (i) the average interest rate from 6.2% in 2011 to 6.7% in 2012, affecting positively the result in R$4,178 million, mainly due to the 3.2 p.p. reduction in the average interbank interest rate from 11.6% in 2011 to 8.4% in 2012; and (ii) the average business volume, which contributed R$3,704 million, reflecting the 13.1% increase in the average balance of interest-yielding assets, which increased our revenues by R$10,005 million, with emphasis on the increase of: (a) 11.9% in the average balance of loans and advances to customers; (b) 25.2% in the average balance of assets given as guarantee; and (c) 99.5% in the average balance of assets available for sale.

In 2011, result of operations subject to interest increased by 8.7%, from R$32,771 million in 2010 to R$35,611 million in 2011. The increase of R$2,840 million in the result of operations subject to interest derived basically from the increase of business volume, with emphasis on "Credit" and "Fund Raising." It should be pointed out that interest rate (CDI) increased from 9.8% in 2010 to 11.6% in 2011, having that increased resulted in higher gains in "Fund Raising" margins.

# 10.3 - Events with significant effects (occurred and expected) on financial statements

**Directors should comment on material effects that the events below have caused or are expected to cause for the issuer's financial statements and results:**

**a) introduction or sale of operating segment**

In the period, there was no introduction or disposal of operating segment.

**b) creation, acquisition or sale of equity interest**

In Bradesco Organization, among the significant events in the period, the following stand out:

- On March 2012, Bradesco started the operations of the subsidiary Bradesco Securities Hong Kong Limited, in Hong Kong, China, focused on the identification of opportunities and distribution of fixed and variable-income products. As such, Bradesco expands its international distribution channels and strengthens its contact with global investors operating strongly in that market, in addition to giving access to a new base of institutional investors.

**c) unusual event or operations**

There were no unusual events or transactions involving the issuer in the period that caused or are expected to cause significant impacts on its results.

**10.4 - Significant changes in accounting practices – Reservation and emphases in the auditor's opinion**
**Directors should comment:**

**a) significant changes in accounting practices**

Complying with Central Bank of Brazil (BCB) and National Monetary Council (CMN) requirements for financial institutions to introduce international financial reporting standards (IFRS), these institutions started to prepare IFRS financial statements in 2010. This requirement is in addition to the official financial statements required by Brazilian authorities, which are prepared in accordance with other requirements issued by the Central Bank, the CMN, and the Brazilian Securities and Exchange Commission (CVM), as applicable.

IFRSs issued in English by the International Accounting Standards Board (IASB) are translated into Portuguese by the Institute of Independent Auditors of Brazil (Ibracon).

The first set of IFRS financial statements was for the base date of 12/31/2010 and did not note any significant change in IFRS accounting practices, since this was the first reporting period of their use.

The second set of IFRS financial statements, base date 12/31/2011, was issued in the first quarter of 2012. This one, on the base date of 12/31/2012, is the third set of financial statements under IFRS. Comparing the 2012 IFRS financial statements with the 2011 and 2010 financial statements, also IFRS, there were no significant changes in accounting practices.

**b) significant effects of changes in accounting practices**

In 2012, 2011 and 2010, as mentioned above, there were no significant changes to IFRS accounting practices or any significant effects on our accounting practices.

**Additionally, some comments on significant adjustments between accounting practices used by Bradesco in** BACEN **GAAP** (Cosif) are shown below, as compared to IASB rules (**IFRS**)**:**

**1. Consolidation**

Under BACEN GAAP, holdings in jointly controlled companies (usually represented by interests of 20% to 50%) are proportionally consolidated in the Organization's financial statements. In compliance with Central Bank of Brazil rules, exclusive investment funds are not consolidated.

For IFRS purposes, some participation in companies considered of shared control in BACEN GAAP, for lacking IRFS support, have been treated by the equity method and therefore have not been considered in the consolidation of financial statements, while the exclusive investment funds have been consolidated.

**2. Effects of hyperinflation on non-monetary assets and liabilities**

Until June 30, 1997, Brazil was considered a hyperinflationary economy, but for BACEN GAAP purposes, financial statements denominated in constant purchasing power currency were required only until December 31, 1995, and indexation of financial statements was discontinued as of January 1, 1996.

For IFRS purposes, the effects of adjusting or correcting non-monetary assets until June 30, 1997 were recognized in financial statements as required by IAS 29 – Financial Reporting in Hyperinflationary Economies.

**3. Business combinations**

Under BACEN GAAP, there is no specific statement on the subject of business combinations for financial institutions. Only assets and liabilities recognized in the opening balance of the acquired entity are recognized by the purchasing entity and the goodwill premium or discount paid or granted on acquisitions corresponds to the difference between the amount paid by the acquirer and the book value of assets and liabilities recognized in the acquired entity. Shares or debt issued as payment for acquisition of entities are recognized at their values when issued on the date of the business combination. Goodwill premiums arising from business combinations are amortized over 20 years.

For acquisitions made from September 1, 2008, for IFRS purposes, the Organization recognized identifiable assets and liabilities arising from business combinations at fair value. The shares issued by the Organization in business combinations are recognized at fair value on the date of transfer of control. Other assets given in payment were also measured at fair value. Goodwill premium recognized in the business combination is tested annually for impairment as required by IAS 38 – Intangible Assets.

**4. Adjustment to fair value of financial assets – equity securities**

Under BACEN GAAP, certain investments in companies in which the Organization does not have influence over Management, were classified in “permanent assets”, at historical cost of acquisition.

For IFRS purposes, due to the absence of influence over management, these holdings on shares were been designated in the “available for sale” category at fair value on the date of transition to IFRSs, with the corresponding gain or loss recognized in the reserve account in shareholders’ equity headed – “Other comprehensive income,” net of tax effects.

**5. Reversal of hedge accounting**

Under BACEN GAAP, the Organization designated certain derivatives as hedging instruments, which were classified as cash flow “*hedge*s” with the corresponding effective portion of gains and losses recorded net of tax effects, in a separate account in shareholders’ equity and the non-effective portion in the result.

For IFRS purposes, these instruments were not designated as hedges since they do not qualify for hedge accounting under IAS 39, therefore the effective portion recognized in shareholders’ equity in BACEN GAAP was reversed on the transition date to be recognized against retained earnings.

**6. Deferral of fees for financial services and direct costs**

Under BACEN GAAP, for certain financial assets, in particular loans and receivables, the Organization recognizes fees charged for financial services, as well as a share of related direct costs, in the result at the time of originating these financial assets. Direct costs relating to commissions paid retailers and resellers are recognized under “Other Assets - Prepaid expenses” and recognized in the result by the terms of the corresponding contracts.

For IFRS purposes, fees charged for financial services, and direct costs related to origination of these financial assets are deferred and recognized as an adjustment to the effective interest rate. Direct costs relating to commissions paid to retailers and resellers are part of the effective interest rate and recognized in the balance of loans and receivables.

**7. Provision for sureties and guarantees to third parties**

In BACEN GAAP, sureties and guarantees to third parties are controlled by compensation accounts. For the purposes of IFRS, the Organization applies IAS 37.

**8. Impairment of loans and receivables**

Under BACEN GAAP, recognition of provision for doubtful debt is based on analysis of realization risk of loans in an amount sufficient to cover possible losses, pursuant requirements stated in CMN Resolution No. 2,682/99, which includes certain regulatory parameters.

For IFRS purposes, provision for credit losses was established by the incurred loss, according to IAS 39.

**9. Deferred Income Tax and Social Contribution on IFRS adjustments**

Income tax and social contribution taxes were recognized on differences between BACEN GAAP and IFRS.

**c) reservations and emphases in the auditor's opinion**

There were no reservations or emphases in the independent auditors report.

**10.5 - Critical accounting policies**
**Directors should indicate and comment on critical accounting policies adopted by the issuer, exploring in particular accounting estimates made by management on matters that are uncertain and relevant to the description of the financial position and results, which require subjective or complex judgments, such as: provisions, contingencies, revenue recognition, tax credits, long-lived assets, useful life of non-current assets, pension plans, adjustments to foreign currency conversion, environmental remediation costs, impairment testing criteria for assets and financial instruments.**

**Use of estimates**

When submitting financial statements, our Management makes estimates and determines assumptions for useful lives of certain non-financial assets and to ascertain whether there is impairment of an asset or specific group of assets. Estimates are by nature based on judgment and available information. Actual results may differ from estimates.

Our significant accounting policies are described in the notes to Consolidated Financial Statements. The following discussion describes areas requiring more judgment or involving a higher degree of complexity for the application of accounting policies that currently affect our financial condition and results of operations. Accounting estimates that we make in these contexts involve making assumptions about highly uncertain matters. In each case, different estimates, or changing estimates between periods, could have had a significant impact on our financial condition or results of operations as shown in our financial statements.

**Impairment of loans and advances**

At the end of each period, loss on loans and receivables is adjusted based on an analysis of our portfolio, including estimated losses on loans and receivables.

The determination of impairment of loans and receivables requires, by its nature, judgments and assumptions relating to the loans and receivables portfolio on both an individual basis and on the basis of specific product portfolios. When analyzing the portfolio as a whole, several factors may affect an estimate of the likely scale of losses, depending on the methodology used to measure historical default rates and the historical period taken for these measurements.

Additional factors that may affect determination of impairment of loans and receivables include:

- general economic conditions and conditions in the relevant sector;
- previous experience with the debtor or the relevant economy sector, including the recent experience of losses;
- credit quality trends;
- values loan securities;

- volume, composition and growth of the loans and receivables portfolio;
- the Brazilian government's monetary policy; and
- any delays in receiving information necessary to evaluate loans and receivables or confirm existing impairment.

The Organization uses models to analyze the loans and receivables portfolios and determine impairment. Statistical factors are used to show losses and other risk indicators for groups of loans and receivables with similar risk characteristics to achieve an estimate of losses incurred by the portfolio and calculate the models. Although models are often monitored and reviewed, by their nature, they depend on judgments made in relation to information and/or forecasts. The economy's volatility is one of the factors that may lead to greater uncertainty in our models than one would expect in more stable macroeconomic environments. Therefore, our impairment of loans and receivables may not be indicative of actual future losses.

For sensitivity analysis purposes, we ran a simulation to assess the impact of higher probability of default (PD) on impairment. The simulation showed that an increase of 10.0% in probability of default on December 31, 2012 could increase the amount impairment by approximately R$243 million. This sensitivity analysis is hypothetical and has the sole purpose of illustrating the impact that delinquency has on the determination of impairment loss.

The process used to determine the level of impairment requires estimates, assumptions and use of judgment, so actual results from losses in the period shown in subsequent periods may differ from those calculated in accordance with said estimates and assumptions.

**Fair value of financial instruments**

Financial instruments recorded at fair value in our consolidated financial statements largely consist of financial assets held for trading, including derivatives and financial assets classified as available for sale. The fair value of a financial instrument is the amount for which it could be traded in a normal transaction between parties informed of the matter and free of favoritism.

These financial instruments are ranked based on the lowest level of information that is significant for measuring fair value. For instruments classified as Level 3, we have to use a significant amount of our own judgment to measure fair market value. We base our judgment calls on our knowledge and observations of the markets for individual assets and liabilities and these judgments may vary with market conditions. On using our judgment, we analyze a series of third-party prices and transaction volumes to understand and assess the extent of available market benchmarks and the judgment or modeling required in processes with parties. Based on these factors, we determine whether fair values are observable in active markets, or whether the markets are inactive.

Fair values of financial assets held for trading and available for sale are based mainly on active markets in which prices are based on direct quotes from the market, observed transactions or market prices for similar assets. Liquidity is a significant factor in determining fair values of financial assets held for trading and available for sale. Illiquidity situations are usually generated by the market's perception of the uncertainty of credit in relation to a single company or a specific sector of the market. In these circumstances, financial assets are classified as Level 3 in the valuation hierarchy, since fair value is determined based on unobservable data supported by limited information available in the market and that are relevant to evaluate the fair value of the assets, as well as other factors that require Management to exercise significant judgment or make estimates. On December 31, 2012, R$36.9 billion or 19.1% of financial assets held for trading and available for sale are classified as Level 3 fair value.

Exchange-traded derivatives valued using prices quoted are classified in Level 1 of the valuation hierarchy. However, not many classes of derivative contracts are listed on exchange. Therefore, most of our derivative positions are determined using quantitative models, which require the use of multiple data, including interest rates, prices and indices to generate continuing earnings, or price curves and volatility factors, including maturity. These data are used to assess the value of a position. Most market data are observable and may be obtained in particular from the BM&FBovespa and the secondary market. On December 31, 2012, the net fair value of our derivative assets and liabilities classified as Level 3 was R$18.5 million.

The imprecise nature of estimating non-observable market data may impact amounts of revenues or losses recognized for a particular position. In addition, although we believe our valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments may result in a different estimated fair value on reporting date.

**Impairment of financial assets available for sale**

Periodically, we assess the existence of impairment of financial assets available for sale if there is a prolonged or significant fall in their fair value. Determining prolonged or significant impairment requires judgment, which assesses the normal volatility of asset prices among other factors.

In addition, valuations are made using market prices or valuation models that require the use of certain assumptions or judgments to estimate fair value.

**Classification of securities**

Classification of securities as financial assets held for trading, available for sale and held to maturity is based on Management's intention to hold or trade these securities on the date of their acquisition. Accounting treatment of securities held by us shall depend on our classification. Circumstantial changes may alter our strategy in relation to a specific security, which would require transfer between categories.

**Impairment of goodwill premium**

Every year at least, the Organization determines whether the current book value of goodwill premium has been impaired. The first step in the process is identifying independent cash generating units and their allocations of goodwill premium. The book value of the unit, including allocated goodwill premium, is compared to value in use to determine whether there is impairment or not. If usage value of a cash generating unit is lower than its book value, the book value of premium will be reduced. Detailed calculations may be required to cover changes in the market in which a business operates (e.g. competition and regulatory changes). Calculations are based on discounted cash flows before tax at an interest rate adjusted by appropriate risk for the operational unit; in both cases determining these values requires the use of judgment. Although predictions are compared to current performance and external economic data, expected cash flows will of course reflect the Organization's outlook for future performance.

**Taxes on profits**

Determination of income tax and social contribution amount is complex, and our evaluation is focused on the analysis of deferred taxes on assets and liabilities and payable income tax. In general, our assessment requires us to estimate future values of current and deferred income tax. Our assessment of the possibility of realizing deferred tax is subjective and involves assessments and assumptions that are inherently uncertain. Realization of deferred assets is subject to changes in future interest rates and developments of our strategies. Support for our judgments and assumptions may change over time as a result of unanticipated events or circumstances that affect determination of our tax liability.

Significant judgment is required to determine whether an income tax position is likely to be sustained on examination, even after the outcome of any administrative or judicial proceeding based on technical merits. Judgment is also required to determine the value of a benefit eligible for recognition in our consolidated financial statements.

Additionally, we monitor interpretation of tax legislation and decisions made by tax authorities and courts, in order to adjust any previous judgment as to accrued income tax. This monitoring may also arise from our income tax planning, or settlement of income tax disputes, and may be significant for our operating results in any period.

**Technical reserves for insurance and pensions**

Technical provisions for insurance and pensions are liabilities for amounts we estimate will be due to our policyholders and plan participants in the future. Management uses a certain degree of judgment to decide the method of calculating technical provision. Future benefits agreed in contracts include liabilities for retirement, pension, individual and group life insurance, health insurance and accident insurance, among others.

These benefits are computed using actuarial hypotheses for mortality rates, incapacity, cancellations, interest rates, inflation and expenses. Such actuarial hypotheses are based on our experience and are periodically reviewed to the industry standards, with the objective of ensuring actuarial credibility. For long-term insurance agreements, when the actuarial hypotheses in a specific agreement or group of agreements are fulfilled, they will not be changed during the validity time of the policy. However, significant changes to experience or hypotheses may require us to make a provision for future losses expected for a certain product, and make provisions for premium shortage. Provisions for premium shortage may also be made for short-term agreements in order to cover expected future losses. Benefits and claims stated in agreements include provisions for claims incurred but not reported, in health, damages and life insurance.

We recognize the claims occurred during the period of effectiveness of our insured's policies. However, costs of claims occurred in a specific period will not be clearly recognized until we receive, process and pay such claims. We determine the liability amount through actuarial methods based on history of claim payments to determine our estimate of claim liabilities. Methods to determine such estimates and establish the technical provisions are reviewed and updated on a regular basis. The resulting adjustments are recognized in earnings for the respective period.

For the purposes of sensitivity analysis with respect to damage, life and health insurance, we estimate the impact of an increase and reduction of risks. In that estimate, an increase (1%) or reduction (1%) in risks over the last 12 months from the calculation base date would represent an impact of

R$89 million of expense or income, respectively, on the result and shareholders' equity after taxes and contributions.

For certain products offered, such as pension plans, participants go through two distinct stages within the contract: one of accumulating assets and the other of enjoying benefits. During the accumulation stage, technical provisions increase as contributions are received and interest is credited (based on contractual provisions) and reduced by benefits and redemptions paid at the participants' discretion and according to contract clauses. If the provisions are insufficient to honor future commitments, a provision is made for insufficient contributions.

The main actuarial hypotheses used on determining liability for future pension plan benefits under contracts are mortality, disability, cancellation, retirement, interest rate, inflation and expenses.

These actuarial hypotheses are made at the time a policy is written in order to estimate the experience of the period in which benefits will be payable under the agreement.

For sensitivity analysis purposes, we assessed the impact on results and shareholders' equity after taxes and contributions arising from lower interest rates and increased longevity of beneficiaries. In this assessment, a decrease of 5% in interest rates would lead to a R$324 million reduction in result and shareholders' equity after taxes and contributions. Increase of 0.002% in beneficiaries' longevity would represent a negative impact of R$128 million on the result and shareholders' equity after taxes and contributions.

# 10.6 - Internal controls relating to preparation of financial statements – Levels of efficiency and deficiency and recommendations in the auditor's report

**In relation to internal controls used to ensure that reliable financial statements are prepared, the directors should comment:**

**a) the level of efficiency of such controls, indicating eventual deficiencies and actions taken to correct them**

The effectiveness of the Organization's internal controls is based on people, processes and technology. In this context, our skilled professional staff is working exclusively with previously determined and implemented processes using appropriate technology for business needs.

Our Policy for Internal Controls and Compliance, and our Corporate Methodology, are properly formalized and aligned with the leading frameworks for controls, such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and Control Objectives for Information and Related Technology (COBIT), covering the Business and Technology aspects respectively, pursuant to Brazil's Monetary Council Resolution No. 2,554/98, the Public Company Accounting Oversight Board (PCAOB), and Sarbanes-Oxley Section 404.

Internal controls are developed by the various business areas managing the Organization's services, products and processes, and adherence tests are applied at the required intervals, and results reported to Bradesco's Audit and Internal Controls and Compliance Committees and to its Board of Directors. In cases of non-compliance, the appropriate corrective measures are taken and duly monitored.

These measures taken as a whole translate into enhanced quality for operational processes and dissemination of the importance of the culture of controls while ratifying improvements for corporate governance best practices.

As shown above, the Management evaluated the effectiveness of internal controls related to consolidated financial statements dated of December 31, 2012, and concluded with a reasonable level of assurance that internal controls are efficient and effective to ensure the information integrity, and that no significant deficiencies or material weaknesses have been identified.

**b) deficiencies and recommendations on internal controls included in the independent auditor’s report**

In view of our stock of knowledge and the studies conducted by the independent auditor to assess our internal controls structure, designed to ensure the adequacy of Bradesco’s financial statements, the auditor’s report contains no faults or recommendations in relation to internal controls that could significantly affect our financial statements.

# 10.7 - Use of proceeds from public offerings for distribution and any deviations

**If the issuer has made a public offering for distribution of securities, the directors should comment:**

**a) how funds derived from the offering were used;**

**b) whether there were important deviations between the effective application of funds and the proposed application disclosed in leaflets on the respective distribution**

**c) if deviations occurred, the reasons for such deviations**

There was no public offering for distribution of securities in the 2012, 2011 and 2010 fiscal years.

**10.8 - Material items not shown in financial statements**
**Directors should describe material items not shown in the issuer’s financial statements, and state:**

**a) assets and liabilities directly or indirectly held by the issuer, which are not included in the balance sheet (off-balance sheet items), such as: i) operational leases, assets and liabilities; ii) portfolios of written-off accounts receivable for which the entity has risks and responsibilities, indicating the respective liabilities; iii) forward purchase and sale agreements for products and services; iv) uncompleted construction contracts; v) contracts of future receipt of financing;**

**b) other items omitted from the financial statements**

No significant items were omitted from the accounting statements.

# 10.9 - Comments on material items not shown in financial statements

**In relation to each of the items omitted from the financial statements referred to in item 10.8, the directors should comment:**

**a) how such items change or may eventually change revenues, expenses, operating result, financial expenses or other items of the issuer’s financial statements**

**b) nature and purpose of operation**

**c) nature and amount of obligations and rights generated for the issuer under the operation**

No significant items were omitted from the accounting statements.

# 10.10 - Business Plan

**Directors should state and comment the principal elements of the issuer’s business, specifically exploring the following topics:**

**a) investments, including: i) quantitative and qualitative description of investments in progress or expected; ii) sources of financing of investments; iii) existing disinvestments in progress or expected;**

In 2012, Bradesco continued to invest in the expansion of its network, taking the total number of points of service to 68,917 (in addition to branches, this total includes: outlying points of services in municipalities not served by branches (local acronym PAs); ATMs (local acronym PAEs); ATMs outside our own network; the shared network of pooled ATMs; Bradesco Expresso POSs; Bradesco Sales Promotion, and foreign branches or subsidiaries).

We would highlight Bradesco Expresso's growth of 23.6% on the previous year to reach a total of 43,053 points of service by end-2012.

Funding for the above-mentioned investments was sourced from the Organization's own working capital, basically shareholders' equity.

**Investments in Infrastructure, Information Technology and Telecommunication**

**2013**

Our estimated IT infrastructure investment for 2013 is about R$4.8 billion, which is approximately 9.0% higher than 2012's (R$4.4 billion). We would also highlight our plans to open 49 branches.

The following table shows the total amount invested over the last three years, including infrastructure (facilities, furniture and fixtures):

| | | | **R$ million** |
|---|---|---|---|
| | **2012** | **2011** | **2010** |
| Infrastructure | 718 | 1,087 | 716 |
| Information Technology / Telecommunication | 3,690 | 3,241 | 3,204 |
| **Total** | **4,408** | **4,328** | **3,920** |

**b) if already disclosed, the acquisition of plants, equipment, patents or other assets likely to materially influence the issuer's production capacity should be indicated**

No acquisitions of plant, equipment, patents or other assets that are likely to materially affect our production capacity have been disclosed.

**c) new products and services, showing: i) description of ongoing researches already disclosed; ii) total expenses incurred by the issuer with researches for the development of new products or services; iii) projects at development stage and already disclosed; iv) total costs incurred by the issuer with the development of new products and services**

There are no new significant products and services.

**10.11 - Other factors material affecting operational performance**
**Comment on other factors materially affecting operational performance that have not been identified or commented in the other items in this section:**

There are no other factors that have material influence on our operational performance that have not been mentioned in this section.