BANK BRADESCO
Form 20-F
May 20, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

..	**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
x	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	For the fiscal year ended December 31, 2010
	OR
..	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
..	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
	OR
..	**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 1-15250

BANCO BRADESCO S.A.
(Exact name of Registrant as specified in its charter)
BANK BRADESCO
(Translation of Registrant's name into English)
Federative Republic of Brazil
(Jurisdiction of incorporation or organization)
Cidade de Deus S/N - Vila Yara - 06029-900 - Osasco - SP, Brazil
(Address of principal executive offices)

Domingos Figueiredo de Abreu (Vice President and Investor Relations Officer) +55 11 3684-4011, e-mail: 4000.abreu@bradesco.com.br - Cidade de Deus
S/N - Vila Yara, 06029-900 - Osasco - SP, Brazil
(Name, telephone, e-mail and/or facsimile number and address of company contact person)

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

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

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

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

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

Number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2010:

1,880,830,018	Common Shares, without par value
1,881,225,123	Preferred Shares, without par value

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

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. ¨Yes xNo

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

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

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

xLarge accelerated filer ¨Accelerated filer ¨Non-accelerated filer

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

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

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

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨Yes xNo

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

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

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

Our audited consolidated financial statements as of and for the years ended December 31, 2008, 2009 and 2010, including the notes thereto, are included in "Item 18. Financial Statements" of this annual report and have been prepared in accordance with U.S. generally accepted accounting principles, or "U.S. GAAP."

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

On April 29, 2011, the real/U.S. dollar exchange rate was R$1.5733 per US$ 1.00 based on the closing selling commercial exchange rate reported by Brazilian Central Bank (*Banco Central do Brasil*), or the "Central Bank." The commercial rate as of December 31, 2010 was R$1.6662 per US$ 1.00. See "Item 3.A. Selected Financial Data - Exchange Rate Information" for more information regarding the exchange rates applicable to the Brazilian currency since 2006.

As a result of recent fluctuations in the real/U.S. dollar exchange rate, the closing selling commercial exchange rate at April 29, 2011 or at any other date may not be indicative of current or future exchange rates.

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

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

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FORWARD-LOOKING STATEMENTS

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

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

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

In light of these risks and uncertainties, the forward-looking statements, events and circumstances discussed in this annual report may not be accurate, and our actual results and performance could differ

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materially from those anticipated in our forward-looking statements. Investors should not make investment decisions based solely on the forward-looking statements in this annual report.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

We present below our selected financial data prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP") as of and for the years ended December 31, 2006, 2007, 2008, 2009 and 2010. The data for each of the five years in the period ended December 31, 2006, 2007, 2008, 2009 and 2010 is derived from our consolidated financial statements, which were audited by PricewaterhouseCoopers Auditores Independentes.

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

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

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Selected Financial Data according to U.S. GAAP

	Year ended December 31,					
	2006	2007	2008	2009	2010	2010
	(*R$ in millions*)					(*US$ in millions*)[1]
Data from the Consolidated Statement of Income:						
Net interest income[2]	21,402	23,771	25,371	33,133	37,492	23,830
Provision for loan losses	(3,767)	(4,616)	(6,651)	(10,822)	(5,769)	(3,667)
Net interest income after provision for loan losses	17,635	19,155	18,720	22,311	31,723	20,163
Fee and commission income[2]	6,379	7,819	8,997	9,381	10,942	6,955
Insurance premiums	8,121	8,843	10,963	12,521	14,068	8,942
Pension plan income	791	555	710	607	692	440
Equity in the earnings of unconsolidated companies[3]	224	407	597	644	539	343
Other non-interest income[2][4]	4,365	7,457	2,393	8,581	3,929	2,497
Operating expenses[5]	(11,310)	(13,005)	(14,168)	(15,615)	(18,524)	(11,774)
Insurance claims	(6,124)	(6,012)	(7,391)	(8,329)	(9,307)	(5,916)
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(4,199)	(4,981)	(4,225)	(6,008)	(6,209)	(3,946)
Pension plan operating expenses	(560)	(478)	(482)	(410)	(456)	(290)
Insurance and pension plan selling expenses	(852)	(1,157)	(1,014)	(1,654)	(1,521)	(967)
Other non-interest expense[2][6]	(5,720)	(7,306)	(8,352)	(8,360)	(10,696)	(6,798)
Income before income taxes	8,750	11,297	6,748	13,669	15,180	9,649
Income tax and social contribution on net income	(2,273)	(3,352)	401	(4,420)	(5,428)	(3,450)
Net income attributed to noncontrolling interest	(15)	(37)	(131)	(33)	(90)	(57)
Parent company's net income	**6,462**	**7,908**	**7,018**	**9,216**	**9,662**	**6,142**

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$1.5733 per US$1.00, the Central Bank exchange rate on April 29, 2011. Such translations should not be construed as a representation that the Brazilian real amounts presented were or could be converted into U.S. dollars at that rate.

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

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

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

(5) Operating expenses consist of salaries, benefits and administrative expenses.
(6) Other non-interest expenses consist of amortization of intangible assets, depreciation and amortization and other non-interest expenses.

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	Year ended December 31,					
	2006	2007	2008	2009	2010	2010
	(R$, except for number of shares)					(*US$ in millions*)(1)
Data on Earnings and Dividends per Share(2):						
Earnings per share (parent company):(3)(4)(5)						
Common	1.71	2.05	1.78	2.34	2.45	1.56
Preferred	1.87	2.24	1.96	2.56	2.68	1.71
Dividends/interest on shareholders' equity per share:(6)						
Common	0.58	0.73	0.66	0.73	0.85	0.54
Preferred	0.63	0.80	0.72	0.80	0.94	0.60
Weighted average number of outstanding shares:						
Common	1,779,682,527	1,820,143,790	1,853,242,280	1,856,952,050	1,881,132,857	-
Preferred	1,788,113,278	1,827,734,200	1,859,666,468	1,863,331,330	1,888,101,371	-

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$1.5733 per US$1.00, the Central Bank exchange rate on April 29, 2011. Such translations should not be construed as a representation that the Brazilian real amounts presented were or could be converted into U.S. dollars at that rate.

(2) Data on earnings and dividends per share reflects: (a) the split of our Capital Stock on March 12, 2007, in which we issued to our shareholders one new share for each existing share of the same class; (b) the split of our Capital Stock on March 24, 2008, in which we issued to our shareholders one new share for each two existing shares of the same class, as approved by our shareholders; (c) the split of our Capital Stock on January 22, 2010, in which we issued to our shareholders one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009; and (d) the split of our Capital Stock on July 13, 2010, in which we issued to our shareholders one new share for each ten shares held of the same type, which was approved by our shareholders on June 10, 2010**.** For comparison purposes, all share amounts have been retroactively adjusted for all periods to reflect the stock split.

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

(4) None of our outstanding liabilities are exchangeable for or convertible into equity securities. Therefore, our diluted earnings per share do not differ from our earnings per share. Accordingly, our basic and diluted earnings per share are equal in all periods presented.

(5) On December 17, 2010, the Special Shareholders´ Meeting voted in favor of a share capital increase of R$1,500 million, increasing share capital from R$28,500 million to R$30,000 million by issuing 62,344,140 new book-entry registered shares without par value, of which 31,172,072 were common and 31,172,068 preferred shares, at the price per share of R$24.06 through private subscription by shareholders from December 29, 2010 through January 31, 2011, in the proportion of 1.657008936% of the shareholders' holdings as of the date of the meeting, which was paid in cash on February 18, 2011. Therefore, all related share amounts were retroactively adjusted to reflect the bonus for all periods presented.

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

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	As of December 31,					
	2006	**2007**	**2008**	**2009**	**2010**	**2010**
	(*R$ in millions*)					(*US$ in millions*)[1]
Data from the Consolidated Balance Sheet:						
Assets						
Cash and due from banks	4,748	5,485	9,353	6,992	15,775	10,027
Interest-earning deposits in other banks	8,918	7,887	14,435	11,211	9,209	5,853
Federal funds sold and securities purchased under agreements to resell	14,649	40,601	46,950	82,146	115,276	73,270
Brazilian Central Bank compulsory deposits	23,461	31,813	26,384	32,696	65,198	41,440
Securities received in resale agreements	18,753	1,256	19,446	33,327	15,637	9,939
Trading assets and available-for-sale securities, at fair value	67,861	87,543	102,358	110,004	136,235	86,592
Held to maturity securities, at amortized cost	3,265	2,981	4,097	3,883	3,394	2,157
Loans[2]	98,724	133,137	174,835	179,934	219,283	139,378
Allowance for loan losses	(6,552)	(7,769)	(10,318)	(14,572)	(15,123)	(9,612)
Equity investees and other investments	527	761	881	2,284	3,114	1,979
Premises and equipment, net	3,000	3,547	4,263	4,830	5,426	3,449
Goodwill	667	883	1,286	1,234	1,183	752
Intangible assets, net[2]	2,163	2,917	3,138	3,643	3,652	2,321
Other assets[2]	19,087	23,467	38,363	39,203	43,353	27,555
Total assets	**259,271**	**334,509**	**435,471**	**496,815**	**621,612**	**395,101**
Liabilities						
Deposits	83,925	98,341	164,501	171,115	193,203	122,801
Federal funds purchased and securities sold under agreements to repurchase	42,875	69,015	74,730	108,357	160,701	102,143
Short-term borrowings	5,709	7,989	13,849	7,976	7,735	4,916
Long-term debt	30,122	38,915	47,255	50,817	75,237	47,821
Pension plan investment contracts	30,948	37,947	43,388	52,314	61,178	38,885
Insurance claims and pension plans reserves	12,787	14,616	14,689	15,354	16,489	10,481
Other liabilities	26,348	34,316	39,797	44,772	54,237	34,474
Total liabilities	**232,714**	**301,139**	**398,209**	**450,705**	**568,780**	**361,521**
Shareholders' Equity						
Common shares[3]	7,095	9,497	11,500	13,250	14,250	9,057
Preferred shares[4]	7,105	9,503	11,500	13,250	14,250	9,057
Capital stock	14,200	19,000	23,000	26,500	28,500	18,115
Total shareholders' equity of the parent company	26,464	33,089	36,930	45,770	52,715	33,506
Noncontrolling interest	93	281	332	340	117	74
Total shareholders' equity and noncontrolling interest[5]	26,557	33,370	37,262	46,110	52,832	33,580

Total liabilities, shareholders' equity and noncontrolling interest	**259,271**	**334,509**	**435,471**	**496,815**	**621,612**	**395,101**
Average assets(6)	227,898	289,456	376,546	463,931	548,316	348,513
Average liabilities(6)	206,466	261,552	342,178	424,149	503,584	320,081
Total average shareholders' equity of the parent company(6)	21,323	27,731	33,180	39,352	44,340	28,813

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$1.5733 per US$ 1.00, the Central Bank exchange rate on April 29, 2011. Such translations should not be construed as a representation that the Brazilian real amounts presented have been or could be converted into U.S. dollars at that rate.

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

(3) Common shares outstanding, no par value: (i) 1,880,830,018 authorized and issued as of December 31, 2010, due to the split of one new share for each ten shares held of the same type, which was approved by our shareholders on June 10, 2010; (ii) 1,710,204,835 authorized and issued as of December 31, 2009 due to the split of one new share for each ten shares held of the same type, wich was approved by our shareholders on December 18, 2009; (iii) 1,534,805,958 authorized and issued as of December 31, 2008; (iv) 1,009,337,030 authorized and issued as of December 31, 2007; and (v) 500,071,456 authorized and issued up to December 31, 2006. Data from 2006 to 2010 reflect (a) the split of one share for each existing share held of the same type on March 12, 2007; (b) the split of one share for each two existing shares, which was approved by our shareholders on March 24, 2008; (c) the split of one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009; and (d) the split of one new share for each ten shares held of the same type, which was approved by our shareholders on June 10, 2010.

(4) Preferred shares outstanding, no par value: (i) 1,881,225,124 authorized and issued as of December 31, 2010 due to the split of one new share for each ten shares held of the same type, which was approved by our shareholders on June 10, 2010; (ii) 1,710,345,568 authorized and issued as of December 31, 2009 due to the split of one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009; (iii) 1,534,900,221 authorized and issued as of December 31, 2008; (iv) 1,009,336,926 authorized and issued as of December 31, 2007, and; (v) 500,811,468 authorized and issued up to December 31, 2006. Data from 2006 to 2010 reflect (a) the split of one share for each share held on March 12, 2007; (b) the split of one share for each two existing shares, which was approved by our shareholders on March 24, 2008; (c) the split of one new share for each ten shares held of the same type, which was approved by our shareholders on December 18, 2009; and (d) the split of one new share for each ten shares held of the same type, which was approved by our shareholders on June 10, 2010.

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

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

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Exchange Rate Information

In the past years, the exchange rate between the real and the U.S. dollar has experienced significant variation. From 2006 to mid 2008, the real appreciated against the U.S. dollar. In the second half of 2008, the real depreciated against the U.S. dollar, from R$1.5919 per U.S.$1.00 on June 30, 2008 to R$2.3370 per U.S.$1.00 on December 31, 2008, mainly due to the global economic crisis that began in mid 2008. In 2009, the real began to appreciate against the U.S. dollar, from R$2.3370 per U.S.$1.00 on December 31, 2008 to R$1.7412 as of December 31, 2009. In 2010, the real continued to appreciate against the U.S. dollar to reach R$1.6662 at the end of the year. On April 29, 2011, the exchange rate was R$1.5733 per U.S.$ 1.00. Under the current floating exchange-rate system, the real may be subject to fluctuations and depreciation or appreciation against the U.S. dollar and other currencies.

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

	Closing Selling Rate for U.S. dollars R$ per US$1.00			
Period	**Period-End**	**Average(1)**	**High**	**Low**
2006	2.1380	2.1812	2.3407	2.0892
2007	1.7713	1.9460	2.1380	1.7440
2008	2.3370	1.8824	2.4689	1.5666
2009	1.7412	2.0171	2.3784	1.7412
2010	1.6662	1.7575	1.8748	1.6662
December	1.6662	1.6934	1.7117	1.6662
2011				
January	1.6734	1.6749	1.6912	1.6510
February	1.6612	1.6680	1.6776	1.6612
March	1.6287	1.6591	1.6757	1.6287
April	1.5733	1.5864	1.6194	1.5654

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

Source: Central Bank.

3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

3.D. Risk Factors

Macroeconomic risks

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

There was extreme volatility and disruption in the global capital and credit markets in 2008 and 2009. The disruptions recently in the global capital and credit markets led to reduced liquidity and increased credit risk premiums for many market participants, resulting in 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 created a less favorable environment for most of our businesses and may impair the

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ability of some of our clients to repay debt that they owe to us, and reduce our flexibility in planning for, or reacting to, changes in their operations and the financial industry overall. Accordingly, even though conditions in the Brazilian and global economy have improved, 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 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 shares and ADSs may be adversely affected by changes in policy involving exchange controls, tax and other matters, as well as factors such as:

- fluctuations in exchange rates;
- 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' ability to meet their obligations with us;
- decreases in wage and income levels;
- increases in unemployment rates;
- inflation; and
- other political, diplomatic, social and economic developments within and outside of Brazil that affect the country.

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In October 2010, presidential elections took place in Brazil. Uncertainties in relation to the implementation by the new government of changes relating to the monetary, tax and pension funds policies as well as to the relevant legislation may contribute to economic instability. This may increase market volatility of the Brazilian securities. It is not possible to predict whether the government that was elected in October 2010 or any succeeding governments will have an adverse effect on the Brazilian economy, and, consequently, on our businesses and the fair value of our preferred shares and ADSs.

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 U.S. dollar on August 1, 2008). In late 2008, in the context of the global financial crisis, the value of the *real* against the U.S. dollar declined sharply (reaching R$2.3370 per U.S. dollar on December 31, 2008, after having reached R$2.5000 per U.S. dollar on December 5, 2008). In 2009, the *real* returned to the trajectory of appreciation against the U.S. dollar (reaching R$1.7412/U.S. dollar at the end of the year). In 2010, the *real* continued to appreciate against the U.S. dollar to reach R$1.6662 at the end of the year. Macroeconomic fundamentals and the current global situation (abundant liquidity, high risk appetite and commodity prices to rise) suggest that indicators of currency appreciation are still present.

As of December 31, 2010, the net balance of our assets and liabilities denominated in, or indexed to, foreign currencies (primarily U.S. dollars) was 2.4% 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 currency, 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 currency, as the liabilities and assets are translated into *reais*. Therefore, if our liabilities denominated in, or indexed to, foreign currency significantly exceed our monetary assets denominated in, or indexed to, foreign currency, 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 shares and ADSs, 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 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 our liabilities denominated in, or indexed to, foreign currency decrease, as the liabilities and assets are translated into *reais*. Therefore, if our monetary assets denominated in, or indexed to, foreign currency significantly exceed our liabilities denominated in, or indexed to, foreign currency, 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*Índice Geral de Preços Disponibilidade Interna* (the General Price Index – Domestic Availability) ("IGP-DI"), reached 9.1%, -1.4% and 11.3% as of December 31, 2008, 2009 and 2010, respectively. Inflation, along with government measure to combat inflation and public speculation about possible future government measures, has had significant negative effects on the Brazilian economy and contributed to increase economic uncertainty in Brazil and heighten volatility in the Brazilian securities markets, which may have an adverse effect on us.

These measures 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 *Sistema Especial de Liquidação e Custódia* rate (Special Clearing and Settlement System rate), which we call the "Selic rate," the base interest rate established by COPOM (Monetary Policy Committee), may have an adverse effect on us by reducing demand for our credit, and increasing our cost of funds, domestic debt expense and the risk of customer default. Decreases in the Selic rate may also have an adverse effect on us by decreasing the interest income we earn on our interest-earning assets.

Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil experiences fluctuations in rates of inflation 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 shares and ADRs.

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. The base interest rate was 13.75%, 8.75% and 10.75% per year as of December 31, 2008, 2009 and 2010, 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 base 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 base 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 shares and ADRs.

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 value of our preferred shares and ADRs.

The global financial crisis had significant consequences worldwide, including in 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, directly or indirectly, an adverse effect on our business, financial condition, results of operation, 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 credit portfolio becomes more seasoned.

Our loan portfolio has grown substantially since 2004, primarily as a result of the expansion of the Brazilian economy. Any corresponding rise in our level of non-performing loans may lag behind the rate of loan growth, as loans typically do not become due within a short period of time after their origination. Levels of past due loans are higher among our individual clients than our corporate clients. From 2006 to 2010, our loan portfolio increased by 122.1% but our level of non-performing loans increased by 135.3%, driven by increases in the number of individual clients.

Beginning in mid-2008, weakening economic conditions in Brazil led to a rise in unemployment, which in turn led to increases in our level of past due loans, particularly in our individual clients portfolio. This trend of increasing levels of past due loans worsened in 2009. Our levels of past due loans improved in 2010, as a result of the recovery in the Brazilian economy, leading to a decrease in our provision for loan losses. While our loan portfolio grew by 21.9% during the year ended December 31, 2010, our allowance for loan losses increased only 3.8% over that same period. However, if economic conditions in Brazil deteriorate, we may be required to increase our allowance for loan losses in the future.

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

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. The consolidation of the Brazilian banking market has also increased. In 2008, Banco Itaú S.A. (Banco Itaú) and Unibanco – União de Bancos Brasileiros S.A. (Unibanco) merged their businesses into Banco Itaú Unibanco (Itaú Unibanco), now named Banco Itaú, creating a significant presence in our marketplace. In addition, Banco do Brasil S.A. (Banco do Brasil) acquired Banco Nossa Caixa S.A. and entered into a strategic partnership with Banco Votorantim S.A. (Banco Votorantim).

In 2009, Itaú Unibanco also entered into a partnership with Porto Seguro Cia. de Seguros Gerais (Porto Seguro) in the automobile and housing insurance sector, creating the market leader in the automobile insurance business.

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 securities may have a significant impact on our results of operations and are not predictable.

The value of certain of our investments in securities may decline significantly due to volatile financial markets and may fluctuate over short periods of time. As of December 31, 2010, investments in securities represented 25.0% of our assets, and realized investment gains and losses have had and will continue to have a significant impact on our results of operations. The amounts of such gains and losses, which we record when investments in securities 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 securities, 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 difficult markets where the risk of failure of counterparties is higher.

Our trading activities and derivatives transactions may produce material losses.

We engage in the trading of securities, buying debt and equity securities principally to sell them in the near term with the objective of generating profits on short-term differences in price. These investments could expose us to the possibility of material financial losses in the future, as securities are subject to fluctuations in value, 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 provisions 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.

Parts of our business that are not currently subject to government regulation may become regulated in the future. For example, there are several legislative proposals currently under discussion in the Brazilian congress to regulate the credit card industry. Some of these proposals aim at increasing competition in the industry and limiting the fees charged by credit card companies. On November 25, 2010, for example, the Central Bank issued new regulations on fees charged by financial institutions, including criteria for calculating minimum credit card payments**.** New regulations affecting the credit card industry may have a material adverse effect on the revenues from our credit card business. Such new regulations and other regulatory changes affecting other businesses in which we are engaged, including our broker dealer and leasing operations, could have an adverse effect on our operations and our revenues.

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

As of December 31, 2010 Fundação Bradesco directly and indirectly held 51.06% of our common shares. Under the terms of Fundação Bradesco's by-laws, all of our officers, members of our*Diretoria Executiva* and department officers that have been working at Grupo Bradesco 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. For more information on our shareholders, see "Item 7.A. Major Shareholders."

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. For example, in February 2010, the Central Bank increased compulsory deposit requirements on time deposits. Then, in June 2010, it increased compulsory

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deposit requirements on demand deposits. In December 2010, it increased compulsory deposit requirements again on time deposits and also increased additional compulsory deposit requirements.

In January 2011, the Central Bank also introduced compulsory deposits on short foreign-currency positions. Some compulsory deposit rules were altered by the Central Bank in March 2011 primarily in order to encourage medium-sized banks to increase capital with income earned in fiscal 2010. The Central Bank may increase its reserve and compulsory deposit requirements in the future or impose new reserve requirements.

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

- a portion of our compulsory deposits does 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, 2010, our compulsory deposits in connection with demand, savings and time deposits and additional compulsory deposits were R$65.2 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. For more information on compulsory deposits, see "Item 4.B. Business Overview-Deposit-taking activities."

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 and 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 credit portfolio.

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 year 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 recently been confirmed by *Súmula Vinculante* 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 (or 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.

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With the enactment of the New Civil Code (or Law No. 10,406 of January 10, 2002), unless the parties to a loan have agreed to use a different rate, in principle the interest rate ceiling has been pegged to the base rate charged by the *Fazenda Nacional* (the National Treasury). Currently, this base rate is the Selic, which was 11.75% *per annum* as of April 8, 2011. However, there is presently some uncertainty as to whether the Selic 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.

Our results of 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, 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. Reasons for such deviation include that, since we record our allowance for loan losses based on estimates of incurred losses, the allowance for loan losses might not be sufficient to cover losses; we might have an increased number of claims; or our costs could be higher than the costs we estimated. If actual losses materially exceed our provisions, we could be adversely affected.

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

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

Risks relating to the preferred shares and ADSs

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

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

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

Except in certain circumstances, ADS holders may not exercise voting rights attached to the ADSs.

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

Investing in securities that trade in emerging markets such as Brazil often involves greater risk than investing in securities of issuers in other countries, and these investments are generally considered more speculative in nature. The Brazilian securities market is substantially smaller and less liquid than major securities markets, such as the United States, and may be more volatile. Although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary bank at any time, your ability to sell the preferred shares underlying the ADSs at a price and time acceptable to you may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets such as the United States or other countries. The ten largest companies in terms of market capitalization accounted for 8.3% of the aggregate market capitalization of the BM&FBovespa in March 2011.

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

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

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

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

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

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It may be difficult to bring civil liability causes against us or our directors and executive officers.

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

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

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

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

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

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

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

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

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ITEM 4. INFORMATION ON THE COMPANY

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

The company

We were founded in 1943 as a commercial bank under the name "Banco Brasileiro de Descontos S.A." In 1948, we began a period of aggressive expansion, which led to our becoming the largest private-sector commercial bank in Brazil by the end of the 1960s. We expanded our activities nationwide during the 1970s 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 private-sector banks (non-government-controlled) in Brazil in terms of total assets. We offer a wide range of banking and financial products and services in Brazil and abroad to individuals, large, mid-sized and small companies and major local and international corporations and institutions. We have the most extensive private-sector branch and service network in Brazil, allowing us to reach a diverse client base. Our products and services encompass banking operations such as loans and deposit-taking, credit card issuance, purchasing consortiums, insurance, leasing, payment collection and processing, pension plans, asset management and brokerage services.

According to information published by SUSEP and by ANS, we are the largest insurance, pension plan and certificated savings plan group in Brazil on a consolidated basis in terms of insurance premiums, pension plan contributions and income from certificated savings plans. *Títulos de capitalização,* which we call "certificated savings plans," refers to a type of savings account combined with periodic cash-prize draws. According to the annual publication of Fundación Mapfre, in Spain, Grupo Bradesco de Seguros e Previdência was the largest insurance and supplementary private pension group in Latin America in 2009.

In 2010, some of our subsidiaries ranked among the largest companies in Brazil in their respective markets, according to the sources cited in parentheses below, including:

- *Bradesco Seguros S.A.*, our insurance subsidiary ("Bradesco Seguros"), together with its subsidiaries, leader in terms of insurance premiums, shareholders' equity and technical reserves ("SUSEP" and "ANS"):
  - *Bradesco Vida e Previdência S.A.* ("Bradesco Vida e Previdência"), Bradesco Seguros' subsidiary is the largest company in the market in terms of private pension plan contributions, life and personal accident insurance premiums, investment portfolios and technical provisions ("SUSEP");
  - *Bradesco Capitalização S.A.* ("Bradesco Capitalização"), Bradesco Seguros' subsidiary offers certificated savings plans. Bradesco Capitalização is the leading private company in the market in terms of revenue from the sale of certificated savings plans ("SUSEP");
  - *Bradesco Auto/RE Companhia de Seguros S.A.* ("Bradesco Auto/RE"), Bradesco Seguros' subsidiary is one of the largest companies in its segment, offering automobile insurance, property/casualty and liability products ("SUSEP"); and
  - *Bradesco Saúde S.A.* ("Bradesco Saúde"), Bradesco Seguros' subsidiary offers health insurance, including coverage of medical and hospital expenses. Bradesco Saúde has one of the largest networks of healthcare service providers and is the health insurance market leader ("ANS").

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- *Bradesco Leasing S.A. Arrendamento Mercantil* ("Bradesco Leasing"), is one of the leaders in terms of the present value of leasing portfolio ("ABEL");
- *Bradesco Administradora de Consórcios Ltda.* ("Bradesco Consórcios"), market leader in its segment with over 471,600 outstanding purchasing consortium quotas ("Central Bank"); and
- *Banco Bradesco Financiamentos* ("Bradesco Financiamentos") (former Banco Finasa BMC), leader in terms of vehicle financing ("Central Bank").

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

As of December 31, 2010, we had, on a consolidated basis:

- R$621.6 billion in total assets;
- R$219.3 billion in total loans;
- R$193.2 billion in total deposits;
- R$52.8 billion in shareholders' equity, including noncontrolling interest;
- R$85.7 billion in technical reserves for insurance claims, pension plans, certificated savings plans and pension investment contract operations;
- R$25.7 billion in foreign trading financing;
- 26.6 million insurance policyholders;
- 23.1 million checking account holders;
- 41.1 million savings accounts;
- 2.7 million certificated savings plans holders;
- 2.0 million pension plan holders;
- 1,257 Brazilian and multinational corporations with affiliated companies in Brazil as corporate customers;
- an average of 15.2 million daily transactions, including 2.2 million in our 3,628 branches and 13 million through self-service outlets, mainly Automatic Teller Machines, or ATMs, the Internet, and telephone and mobile services (*Fone Fácil* and *Bradesco Celular*);
- a nationwide network consisting of 3,628 branches, 32,015 ATMs and 4,480 special banking service stations and outlets located on the premises of selected corporate clients, as well as 11,057 shared network ATMs for operations such as cash withdrawal, statement printing, account balance information, loans, or money transfers between accounts; and

- a total of 3 branches and 8 subsidiaries located in New York, London, the Cayman Islands, Japan, Argentina, Luxembourg, Hong Kong and Mexico.

Since 2009, we have been doing business in every single one of the municipalities in Brazil. Our extensive banking network takes us closer to our customers, providing our managers with information on economically active regions and other key conditions for our business. This knowledge helps us to assess and limit risks in loans, among other risks, as well as to service the particular needs of our clients.

We are a business corporation organized under the laws of Brazil. Our headquarters is in Cidade de Deus, Vila Yara, 06029-900, Osasco, SP, Brazil, and its telephone number is (55-11) 3684-4011. Our New York Branch is located at 450 Park Avenue, 32nd floor, New York 10022-2605.

Recent acquisitions

In July 2010 Bradesco announced the acquisition of 10.67% of the Capital Stock of Companhia Brasileira de Soluções e Serviços (CBSS) for R$141.4 million. In January 2011 Bradesco announced the acquisition of an additional 5.01% of CBSS's Capital Stock for R$85.8 million. As a result, Bradesco increased its total ownership interest in CBSS to 50.01%.

In July 2010, Bradesco concluded the acquisition of 2.09% of the Capital Stock of Cielo S.A. (Cielo), for a total consideration of R$431.7 million, increasing its ownership interest in Cielo to 28.65%.

In June 2010, Bradesco concluded the acquisition of the entire Capital Stock of the controlling group of Ibi Services S. de R.L. México ("Ibi México") and of RFS Human Management S. de R.L., a subsidiary of Ibi México. This transaction includes a partnership contract with C&A México S. de R.L. (C&A México) for a period of 20 years for the exclusive joint sale of financial products and services through C&A México chain stores.

2009 and 2008 acquisitions

In October 2009 we announced that the board of directors of Odontoprev and Bradesco, the latter as indirect controlling shareholder of Bradesco Dental entered into a joint venture agreement in the dental insurance sector. Under the merger plan, Bradesco Dental became a wholly-owned subsidiary of Odontoprev, and Bradesco Saúde, the direct controlling company of Bradesco Dental, received shares representing 43.50% of Odontoprev's total capital. Together, Bradesco Saúde (43.50%) and Odontoprev's major shareholder, Mr. Randal Luiz Zanetti (7.56%), entered into a shareholders´ agreement to hold 51.06% of the combined company's capital.

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

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

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

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

Other strategic alliances

In March 2011, we announced that following a non-binding agreement we entered with Banco do Brasil S.A. and Caixa Econômica Federal in August 2010, which allowed Caixa Econômica Federal to join an earlier agreement we had with Banco do Brasil from April 2010, we entered into a binding memorandum of understanding with Banco do Brasil S.A. to launch the Elo business. The joint venture will encompass certain electronic payment businesses, including: (i) Elo Serviços S.A., the owner and manager of the Elo brand of debit, credit and pre-paid cards; (ii) the activities of Companhia Brasileira de Soluções e Serviços ("CBSS"), which will be directly or indirectly integrated into Elo Participações; (iii) our ownership interest in IBI Promotora de Vendas Ltda., which will be sold to CBSS; and (iv) our ownership interest in Fidelity Processadora e Serviços S.A., which will be sold to CBSS. The transactions will be completed upon satisfactory negotiation of the final documents and compliance with the applicable legal and regulatory requirements.

In December 2010, Bradesco Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários (BRAM), our asset management company, launched a new fund to invest in dollar-denominated securities issued abroad by Brazilian companies and the National Treasury. This new fund is now part of the family of investment funds called Bradesco Global Funds, which was launched by Bradesco in September 2009. These funds are domiciled in Luxemburg and are marketed exclusively to foreign investors. Bradesco Global Funds is an umbrella structure that provides investors with a series of investment funds, each with different investment objectives.

In September 2010, we announced the sale of our controlling interest in CPM Braxis S.A. (CPM) to Capgemini S.A., reducing our ownership interest in CPM to 20%.

In August 2010, Bradesco Seguros, ZNT Empreendimentos and Odontoprev signed a non-binding memorandum of understanding with BB Seguros, for developing and marketing products in the dental market.

In February 2010, we entered into a non-binding memorandum of understanding with Banco do Brasil and Banco Santander (Brasil) to facilitate consolidation of operations of our respective networks of external self-service terminals (ATMs located outside branches). By concluding this transaction, we hope to have a business model that will facilitate our customers' access to some 11,000 external ATMS.

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

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

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

Banco Postal

Under the trading name Postal Bank (*Banco Postal*), we offer our products and services throughout Brazil, through a partnership arrangement with the government owned postal company (*Empresa Brasileira de Correios e Telégrafos,* or ECT), which we call *Correios*. These services started in March 2002, when we opened the first Postal Bank branch in the State of Minas Gerais. As of December 31, 2010 we had 6,203 correspondent offices or postal branches in 5,271 municipalities in Brazil, processing on average more than 45.4 million transactions monthly or more than 2.1 million transactions daily.

Approximately 1,800 of the 6,203 correspondent offices or postal branches were set up in areas previously lacking banking services, thus directly or indirectly benefiting millions of people previously out of the financial system's reach.

The Postal Bank offers basic services for low-income segments of the population, in particular:

- applications to open accounts;
- application for loans, financing and credit cards;
- withdrawals from checking and savings accounts, and social security (INSS) benefit payments;
- deposits in checking and savings accounts;
- balance enquiries and statements for checking and savings accounts, and social security (INSS) benefit payments;
- receipt of bank payment slips;
- processing utility bill payments;
- processing municipal, state and federal tax payments; and
- vehicle licensing.

ECT will be holding a public bidding process sometime in 2011 to select its partner to offer banking services through post offices for the next 5 years, but has not yet defined a precise timetable for this process.

Bradesco Expresso

In addition to Postal Bank services delivered at correspondent offices on premises of the Postal Service, we have also signed partnership deals to provide banking correspondent services under the trademark "Bradesco Expresso" through retail chains such as supermarkets, drug stores and bakeries. These points of service process utility bills and bank collection invoices for our clients and offer withdrawals from checking and savings accounts and pension payments.

As of December 31, 2010, the Bradesco Expresso network totaled 26,104 points of service averaging more than 41.0 million transactions monthly or 1.9 million transactions daily. Retailers benefit directly from Bradesco Expresso through remuneration for their services, and also benefit indirectly from the increased through flow of people, which may boost both sales and client loyalty.

Business strategy

We believe the Brazilian Financial System has been able to weather the sudden downturn in the global economy beginning in the second half of 2008 and the challenges posed by the financial crisis for the liquidity of major financial institutions. We expect the Brazilian economy to gradually resume growth as a result of a significant increase in the purchasing power of certain income segments of the Brazilian population, mainly low- and medium-income sections as well as growth in corporate investment. This would lead to sustained growth of demand for financial services and insurance in the coming years and, in the long-term, the Brazilian Financial System may be strengthened as a result of the present global economic crisis.

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

Our strategy to achieve these goals is focused not only on continuing to expand our client base but also on consolidating our position as a "complete bank," in the Brazilian market so that every client sees us as their "number one bank." We are increasingly segregating our products and services as we efficiently allocate our resources and talents to provide our clients with products and services that really meet their needs. We believe that our concern with our clients' financial profiles and our respect for their individuality results in greater satisfaction and loyalty. Segregating our financial services has also enabled us to leverage synergies from the integration of institutions we have acquired over the past years.

We have the largest and, we believe, the best network of distribution channels among Brazilian private banks. This network comprises branches, points of banking services at workplaces or stores, ATMs, Postal Bank services and other third-party channels which showed particularly significant growth when major retailer chains agreed to act as our banking correspondents. We have approximately 83,500 physical points of banking services. Our well-distributed and extensive branch network optimizes logistics for the delivery of products and services and enables us to be fully competitive in retail banking. We intend to continue expanding and refining our branch network to provide more and better retail products and services to clients, in order to meet the growing demand for credit and insurance in the Brazilian market.

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

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

We also intend to step up our entrance into markets in which we have traditionally been less focused, such as stockbroker services. The significant growth in the Brazilian securities market over the past years and our acquisition of Brazil's largest brokerage company, Ágora Corretora, made us one of the leaders in the brokerage market.

We believe that our insurance segment has high growth potential, due to the low percentage of GDP covered by the Brazilian insurance industry. Brazilians are now earning higher average incomes so there are millions of new policyholders. We intend to tap growing demand for insurance products to consolidate our leadership across the range of insurance lines.

We are also structuring our Organization to leverage scale and operational efficiency gains by segmenting insurance products through specialized companies for each specific type of insurance, which we call "multi-line" insurer. This approach allows us to avoid cross subsidies and retain full control over the performance of each line of products. We believe this structure may maximize insurance product sales, which have a high contribution margin and provide access to independent brokers.

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

We understand that the success of a financial sector company depends not only on the number of clients it has but also on having highly capable, well-trained and dedicated personnel with strict work and ethical standards. Training, promotion and the creating of a culture of solidarity at work are keys to improving the business, in order to foster a cooperative and friendly environment in which our employees can develop long-lasting careers. In 2010, we were once again chosen in an employee survey by the "Guia Você S/A Exame" publication as one of the best companies to work for in Brazil.

Finally, a cornerstone of our philosophy is doing business in accordance with the highest ethical standards. Our strategy is constantly guided by and focused on the pursuit of best corporate governance practices and the understanding that we must not only provide profit for our shareholders but also play a constructive role in society.

The following are key elements of our business strategy:

- expand through organic growth;
- maintain our profitability and consolidate our leadership in the insurance sector through the bank-insurance model;
- boost revenues, profitability and shareholder value by strengthening our loan and financing operations, our core business, and expand to new products and services;
- maintain our commitment to technological innovation;
- achieve profitability and shareholder return through ongoing improvement of our efficiency ratio;
- maintain acceptable risk levels in our operations; and

- expand through strategic alliances and selective acquisitions when advantageous.

Expand through organic growth

Despite the global economic crisis, which began in the second half of 2008, we expect the Brazilian economy to recover and continue to grow. The Brazilian economy has been growing sustainably and over time has strategic opportunities for growth in the financial and insurance industries, mainly due to higher business volume in segments in which we are particularly well positioned. We plan to continue leverage this situation to boost our revenue, build profitability and maximize shareholder value as follows:

- seizing the opportunity to obtain new customers in the Brazilian market, mainly from the low- and middle-income brackets, whose financial and credit needs have not yet been served, while continuing to compete for the small group of clients in upper income brackets;
- expanding our financial services distribution channels by creatively developing new retail market products and utilizing third-party channels, such as our offer of credit cards, financial and insurance products and services through major retail chains, the Postal Bank and other banking correspondents;
- leveraging our existing distribution channels, including our traditional branch network and other means of distribution to detect demand for new products and expand the offer of traditional products, such as long-term financing and particularly real estate or housing credit, which is in renewed demand due to Brazil's monetary stability;
- using our client base to offer our products and services more widely and raising the average number of products used from 4.8 in December 2010, to an average of 5.0 products per client by December 2011;
- using our branch-based systems for assessing and monitoring clients' use of our products in order to channel them to the proper selling, delivery and trading platforms; and
- developing segmented products tailored to the profiles and needs of both our existing and potential clients.

Based on the bank-insurance model, maintain our profitability and consolidate our leadership in the insurance sector.

Our goal is to have our customers look to us as their "number one bank" for all their banking, insurance and pension needs. We believe that we are in a privileged position to leverage synergies across our banking, insurance, pension and other financial businesses. These products are offered throughout Brazil through our banking network, the Internet and new and creative distribution channels. We also have specific channels offering these products based on our 25,367 insurance brokers and 8,883 brokers for pension products and VGBL *(Vida Gerador de Benefício Livre).* We continuously assist and encourage our brokers and dealers to improve services to our clients.

At the same time, we are looking to boost the profitability of our insurance and pension plan business by using profitability metrics. Instead of only evaluating volume of premiums underwritten or amounts deposited, we consider the following factors:

- managing our portfolio and reserves;
- aggressively marketing our products and services; and

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- maintaining acceptable risk levels in our operations through a strategy of:
  - prioritizing insurance underwriting opportunities according to the "risk spread," which is the difference between the expected income under an insurance contract and the actuarially determined amount of claims likely to be paid under that same contract;
  - using hedging transactions to avoid mismatches between real inflation and provisions for interest rate and inflation adjustments in long-term contracts; and
  - using reinsurance agreements with well-known reinsurers, tapping the new situation in the Brazilian reinsurance market.

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

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

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

Maintaining our commitment to technological innovation

Developing efficient means of reaching customers and processing transactions safely and without discontinuity is a key element of our goal of boosting our profitability and capitalizing on opportunities for coordinated growth.

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

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

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

- expanding our "Bradesco Celular" mobile banking service, enabling customers to conduct their banking transactions using compatible mobile phones; and
- providing "Pocket Internet Banking" for hand-held devices and personal digital assistants or PDAs including mobile phones that enable our clients to access savings and checking account details, review recent credit card transactions, make payments, transfer funds and obtain information relating to our services.

Earning profitability and shareholder return constantly improving our efficiency ratio

We intend to improve our levels of operating efficiency:

- maintaining austerity as the basis of our cost control policy;
- continuously revising internal processes to reduce resource consumption and contribute to our policy of corporate sustainability;
- consolidating synergies posed by our recent acquisitions;
- continuing to reduce our operational costs through investments in technology that will minimize our costs per transaction, emphasizing our existing automated channels of distribution, including our wireless distribution systems, telephone, Internet banking and ATMs; and
- continuing to merge institutions we may acquire in the future into our existing system in order to eliminate overlaps, redundancies and potential inefficiencies and improve our gains of scale.

Maintaining acceptable risk levels in our operations

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

The existence of our Integrated Risk Management and Capital Allocation Committee, a statutory-level committee, guarantees the uniqueness of our risk management process. The committee advises our Board of Directors on policies, operational guidelines and for exposure to risks in the ambit of the consolidated financial and economic situation.

In addition, we have three executive committees for issues related to credit, market, liquidity and operational risks, which, amongst other responsibilities, suggest tolerance limits for respective risks and

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devise risk mitigation plans for submission to the Integrated Risk Management and Capital Allocation Committee.

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

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

Expanding through strategic alliances and selective acquisitions when advantageous

We believe that Brazilian financial institutions will expand through organic growth in the coming years, but we also believe there may be opportunities to acquire other financial institutions. We think certain institutions that might be open to acquisition could pose niche opportunities such as consumer finance, credit cards, or investment banking. Therefore, we are continuously evaluating potential strategic alliances and consolidation opportunities, including proposed privatizations and acquisitions, as well as other methods that offer potential opportunities to increase our market share or improve our efficiency. When deciding on a potential alliance or acquisition, in addition to focusing on value and asset quality, we consider potential operating synergies, for cross-selling opportunities, acquisition of know-how and other advantages. The analysis of potential opportunities is based on their potential impact on our results.

Investments

Our main investments between 2008 and 2010 are described in "Item 5.B. Liquidity and Capital Resources - Capital expenditures."

4.B. Business Overview

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

As of December 31, 2010, according to the sources cited in parentheses below, we were:

- one of the leaders among private-sector banks in savings deposits, with 14.3% of savings deposits in Brazil and R$54.1 billion on deposit ("Central Bank");
- the largest provider of insurance, public pension plans and certificated savings plans in Brazil, with R$31.1 billion in net premiums written and revenues from supplementary pension plans and certificated savings plans ("SUSEP" and "ANS");
- the leader of the large banks in BNDES onlending special purpose funding to micro-, small- and medium-sized companies for the 9^{th} consecutive year, with 57.4% of all loans being disbursed by us and having a presence in 93.6% of operations targeted at micro, small and medium-sized companies ("BNDES");
- one of the leaders in leasing operations in Brazil, with a leasing portfolio of R$16.4 billion at present value ("ABEL");

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- one of the largest private-sector fund and portfolio managers in Brazil, with R$295.7 billion in total third-party assets under management, representing over 18% of the total Brazilian market ("ANBIMA");
- one of the largest credit card issuers in Brazil, with 86.5 million credit cards issued (Visa, American Express, MasterCard and private label cards) with sales on credit cards and private label of R$75.6 billion (Bradesco, Fidelity, Leader, American Express, Esplanada, Crediare and GBarbosa);
- one of the largest debit card issuers in Brazil, with 58.7 million debit cards issued;
- the leader in bank payment processing and collection in Brazil, with a market share of 26.7% ("Central Bank");
- the leader among private banks in number of client registrations in the Pre-Authorized Direct Debit (DDA) program, with over 2.0 million registered clients;
- the leader in active purchasing consortium quotas in the following three segments: real estate, automobile and trucks and tractors ("Central Bank");
- one of the leaders in automobile financing loans, with a market share of 17.4% ("Central Bank"); and
- the leading private-sector bank in benefit payments from the Social Security Institute (*Instituto Nacional do Seguro Social,* or INSS), with over 6 million "INSS" retirees, beneficiaries and other pensioners, accounting for 22.0% of the total number of INSS beneficiaries.

Furthermore, Bradesco was classified as the most valuable brand in Brazil in 2010, among financial institutions, by consulting firm Superbrands and rated one of the best companies to work for in Brazil in the large company category by *Guia Você S/A Exame* magazine. We were also elected the best Insurance and best Health Insurance Company in a survey conducted by *IstoÉ Dinheiro* magazine. In September 2010, Bradesco was assigned GAMMA 7 Score (on a scale of one to ten) by Standard and Poor's (S&P). We believe this score, which is designed by S&P as a tool for investor protection against potential governance-related losses of value or failure to create value, reflects S&P's opinion of the relative quality of our corporate governance practices. We believe this score represents strong recognition of our general corporate governance practices and processes. Bradesco received again the Golden Peacock Global Award for Corporate Social Responsibility 2010, which recognizes the pursuit of the best practices of corporate social accountability.

Main subsidiaries

The following is a simplified chart of our principal material subsidiaries in the financial and insurance services businesses and our voting and ownership interest in each of them as of December 31, 2010 (all of which are consolidated in our financial statements in "Item 18. Financial Statements"). With the exception of Banco Bradesco Argentina, which was incorporated in Argentina, all of these material subsidiaries were incorporated in Brazil. For more information regarding the consolidation of our material subsidiaries, see Note 1(a) to our consolidated financial statements in "Item 18. Financial Statements."

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Revenues per business segment

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

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

For additional segment information, see Note 27 to our consolidated financial statements in "Item 18. Financial Statements."

	Year Ended December 31,		
	2008	2009	2010
	(*R$ in millions*)		
Banking:			
Loans(1)	33,662	32,708	37,291
Fees and commissions	7,883	8,371	9,759
Insurance and pension plans:(2)			
Insurance	10,963	12,521	14,068
Pension plan income	710	607	692

(1) Includes industrial loans, financing under credit cards, overdraft loans, trade financing and foreign loans.
(2) This does not include private pension investment contracts. See "Insurance, pension plans and certificated savings plans."

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

Banking

We have a diverse client base that includes individuals and small, midsized and large companies in Brazil. Historically, we have cultivated a stronger presence among the broadest segment of the Brazilian market, middle- and low-income individuals. In 1999, we set up our corporate department to serve corporate clients with annual revenues of R$250 million or more, and our private banking department to serve our individual clients with minimum net assets of R$2 million. In 2002, we created *Bradesco Empresas* (Middle Market) to cater for corporate clients with annual revenues of R$30 to R$250 million, in other to expand our business in the middle corporate market. In May 2003, we launched Bradesco Prime, which offers services to individual clients who either have a monthly income of at least R$6,000 or R$70,000 available for immediate investment. Bradesco Varejo ("Bradesco Retail") is our division for corporate clients with annual revenues of less than R$30 million and individual clients with monthly income of less than R$6,000. For more information, see "Distribution channels" and "Specialized distribution of products and services."

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The following diagram shows the breakdown of our banking activities as of December 31, 2010:

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

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

	Year ended December 31,		
	2008	**2009**	**2010**
	(R$ in millions)		
Income statement data:			
Net interest income[1]	19,054	25,551	28,817
Provision for loan losses	(6,651)	(10,822)	(5,769)
Non interest income[1]	10,564	15,721	13,145
Non interest expense	(20,620)	(21,554)	(26,512)
Income before income taxes[1]	**2,347**	**8,896**	**9,681**
Income tax and social contribution	1,970	(2,733)	(3,432)
Net income[1]	**4,317**	**6,163**	**6,249**
Net income attributed to noncontrolling interest	(42)	(6)	(16)
Parent Company's net income	**4,275**	**6,157**	**6,233**
Balance sheet data:			
Total assets	373,908	418,926	533,838
Selected results of operations data:			
Interest income:			
Interest on loans	33,662	32,708	37,291
Interest on securities	5,576	4,660	5,331
Interest on federal funds sold and securities purchased under agreements to resell	6,465	7,701	8,867
Deposits from financial institutions	706	506	594
Brazilian Central Bank compulsory deposits	1,489	1,434	2,879
Others	38	35	
Interest expense:			
Interest on deposits	(9,636)	(11,446)	(11,312)
Interest on federal funds purchased and securities sold under agreements to repurchase	(9,619)	(9,179)	(11,392)
Interest loans	(9,627)	(868)	(3,477)
Net Interest Income	**19,054**	**25,551**	**28,817**
Fee and commission income	**7,883**	**8,371**	**9,759**

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

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

- deposit-taking, including checking accounts, savings accounts and time deposits;
- loans (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.

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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*) – clients 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 clients´ prepaid cell phone.
- investment deposit accounts;
- traditional savings accounts, which currently earn the Brazilian reference rate, or *taxa referencial*, known as the "TR," plus 6.2% annual interest;
- 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, 2010, we had 23.1 million checking account holders, 21.8 million of which were individual account holders and 1.3 million corporate account holders. On the same date, we had 41.1 million savings accounts. In the same period, our deposits (excluding deposits from financial institutions) totaled R$192.9 billion and we had a 14.3% share of the Brazilian savings deposit market, according to the Central Bank.

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The following table shows a breakdown of our deposits by type of product on the dates indicated:

	December 31,					
	2008		2009		2010	
	(R$ in millions, except percentages)					
Deposits from Customers:						
Demand deposits	28,612	17.4%	35,664	20.8%	37,334	19.3%
Reais	28,246	17.2%	35,126	20.5%	36,932	19.1%
Foreign currency	366	0.2%	538	0.3%	402	0.2%
Savings deposits	37,768	23.0%	44,162	25.8%	53,436	27.7%
Reais	37,768	23.0%	44,162	25.8%	53,436	27.7%
Time deposits/certificates of deposit	97,423	59.2%	90,537	52.9%	102,158	52.9%
Reais	90,561	55.1%	85,221	49.8%	94,723	49.0%
Foreign currency	6,862	4.1%	5,316	3.1%	7,435	3.9%
Total deposits from customers	**163,803**	**99.6%**	**170,363**	**99.5%**	**192,928**	**99.9%**
Deposits from financial institutions	**698**	**0.4%**	**752**	**0.5%**	**275**	**0.1%**
Total	**164,501**	**100.0%**	**171,115**	**100.0%**	**193,203**	**100.0%**

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

- "identified deposits," which allow our clients to identify deposits made in favor of a third party by using a personal identification number; and
- real-time "banking transfers" from a checking, savings or investment account to another checking, savings or investment account, including accounts at other banks.

Loans

The following table shows loans in Brazil broken down by type of product and period:

	December 31,		
	2008	2009	2010
	(R$ in millions)		
Loans outstanding by product type:			
Loans to individuals	36,734	39,208	55,614
Real estate financing	5,308	6,841	10,079
Banco Nacional de Desenvolvimento Econômico e Social ("BNDES") onlendings	14,480	16,014	26,382
Other local commercial loans	47,736	46,872	52,523
Rural credit	10,459	11,661	13,516
Leasing	20,096	19,787	15,277
Credit cards	2,501	3,452	5,000
Import and export financings	27,480	21,961	25,706
Foreign loans	2,769	2,958	5,020
Public sector loans	94	88	84

Total	**167,657**	**168,842**	**209,201**
Non performing loans	7,178	11,092	10,082
Total	**174,835**	**179,934**	**219,283**

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The following table summarizes concentration of our outstanding loans by borrower by period.

	December 31,		
	2008	2009	2010
Borrower size:			
Largest borrower	1.3%	1.0%	1.2%
10 largest borrowers	6.5%	6.5%	6.0%
20 largest borrowers	10.4%	9.8%	9.3%
50 largest borrowers	16.9%	16.2%	14.8%
100 largest borrowers	22.1%	20.6%	18.8%

Loans and discounted loans

Our loans and discounted loans, which consist mostly of consumer loans, corporate loans and rural loans, totaled R$219.3 billion as of December 31, 2010.

Consumer loans

Our significant volume of individual loans enables us to reduce the impact of single 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 6.8% per month as of December 31, 2010;
- vehicle financings are on average repaid in seventeen months with an average interest rate of 2.5% per month as of December 31, 2010; and
- overdraft loans on checking accounts (which we call "Cheque Especial"), which are on average repaid in one month, at interest rates varying from 7.8% to 8.4% per month as of December 31, 2010.

We also provide revolving credit facilities and traditional term loans. As of December 31, 2010, we had outstanding advances, vehicle financings, consumer loans and revolving credit totaling R$55.6 billion, or 25.4% of our credit portfolio as of that date. On the basis of loans outstanding on that date, we had a 12.5% share of the Brazilian consumer loan market, according to information published by the Central Bank.

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

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

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

- providing loans against repayment deducted from paychecks for public employees, INSS retirees and pensioners and private-sector employees. This nationwide retail operation is run through non-bank correspondents. In addition to paycheck loans, these points provide aggregated products such as credit cards, insurance, certificated savings plans, and purchasing consortiums, among others, that are sold in partnership with Bradesco's branch network or directly prospecting new customers; and

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- financing and leasing for vehicles with solutions in CDC, leasing and others using own funds or onlending to Bradesco clients and non-clients, working in partnership with 24.195 retailers and dealers across the country in the segments of light vehicles, motorcycles and heavy vehicles.

Real estate financing

As of December 31, 2010, we had 49,402 outstanding real estate loans. We financed 28.7% of the financial sector lending for civil construction in 2010, according to data published by the Central Bank. As of December 31, 2010, the aggregate outstanding amount of our real estate loans amounted to R$10.1 billion, representing 4.6% of our loan portfolio.

Real estate financing is made through the Housing Finance System - SFH *(Sistema Financeiro Habitacional)*, by the Housing Mortgage Portfolio - CHF *(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 7.8% to 11.5% plus TR, or 13.0% from CHC. Loans from SFH with pre-fixed installment repayment are made at annual interest rates of 12.7% for properties valued at no more than R$150,000.

Residential SFH and CHH loans are for repayment within thirty years and commercial loans within ten years.

Our individual loans made for construction purposes are repaid within 30 years, with 24 months to finish construction, a 2-month grace period and the remainder for repaying the loan. The annual interest rate on these loans is TR plus 10.5% for the SFH loans, or a fixed 12.7% for homes valued at R$150,000 or less.

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% during the construction stage for SFH loans, and TR plus an annual interest rate of 15% for CHH loans.

Central Bank regulations require us to provide 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.

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 these loans. We started providing microcredit loans in August 2003. As of December 31, 2010, we had 57,737 microcredit loans outstanding, totaling R$47.1 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%. 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$15,000 for microcredit loans in certain segments. In addition, microcredit loans must be not for less than 120 days, and origination fee must be 1% to 5% 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), which we call "Finame," the equipment financing subsidiary of BNDES. We then on-lend these funds to borrowers in targeted sectors of the economy. We determine the spread on the loans based on the borrowers' credit. Although we bear the risk for these BNDES and Finame onlending transactions, they are always secured.

According to BNDES, in 2010, we disbursed R$17.4 billion, 57.4% of which was loaned to micro-, small- and medium-sized companies. Our BNDES onlending portfolio totaled R$26.4 billion as of December 31, 2010, and accounted for 12.0% of our credit portfolio at that date.

Other local commercial loans

We provide traditional loans for the ongoing needs of our corporate clients. We had R$52.5 billion of outstanding other local commercial loans, accounting for approximately 24.0% of our credit portfolio as of December 31, 2010. We offer a range of loans to our Brazilian corporate clients, including:

- short-term loans of twenty nine days or less;
- working capital loans to cover our customers' cash needs;
- guaranteed checking accounts and corporate overdraft loans;
- discounting 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 2.0% to 7.5% 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, 2010, we had R$13.5 billion in outstanding rural loans, representing 6.2% of our credit portfolio. In accordance with Central Bank regulations, loans arising from compulsory deposits are paid a fixed rate. The annual fixed rate was 6.8% as of December 31, 2010. Repayment of these loans generally coincides with agricultural harvest and principal is due when a crop is sold, except BNDES onlending for rural investment which is repaid within a 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 2010, Central Bank regulations require us to use at least 29% of our checking account deposits to provide loans to the agricultural sector. If we do not reach 29%, we must deposit the unused amount in a non-interest-bearing account with the Central Bank.

Leasing

According to ABEL, as of December 31, 2010, our leasing companies were among the sector leaders, with a 18.9% market share. According to this source, the aggregate discounted present value of the leasing portfolios in Brazil as of December 31, 2010 was R$86.3 billion.

As of December 31, 2010, we had 614,222 outstanding leasing agreements totaling R$15.3 billion, representing 7.0% of our credit portfolio.

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

Most of our leases are financial (as opposed to operational). Our leasing operations primarily involve the leasing of cars, trucks, cranes, aircraft and heavy machinery. As of December 31, 2010, 82.6% of our outstanding leases were vehicle leases, compared with 79.5% 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, 2010, Bradesco Leasing had R$50.6 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 5 years or more. There is no legal maximum term for leasing contracts. As of December 31, 2010, the remaining average maturity of contracts in our lease portfolio was 49 months.

Credit cards

In 1968, Bradesco was the first bank to issue credit cards in Brazil, and as of December 31, 2010, we were one of Brazil's largest card issuers with a base of 86.5 million credit and private-label cards. We offer Visa, American Express, MasterCard credit and private label cards, which are accepted in over 200 countries.

In April 2010 Bradesco and Banco do Brasil signed a non-binding memorandum of understanding for the preparation of a business model, involving: (i) the integration of part of their card operations and (ii) the launch of a Brazilian brand of credit, debit and pre-paid cards for account holders and non-accountholders. Completion of this deal is subject to technical, legal and financial studies, satisfactory negotiation of final documents and compliance with the applicable legal and regulatory requirements. For more information, see "Item 4.A. History, Development of the Company and Business Strategy - Other Strategic Alliances"

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Our partnership with American Express Company has enabled us to successfully operate their credit cards and other related activities in Brazil, in particular our exclusive issue of the Centurion line of cards, which includes the Membership Rewards Program, and management of the network of establishments taking Amex Cards.

In addition, through our participation in *Fidelity Processadora e Serviços S.A.*, as of December 31, 2010 we were one of the largest service providers of processing, customer services management and support activities in Brazil.

In June 2010, we completed our acquisition of Ibi México and RFS Human Management in a deal that includes a 20-year partnership with C&A Mexico for exclusive sales of financial products and services in its stores.

Since October 2010, our Visa and MasterCard credit cards have been processed by our subsidiary Fidelity Processadora e Serviços S.A. This was the largest change in credit card processing company in Latin America and was completed very successfully.

This change will be advantageous for our development and maintenance of standard IT systems that can be tailored to specific client needs upon request, more responsive customer service, positive impact on our service network, and more flexibility on launching new products and services, thus boosting our competitiveness in the marketplace.

We earn revenues from our credit card operations through:

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

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 for high net worth customers, such as "Gold," "Platinum" and "Infinite/Black" Visa, American Express and MasterCard. Highlights are loyalty programs including the "Membership Rewards Program;"
- cards that combine credit and debit features in a single card, which may be used for traditional banking transactions and shopping;

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- to enhance security, we are issuing chip-embedded credit cards for our entire client base, enabling cardholders to use passwords instead of signatures;
- corporate credit cards accepted nationwide and internationally;
- co-branded credit cards, which we offer through partnerships with traditional companies, such as airlines, retail stores, and others;
- "affinity" credit cards, which we offer through civil associations, such as sport clubs and non-governmental organizations;
- "*CredMais*" credit cards for employees of our payroll processing clients, which have more attractive revolving credit fees, and "*CredMais INSS*" credit cards for INSS pensioners and other beneficiaries with lower financing interest rates;
- private label credit cards, which exclusively target retail clients to leverage our business and build loyalty which may or may not have a brand for use with our retailers;
- SMS - Bradesco Message Service enables cardholders to have text messages sent to their mobile phone when a transaction with their card is made;
- CPB - Bradesco Ticket Card, a virtual card for corporates to manage and control airlines travel expenses;
- "Cartões Transporte Bradesco" - Bradesco's card for transportation companies, shippers,risk management companies and truck drivers, with both prepaid and debit card functionalities;
- "Blue Credit Cards" a modernly designed credit card that offers special benefits for American Express clients with upscale lifestyles;
- "FixCard," with a reduced fee enabling cardholders to plan their monthly repayment;
- Flex Car Visa Vale Card is a prepaid card that offers the client more practical payment options for vehicle related expenses, such as fuel or parking and enables companies to set maximum credit available to each employee;
- payment of invoice in up to 12 fixed installments, with specific charges per type of card;
- Bradesco Unemployment Protection Insurance ("*Seguro Proteção Desemprego Bradesco*") settles or amortizes the amount due on the participant's credit card in the event of involuntary unemployment (for employed professionals) or permanent or temporary physical disability (for self-employed workers or professionals). Coverage varies by type of plan;
- Bradesco Unauthorized Purchase Protection Insurance ("Seguro *Cartão Super Protegido Premiável Bradesco*") settles or amortizes the amount due on the participant's credit card, excluding cash withdrawals, resulting from the card's loss, robbery or theft. Protection covers a 7-consecutive-day period (168 hours) prior to the notification of the event, up to the credit card limit, with a ceiling of R$50,000;

- "Purchase with Change" is a service provided by Bradesco, Banco do Brasil and Banco Real, which enables clients to ask for cash back purchasing with the card;
- "Contactless" branded cards (pilot) enable clients to simply place the card next a scanner to make a payment;
- "Bradesco Corporate Checking Account Card" does checking account transactions and is ideal for small everyday expenses, with advanced technology making company business more convenient, faster and more secure; and
- "Gold Cards" with differentiated services in line with Bradesco's customer segmentation strategy, offering competitive products that provide profitability for the Bank and benefits for clients.

We are authorized to accredit merchants with the Visa, American Express and Mastercard systems through our branches, and to transfer banking domiciles.

In 1993, we launched the *SOS Mata Atlântica* card, which allocates a portion of its revenues to environmental causes. In 2008, we launched the *Amazonas Sustentável* credit card, the first credit card made of recycled plastic, and part of its revenues will be transferred to *Fundação Amazonas Sustentável*.

As of December 31, 2010, we had more than 78 partners with whom we offered co-branded, affinity and private label/hybrid credit cards. These relationships have allowed us to integrate our relationships with our clients 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:

	2008	2009	2010
		(In millions)	
Card base:			
Credit	35.3	79.6	86.5
Debit	48.0	53.3	58.7
Total	**83.3**	**132.9**	**145.2**
Revenue - R$:			
Credit	**46,704**	**55,294**	**75,561**
Number of transactions:			
Credit	**607.4**	**722.6**	**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 may 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.

Prepaid cards

Bradesco concluded acquisition of part of CBSS's shares owned by Santander in July 2010, thus increasing Bradesco's ownership interest in CBSS from 34.3% to 45.0%. In January 2011, Bradesco acquired part of CBSS's shares owned by Visa International, thus increasing Bradesco's ownership interest in CBSS from 45.0% to 50.01%.

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Management of receipts and payments

Management of receipts and payments

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

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

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

We also earn revenues from fees and investments related to collection and payment processing services.

Global cash management

The global cash management concept provides solutions for multinationals in Brazil and/or domestic companies operating abroad.

Bradesco's Global Cash Management provides payments, receipts and treasury management services for companies to centralize cash regionally or globally through partnerships with banks worldwide.

Solutions for collection and other receipts

In 2010, we processed 1,047.6 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 19.9% more than in the same period of 2009.

Tax collection solutions

In 2010, we processed payments of 459.7 million documents related to taxes and other amounts due to governmental, public and private entities, which was 11.1% more than in the same period of 2009.

Check-custody services

Under the post-dated check system, our clients pay for goods and services by writing checks payable at a future date. Sellers deposit the post-dated check on the future date, effectively postponing payment date. We hold such checks in custody for our clients to facilitate control of the document in the period from writing the check to the day it is deposited in the recipient's account.

Solutions for payment of suppliers, salaries and taxes

Our volume of electronically processed transactions in 2010 was 337.8 million, an increase of 31.6% on the same period of 2009.

Production chain solutions

In the current market, we believe companies operating in the same segment must act together to ensure better results. In this context, we have acted as a "Production Chain Bank" for all stages of the production process, posing solutions, products, services and partnerships to cater for all members of the production chain, whether they are suppliers, distributors, clients, or collaborators.

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 clients 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 clients.

The relationship works through exclusive service platforms located nationwide, with specialized relationship managers to provide services to these clients, creating a closer relationship to conquer new business and establishing a consolidated presence with Public Authorities.

In 2010, we participated in 61 public auctions across Brazil to provide payroll bank account services for government employees and were successful in 52, representing 293,596 new payroll bank accounts. As of December 2010, we processed over 1.5 million payroll payments totaling R$2.9 billion for public-sector bodies or entities.

Asset management

We manage third-party assets through:

- mutual funds;
- individual and corporate investment portfolios;
- pension funds, including assets guaranteeing the technical reserves of *Bradesco Vida e Previdência*;
- insurance companies, including assets guaranteeing the technical reserves of *Bradesco Seguros*; and
- Receivable funds (FIDCs), real estate and private equity funds (FIPs).

As of December 31, 2010, we had R$295.7 billion in assets under management, of which R$202.2 billion were managed by Bradesco Asset Management and R$93.5 billion related to the fiduciary administration, custody and controllership services provided separately by the brokerage *BEM Distribuidora de Títulos e Valores Mobiliários Ltda.*, which we call "BEM DTVM."

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In the same period we offered 1,146 funds and 221 managed portfolios to 3.1 million investors. We also offer a range of fixed income, equity, money market and other funds. Currently we do not offer investments in highly leveraged funds.

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.

	Distribution of Assets As of December 31	
	2009	**2010**
	(R$ in millions)	
Investment Funds:		
Fixed income	201,012	242,751
Variable income	23,999	27,227
Third party share funds	5,641	5,629
Total	**230,652**	**275,607**
Managed Portfolios:		
Fixed income	8,590	10,460
Variable income	7,552	8,470
Third party share funds	906	1,171
Total	**17,048**	**20,101**
Overall Total	**247,700**	**295,708**

	As of December 31			
	2009		**2010**	
	Number	**Quota holders**	**Number**	**Quota holders**
Investment Funds	960	3,169,464	1,146	3,125,605
Managed Portfolios	209	486	221	497
Overall Total	**1,169**	**3,169,950**	**1,367**	**3,126,102**

Total assets in our investment funds grew 19.5% in 2010, mainly as a result of larger third-party investments in our fixed income investment funds, which have lower management fees than equity funds.

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

Services related to capital markets and investment banking activities

As our investment bank, Bradesco BBI's business includes trading in equities and fixed-income assets, structured finance, mergers and acquisitions, project finance and private equity. BBI also manages trading for our brokerage and asset management firms Bradesco Corretora de Títulos e Valores Mobiliários, Ágora Corretora de Títulos e Valores Mobiliários, BRAM - Bradesco Asset Management, and Bradesco Securities Inc.

In 2010, we coordinated placements worth R$144.8 billion for primary and secondary offerings of shares and debt instruments, accounting for 80.5% of the year's CVM-registered issues.

Equities

Bradesco BBI coordinates and places public offerings of shares in the local and international capital markets, and intermediates public tender offers. In 2010, Bradesco BBI acted as lead coordinator for Petrobras in the world's largest ever IPO of common and preferred shares raising R$120 billion.

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Bradesco BBI was one of the main players in IPOs and follow-ons that went to the market in 2010. Of 22 CVM-registered IPOs in the period, Bradesco BBI acted as coordinator and joint book runner for 8 offerings worth a total of R$128.2 billion and ended the year 2010 placed third in ANBIMA's consolidated distribution ranking for equities. In addition, Bradesco BBI acted as one of the underwriters for the General Motors US$ 23 billion primary public offering, the largest ever in the United States of America.

Fixed income

Several major deals were successfully closed in 2010 and BBI ended the year taking first place in ANBIMA's ranking for fixed-income origination with a combined total of over R$18 billion volume and a 24.3% market share.

In addition to the local market, Bradesco BBI also operates in the international capital markets, originating and structuring debt transactions (notes or bonds) for placement with foreign investors. In the fourth quarter of 2010, Bradesco BBI was placed eighth by total issues in ANBIMA's ranking of issues on international capital markets published in December 2010.

Structured operations

Bradesco BBI offers various funding solutions to clients through diverse financial instruments, including securitization.

ANBIMA rankings published in December 2010 placed BBI first by number of deals involving securitization and real-estate receivables certificates (ANBIMA's Origination Ranking).

Mergers and acquisitions

Bradesco BBI acts as advisor to important clients for mergers, acquisitions, asset sale, joint ventures, corporate restructuring and privatization. It is one of the leading investment banks in Brazil and the second largest in mergers and acquisitions ranked by number of transactions (as announced in September 2010).

Project finance

Bradesco BBI has a sound record of acting as an advisor and arranging structured finance for several project finance and corporate finance deals, and in all cases pursues the best solutions for all different sectors of the economy. We believe it has excellent relationships with various development agencies such as BNDES, Banco Interamericano de Desenvolvimento (BID), the International Finance Corporation (IFC) and Banco do Nordeste do Brasil (BNB).

Among the operations completed in 2010, a highlight was BBI's role as financial adviser to LLX Logística S.A. ("LLX"), which successfully obtained R$1.2 billion in long-term BNDES finance for a new port project in the southeast of Brazil (Superporto Sudeste).

Intermediation and trading services

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

In 2010, Bradesco Corretora traded more than R$87.2 billion in the BM&FBovespa equities market and the exchange ranked us thirteenth in Brazil in terms of total trading volume.

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In addition, in the same period, Bradesco Corretora traded 9,862,475 futures, swaps and options totaling R$853.6 billion, on the BM&FBovespa. According to the BM&FBovespa, in 2010, Bradesco Corretora was ranked 20th in the Brazilian market, in terms of the number of options, futures and swaps contracts executed.

With more than 45 years of tradition and efficiency in capital markets, Bradesco Corretora was the first brokerage firm to provide its clients with DMA-Direct Market Access, an innovative computer order routing service enabling investors to buy or sell assets directly in BM&FBovespa's market.

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

Bradesco Corretora has 117 traders for retail investors and assisting our branch managers, 14 for Brazilian and foreign institutional investors, and 13 for BM&FBovespa.

Bradesco Corretora offers its clients the ability to trade securities on the Internet through its "Home Broker" service. In 2010, "Home Broker" trading totaled R$17.9 billion, or 3.9% of all Internet transactions on BM&FBovespa, and Bradesco Corretora was the 8th largest Internet trader in the Brazilian market.

Bradesco Corretora offers its clients full service investment analysis with coverage of the main sectors and companies in the Brazilian market, currently more than 100 companies. There are twenty industry specialists (senior analysts and assistants) on our analyst team reporting to clients with follow-up reports and share guides with an extensive database of projections and comparative multiples. In addition to analysis from our team of economists, Bradesco Corretora has a separate economic team catering to specific demand from its clients, focusing on the stock market.

Through our "Share Rooms Project", clients have access to professionals able to advise on investing on the BM&FBovespa. Our constantly-expanding network of share rooms currently consists of 21 share rooms located throughout Brazil. This means that Bradesco Corretora provides direct customer service and closer relations with clients, training and certifying employees for a range of operations, including structured operations, and attracting new clients. 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 clients concentrate their funds with us. We expect to have 28 share rooms in strategic locations around Brazil by the end of 2011 and 34 by the end of 2012.

We also offer a "Direct Treasury Program" enabling individual clients to invest in federal government bonds on the Internet by registering with Bradesco Corretora on our website.

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 2,689/00." For more details of Resolution 2,689/00, see "Item 10.D. Exchange Controls."

Custody, depositary and controllership services

In 2010, 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 3 protection and data privacy certifications.

As of December 31, 2010, Bradesco Custódia offered:

- Controller and custody services for investment funds and managed portfolios and fiduciary asset management involving:
  - R$728.7 billion in assets under custody for clients using custody services, as measured by methodology used for the ANBIMA ranking;
  - R$818.6 billion in equity investment funds and portfolios using our controller services, as measured by methodology used for the ANBIMA ranking;
  - 21 registered DR programs with a market value of R$120.7 billion; and
  - R$153.9 billion total assets under management in investment funds through BEM DTVM Ltda.
- Asset registration:
  - Bradesco’s share registration system comprised 233 companies, with a total of 8.5 million shareholders;
  - our debenture registration system contained 150 companies with a total market value of R$161.9 billion;
  - our fund share registration system contained 153 investment funds with a market value of R$20.7 billion; and
  - we managed three registered BDR programs, with a market value of R$448.9 million.

International banking services

As a private commercial bank, we offer a range of international services, such as foreign exchange transactions, foreign trade finance, lines of credit and banking. Our overseas network:

- New York City, a branch and Bradesco Securities Inc., our subsidiary brokerage firm, which we call "Bradesco Securities U.S.;"
- London, Bradesco Securities U.K., our subsidiary, which we call "Bradesco U.K.;"
- Cayman Islands, 2 Bradesco branches and our subsidiary, Cidade Capital Markets Ltd., which we call "Cidade Capital Markets;"
- Argentina, Banco Bradesco Argentina S.A., our subsidiary, which we call "Bradesco Argentina;"

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- Luxembourg, Banco Bradesco Luxembourg S.A., our subsidiary, which we call "Bradesco Luxembourg;"
- Japan, Bradesco Services Co. Ltd., our subsidiary, which we call "Bradesco Services Japan;"
- in Hong Kong, our subsidiary Bradesco Trade Services Ltd; and
- in Mexico, our subsidiary Ibi Services, Sociedad de Responsabilidad Limitada.

Our Bradesco Nassau branch in the Bahamas closed on January 11, 2011.

Our international transactions are coordinated by our foreign exchange department in Brazil with support from 12 operational units, and 14 foreign exchange platforms located in major exporting and importing areas nationwide.

Revenues from Brazilian and foreign operations

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

	For the year ended December 31,					
	2008		2009		2010	
	(R$ in millions, except percentages)					
Brazilian operations	76,215	98.4%	83,963	97.8%	91,926	98.5%
Overseas operations	1,248	1.6%	1,922	2.2%	1,381	1.5%
Total	**77,463**	**100.0%**	**85,885**	**100.0%**	**93,307**	**100.0%**

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 clients and extend financing to Brazilian and non-Brazilian clients. Total assets of the foreign branches, excluding transactions between related parties, were R$54.6 billion, as of December 31, 2010, denominated in currencies other than the real.

Funding for import and export finance is obtained from the international financial community by means of credit lines granted by correspondent banks abroad. In addition to this traditional source of correspondent banks, our funding from public and private issues of debt securities on international capital markets amounted to US$3.4 billion during 2010.

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 Bradesco Argentina with R$54.0 million from March 1998 to February 1999, and a further R$27.2 million in May 2007. As of December 31, 2010, Bradesco Argentina recorded R$74.1 million of total assets.

Bradesco Europe (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. As of December 31, 2010, its total assets were R$1.7 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, 2010, its assets totaled over R$670,000.

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 Standard Chartered Bank.

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

- The focus of Bradesco Securities U.S. is on facilitating the purchase and sale of shares, primarily in the form of ADRs. It is also authorized to deal bonds, commercial paper and deposit certificates, among other securities, and may provide investment advisory services.
  Currently, we have more than thirty ADR programs for Brazilian companies traded on the New York Stock Exchange. As of December 31, 2010, Bradesco Securities U.S. had assets of R$67 million; and
- Bradesco Securities U.K.'s focus is intermediating equity and fixed income trades of Brazilian companies for global institutional investors. As of December 31, 2010, Bradesco Securities U.K. had R$10.4 million in assets.

Cidade Capital Markets. In February 2002, through BCN, Bradesco acquired Cidade Capital Markets in Grand Cayman, as part of the acquisition of its parent company in Brazil, Banco Cidade. As of December 31, 2010, Cidade Capital Markets had 63.6 million in assets.

Banking operations in the United States

In January 2004, the United States Federal Reserve Bank authorized us to operate as a financial holding 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 and certificates of deposit, provide underwriting services, act as advisors for private placements, provide portfolio management and merchant banking services and manage mutual fund portfolios.

Import and export finance

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

We provide foreign currency payments directly to foreign exporters on behalf of Brazilian importers, attached to receipt of local currency payment by the importers. Exporters are paid advances in local currency on closing an export forex contract for future receipt of the 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 prepayment, onlending of funds from BNDES-EXIM, forfeiting through export credit notes and bills (referred to locally as "NCEs" and "CCEs").

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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, 82 of which extended lines of credit at the end of 2010.

As of December 31, 2010, the balance of our export finance was R$21.5 billion and our import finance R$4.2 billion. The volume of our foreign exchange contracts for exports reached US$ 45.6 billion, an increase of 20.3% on 2009. In 2010, the volume of our foreign exchange contracts for imports reached US$ 34.7 billion, a 40.5% rise on 2009. In 2010, based on Central Bank data, we had a 24.7% market share of Brazilian export finance, and a 19.5% market share in the Brazilian import market.

The following table shows the composition of our foreign trade asset portfolio as of December 31, 2010:

	December 31, 2010 *(R$ millions)*
Export financing:	
Advance on foreign exchange contracts - undelivered bills	3,982
Advance on foreign exchange contracts - delivered bills	392
Export prepayment	9,312
Onlending of funds borrowed from BNDES/EXIM	4,964
NCE/CCE (Exports Credit Note/Exports Credit Certificates)	2,893
Total export financing	**21,543**
Import financing:	
Import financing - foreign currency	2,734
Exchange discounted in advance for import credit	1,429
Total import financing	**4,163**
Total foreign trade portfolio	**25,706**

Foreign exchange products

In addition to import and export finance, our clients 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 clients;
- cash holding in other countries;
- collecting import and export receivables;
- cashing checks denominated in foreign currency; and

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- structured foreign currency transactions through our foreign units.

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 assist each other with the purchase of certain consumer goods. The purpose of a consortium is to acquire goods, and Brazilian law forbids the formation of consortiums for investment purposes.

In January 2003, our subsidiary Bradesco Consórcios initiated the sale of consortium memberships, known as "quotas," to our clients. Since May 2004, Bradesco Consórcios has been the leader in the real estate segment and, since December 2004, it has also been the leader in the vehicle segment. In October 2008, Bradesco Consórcios became leader in the truck/tractor segment. As of December 31, 2010, Bradesco Consórcios registered total sales of over 471,620 active quotas in the three segments, with total revenues of approximately R$22.3 billion and net income of R$253.4 million. Our purchasing consortium company (Bradesco Consórcios) manages plans for groups of purchasers buying real estate, automobiles, and trucks/tractors.

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Insurance, pension plans and certificated savings plans

The following diagram shows the principal elements of our insurance, pension plans and certificated savings plans segment as of December 31, 2010:

The following table shows selected financial data for our insurance, pension plans and certificated savings plans segment for the periods indicated. Segment totals may differ from amounts shown on a consolidated basis, due to amounts for immaterial activities or transactions between segments.

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	As of and for the year ended December 31,		
	2008	**2009**	**2010**
	(R$ in millions)		
Income statement data:			
Net interest income(1)	6,295	7,569	8,605
Non-interest income(1)	12,977	15,900	16,776
Non-interest expense	(14,946)	(18,775)	(20,155)
Income before income taxes(1)	**4,326**	**4,694**	**5,226**
Income tax and social contribution	(1,545)	(1,661)	(1,975)
Net income(1)	**2,781**	**3,033**	**3,251**
Net income attributed to noncontrolling interest	(89)	(26)	(22)
Parent Company`s net income(1)	**2,692**	**3,007**	**3,229**
Balance sheet data:			
Total assets	69,197	90,173	101,312
Selected results of operations data			
Insurance premiums:			
Premiums of life insurance and personal accidents	2,799	3,145	3,134
Health insurance premiums	5,259	6,099	7,071
Automobile and basic line insurance premiums	**2,905**	**3,277**	**3,863**
Total	**10,963**	**12,521**	**14,068**
Pension plan income	710	607	692
Interest income from insurance, pension plans, certificated savings plans and pension investment contracts	6,295	7,569	8,605
Changes in technical provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(4,225)	(6,008)	(6,209)
Insurance claims	(7,391)	(8,329)	(9,307)
Pension plan operating expenses	(482)	(410)	(456)

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

Insurance products and services

We offer insurance products through a number of different entities, which we refer to collectively as Grupo Bradesco de Seguros e Previdência. Grupo Bradesco de Seguros e Previdência is the largest insurer group in Brazil 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 clients. Products include health, life, personal accident, automobile and other assets.

According to the annual publication of *Fundacion Mapfre* in Spain, Grupo Bradesco de Seguros e Previdência was the largest insurance and pension plan group in Latin America in 2009.

Life and personal accident insurance

We offer life, personal accident and random events insurance through our subsidiary Bradesco Vida e Previdência. As of December 31, 2010 Bradesco Seguros had 20 million life insurance policyholders.

Health insurance

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.

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On December 31, 2010, Bradesco Saúde and its subsidiary Mediservice Administradora de Planos de Saúde S.A had more than 3.1 million beneficiaries covered by company plans and individual/family plans. Approximately 32,000 companies in Brazil pay into plans provided by Bradesco Saúde and its subsidiary, including 42 of the top 100.

Bradesco Saúde currently has one of the largest networks of providers of health services in Brazil. As of December 31, 2010, it included 10,530 laboratories, 12,398 specialized clinics, 16,787 physicians, 3,277 hospitals located throughout the country.

Automobiles, property/casualty and liability insurance

We provide automobile, property/casualty and liability products through our subsidiary Bradesco Auto/RE. Our automobile insurance covers losses arising from vehicle theft and damage 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 clients, Bradesco Auto/RE offers *Bradesco Seguro Empresarial* (business insurance), which is adapted to meet our clients' 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 and operational and oil risks.

As of December 31, 2010, Bradesco Auto/RE had 1.5 million insured automobiles and 1.8 million property/casualty policies and notes, making it one of Brazil’s main insurers.

Other Information

Sales of insurance products

We sell our insurance products through brokers in our branch network and through non-exclusive brokers throughout Brazil. Bradesco Seguros pays brokers' fees on a commission basis. As of December 31, 2010, there were 25,367 brokers offering our insurance policies to the public. We also offer certain automobile, health, and property/casualty insurance products directly through our website.

Pricing

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

Life insurance pricing is usually based on life expectancy statistics, and in some cases, frequency average amounts of claims actually experienced by the Brazilian population. Any amount exceeding the reinsurance agreement limit is automatically transferred for reinsurance by IRB Brasil Resseguros S.A., known as "IRB."

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Automobile insurance pricing depends on frequency and severity level of claims, and includes many factors such as place of use of a vehicle and its specific characteristics. In line with market practice, we factor client profiles into automobile insurance pricing.

The profitability of automobile insurance largely depends on detecting and correcting discrepancy between premium levels and expected claim costs. Among other factors premiums charged for damage insurance to vehicles include the value of the insured automobile. Consequently, premium levels partially reflect volume sales of new automobiles.

Pricing for mass property/casualty insurance business is also based on frequency and average amounts of claims, and on specific characteristics of the insured party's location. Pricing for corporate property/casualty insurance varies with the specific characteristics of each risk insured. Depending on the type of coverage and/or amount insured we may have to consult the IRB to obtain the basis for an insurance contract.

Reinsurance

Brazilian regulations set retention limits on the amount of risk insurance companies may underwrite without having to purchase reinsurance. Under these regulations, risk underwritten by Grupo Bradesco de Seguros e Previdência must be reinsured with the IRB if insured amounts exceed retention limits or if reinsurance is recommended for technical/actuarial decisions taken to minimize the risks of certain portfolios.

On January 15, 2007, Brazil's Congress enacted Supplementary Law No. 126/07, which abolished the IRB's monopoly and allowed three types of reinsurer referred to as "local," "admitted" and "occasional," thus opening up Brazil's reinsurance market for competition. Law No. 126 classified IRB as a local reinsurer and authorized it to continue to do business and adjust in due course.

As of the end of 2007, CNSP and SUSEP issued a number of normative instructions containing rules for reinsurance, retrocession and intermediation business, based mainly on CNSP Resolution No. 168/07.

To be registered as admitted or occasional reinsurers in Brazil, foreign-based reinsurance companies must meet certain requirements, such as having at least 5 years experience in their country of origin, shareholders' equity of at least US$ 100 million (admitted) or US$ 150 million (occasional), and certain minimum ratings from agencies Standard & Poor's, Fitch, Moody's or AMBest. For admitted reinsurers: BBB- (S&P/Fitch), Baa3 (Moody's), or B- (AMBest); for occasional reinsurers BBB (S&P/Fitch), Baa2 (Moody's), or B++ (AMBest).

Through Decree No. 6,499/08, the President of Brazil set maximum limits for ceding to reinsurance companies by local insurers (10%) and local reinsurers (50%) in terms of premiums ceded for reinsurance in each calendar year. CNSP Resolution No. 203/09 raised the limit from 10% to 25% in the case of guarantee for public obligations and oil risks.

Local reinsurers must be incorporated as *sociedade anônima* business corporation in Brazil with capital of at least R$60 million. As of March 31, 2011, under SUSEP Resolution No. 225/10, at least 40% of insurers' ceded risk must be placed with local reinsurers for both treaty and facultative contracts.

By December 31, 2010, SUSEP had registered 87 reinsurance companies, including London Lloyd's, with 93 syndicates, to operate in Brazil. Thirty-one reinsurance brokerage firms are also authorized to intermediate reinsurance and retrocession operations.

In 2010, Grupo Bradesco de Seguros e Previdência reinsured some R$194 million of reinsurance premiums, which was a relatively small amount compared with total written premiums. Although reinsurers are liable to cedants for the amount reinsured, insurers remain primarily liable to their insured for all risk assumed.

Until May 30, 2010, Bradesco AUTO/RE contracted reinsurance with IRB-Brasil Re alone. As of that date, Bradesco AUTO/RE started doing business with other reinsurers for automatic reinsurances (reinsurance agreements under which Bradesco agrees to cede certain risks in accordance with contract terms and the reinsurer is obligated to accept those risks for a certain period of time) both proportional and non-proportional bases. These new reinsurers' capital and ratings are well above the minimum required by SUSEP and all are in the "admitted" category.

IRB Brazil Re still has the largest share of all reinsurer contracts from Bradesco AUTO/RE and still is its sole reinsurer for facultative contracts.

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, 2010, Bradesco Vida e Previdência accounted for 31.2% 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 32.2% of VGBL, 23.3% of PGBL and 34.9% of traditional pension plans in Brazil. As of December 31, 2010, Bradesco Vida e Previdência accounted for 34.8% of all supplementary pension plan assets under management, 33.7% of VGBL, 23.5% of PGBL and 52.4% of traditional private 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.

Our revenues from pension and VGBL plans have risen by an average of 14.7% over the past five years, largely due to increased sales of our products through our branch network.

We manage pension and VGBL plans covering more than 2 million participants, 67.7% of whom have individual plans, and the remainder individuals covered by company plans. Company plans account for approximately 32.3% of our technical reserves.

Under VGBL and PGBL plans, participants are allowed to make contributions either in installments or in lump-sum payments. Participants in pension plans may deduct the amounts contributed to PGBL up to 12% of the participant's taxable income 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.

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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 2010, Bradesco Vida e Previdência managed R$42.3 billion in VGBL and R$13.3 billion in PGBL plans. Bradesco Vida e Previdência also managed R$21.9 billion in private pension plans.

In accordance with US GAAP, we recognize VGBLs, PGBLs and FAPIs as pension investment contracts. During the accumulation phase of the pension investment contracts, when insured parties bear investment risk, contracts are treated as investment contracts. During the annuity phase, the contract is treated as an insurance contract with mortality risk. Funds related to pension investment contracts in which insured parties bear investment risk correspond to book value. Book values are not actuarially determined; they are increased to the extent that deposits are received and interest is credited (based on contractual provisions) and reduced by redemptions at the participant's discretion.

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

Certificated savings plans

Bradesco Capitalização offers its clients certificated savings plans with the option of a lump-sum or monthly contributions. Plans vary in value (from R$8 to R$20,000), form of payment, contribution period, and periodicity of draws for cash prizes of up to R$2 million (gross premiums). Clients' contributions earn interest at a rate of TR plus 0.5% per month over the value of the mathematical provision. Certificated savings plans may be redeemed after a 12-month grace period. As of December 31, 2010, we had around 5.7 million "traditional" certificated savings plans and around 11.7 million incentive certificated savings plans. Given that the purpose of the incentive certificated savings plans 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, 2010, Bradesco Capitalização had approximately 17.4 million certificated savings plans and 2.7 million clients.

Quality management system

Bradesco Capitalização is the only Brazilian certificated savings plans company to be awarded ISO certification. In 2009, it was certified ISO 9001:2008 for the scope of management of plans. 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.

Rating

Bradesco Capitalização S.A. currently has a 'brAAA/Stable' rating from Standard & Poor's and remains the only company in the segment to earn this rating. The robust level of financial and property protection Bradesco assures its customers contributed to this result.

Treasury activities

Our treasury departments trading includes derivative transactions, mainly for economic hedging purposes (known as "macro-hedge"). These transactions comply with limits set by our Senior Management and guidelines from our risk management unit using value-at-risk ("VaR") methodology. For more information about our value-at-risk methodology ("VaR"), see "Item 11. Quantitative and Qualitative Disclosures About Market Risk - Value at Risk" and "Item 11. Quantitative and Qualitative Disclosures About Market Risk - Market Risk."

Distribution channels

We have the largest private-sector banking network in Brazil. In 2010, we opened 174 new branches. Our branch network is complemented by other distribution channels such as ATMs, telephone banking services, and Internet and mobile banking. In introducing new distribution systems, we have focused on enhancing our security as well as increasing efficiency.

In addition, to build stronger ties with our corporate clients, in 2010 we installed 368 new points of banking services on the premises of selected corporate clients, reaching a total of 4,480 points of banking service as of December 31, 2010. These points of service offer the same products and services as our branches.

We also offer banking services in 6,203 Brazilian post offices and through our 26,104 banking correspondent offices. For further information about this distribution channel, see "Item 4.A. History, Development of the Company and Business Strategy-Other Strategic Alliances-Banco Postal."

For information on our international branches as of December 31, 2010, see "International banking services."

Specialized distribution of products and services

As part of our distribution system, we have five areas that offer a range of different products and services on an individualized in all specific segments of our client base. By segmenting the market, we aim to cater for different profiles and scales of clients, thus enhancing service and improving efficiency.

Bradesco Retail

Bradesco retail provides banking services for all layers of the population, particularly individuals earning monthly incomes of up to R$6,000, and companies with annual revenues of up to R$30.0 million. As of December 31, 2010, we provided services for more than 22 million clients who carried out millions of transactions everyday at our 3,238 branches, 2,820 banking and electronic points of services (PABs and PAES), 1,600 mini-branches, 6,203 Banco Postal units, and 26,104 Bradesco Expresso units, comprising one of Brazil's most extensive service networks.

Bradesco Corporate

Our Corporate segment was created in 1999 to serve companies posting annual revenues of more than R$250 million in most cases, served by a team of 132 with centralized relationship management offering both traditional and tailor-made products.

Bradesco Corporate is ISO 9001:2008 certified for its entire structure including corporate customer service platforms.

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Bradesco Empresas

Bradesco Empresas was introduced to cater for companies posting annual revenues of R$30 - R$250 million through its 69 exclusive branches in the leading state capitals and strategically distributed throughout Brazil, as follows: Southeast 42, South 16, Mid-West 4, Northeast 5 and North 2.

It offers the best management for business such as: loans, financings, investments, foreign trade, hedging, cash management and structured transactions, to ensure both customer satisfaction and good results for the Organization.

The Bradesco Empresas team has 384 managers taking part in ANBIMA's Certification Program, as well as 196 assistant managers. Each relationship manager provides personal service for an average of 39 companies drawn from 12,656 grouping in various sectors of the economy.

Bradesco Empresas manages funds totaling R$75.2 billion through loans, deposits, funds and collection.

The Bradesco Empresas department earned NBR ISO 9001:2008 certification from *Fundação Carlos Alberto Vanzolini* for Client Relationship Management - Bradesco Empresas segment.

Bradesco Private Banking

Bradesco Private Banking was started in 2000 for the sole purpose of advising high net worth individuals with over R$1 million in net financial assets to invest (raised to R$2 million as of July 2008). Bradesco Private Banking devises the best financial solution for each client on a tailor-made basis focusing on asset allocation, tax guidance and estate planning. Bradesco Private Banking has earned ISO 9001:2008 certification as well as the "GoodPriv@cy Data Protection Label" (2007), from the International Quality Network. In January 2009, the Bank was recognized by Euromoney magazine as Brazil’s best private-banking for the second consecutive year.

Bradesco Prime

Bradesco Prime was created in May 2003 to target the high-income segment and provide services for individual clients with either monthly incomes of at least R$6,000 or investments worth at least R$70,000. Its mission is to be the bank of choice for these clients by focusing on quality relationships, and providing solutions for their needs through well-trained teams, adding shareholder and collaborator value while upholding our ethical and professional standards. The value of the Bradesco Prime segment is based on the following assumptions:

- Personalized services: provided by relationship managers, qualified professionals with certification from ANBIMA, managing a small number of portfolios and providing full financial advisory services;
- Exclusive facilities: Bradesco Prime customers have access to their own network of exclusive branches offering convenience and privacy to tend to their business affairs. Also at their disposal is the Bradesco nationwide branch network of ATMs under the brand names "Bradesco Dia & Noite" and "Banco24Horas";
- Exclusive products and services: Bradesco Prime has a comprehensive set of differentiated products and services, such as internet banking (www.bradescoprime.com.br), call center, online consultant, investment funds, special lines of credit, pension plans, and credit cards; and

- Bradesco Prime loyalty program: introduced to further enhance customer relationships. By purchasing products and services, customers gain points that can be converted into benefits such as 12 days of interest-free overdraft, or up to 40% reduced overdraft charges and up to 100% off the Bradesco Prime package of services.

Throughout its history, by investing in technology, enhancing clients relationships and training its professionals, Bradesco Prime has earned an outstanding position in the Brazilian market for banking services for high-income clients and has consolidated as the largest banking services provider for these clients in terms of its service network, with 283 branches strategically positioned to serve over 467 clients.

Since 2005, the Bradesco Prime Department has been certified by Fundação Carlos Alberto Vanzolini as ISO 9001:2008 in the scope "Bradesco Prime Segment Management," thus showing our commitment to continuous improvement of processes and customer satisfaction.

Branch system

The principal distribution channel for our banking services is our branch network. In addition to offering retail banking services, our branches serve as a distribution network for all of the other products and services we offer to our customers, including our payment and collection management services, private banking services, credit cards and asset management products. We market our leasing services through channels operated by our branch network, as well as directly through our wholly owned subsidiaries Bradesco Leasing and Bradesco Financiamentos. Bradesco Corretora and Bradesco Consórcios also market brokerage, trading and purchasing consortium services through our branches. Bradesco Vida e Previdência sells its products through 8,883 independent agents nationwide, most of whom are based on our own premises. Compensation for these agents is commission-based.

We sell our insurance products and pension plans through our website, through exclusive brokers based in our network of bank branches, and non-exclusive brokers throughout Brazil, all of whom are compensated on a commission basis. As of December 31, 2010, there were 25,367 brokers were offering our insurance policies to the public. Our certificated savings plans are offered through our branches, the Internet, our call center, ATMs and external distribution channels.

The table below shows the distribution of sales of these products through our branches and externally:

	2008	2009	2010
	(% of total sales, per product)		
Insurance products			
Sales through the branches	35.5%	40.7%	40.0%
Sales outside the branches	64.5%	59.3%	60.0%
Pension plans products			
Sales through the branches	82.3%	82.5%	81.7%
Sales outside the branches	17.7%	17.5%	18.3%
Leasing products			
Sales through the branches	26.0%	53.5%	55.0%
Sales outside the branches	74.0%	46.5%	45.0%
Certificated savings plans			
Sales through the branches	93.2%	92.3%	90.5%
Sales outside the branches	6.8%	7.7%	9.5%

Other distribution channels

Our clients have easy access to their account details, to make financial transactions or acquire products and services through self-service channels, *Fone Fácil* (Easy Phone), Internet and *Bradesco Celular*.

People with disabilities may rely on internet banking services for the visually impaired; personalized service for the hearing impaired using digital language on Fone Fácil, and access to the ATM self-service network for visually impaired persons and wheelchair users.

Self-service network

As of December 31, 2010, our self-service network had 32,015 ATMs for the exclusive use of Bradesco clients, strategically distributed across Brazil to provide quick and convenient access to a wide range of products and services. Additionally, our clients may use 11,057 shared machines and Banco24Horas pools facilities with Bradesco, Banco do Brasil and Banco Santander, which provides transactions such as cash withdrawals, statements, balance status queries, loans, payments, transfers, among others.

Bradesco's self-service network and *Banco24horas* ATMs executed 2.0 billion transactions in 2010.

Special needs customers can use Internet banking services for the blind, personalized service for the hearing impaired using digital language on *Fone Fácil*, and access for visually impaired persons and wheelchair users to the self-service network.

Bradesco led banks in Brazil in the use of biometric reading systems. Our system is known as "Bradesco security in the palm of your hand" and it can identify clients by scanning their hand's vascular pattern as a supplementary password for ATM users. This technology is available on 18,176 machines and has been used 105.9 million times as of December 2010.

Telephone services - Fone Fácil

"Fone Fácil Bradesco" provides 24-7 telephone numbers for clients to access their accounts conveniently, quickly and securely using personalized electronic to obtain information, complete transactions and acquire products and services related to checking and savings accounts, credit cards and other products available on this channel.

Clients may access several call centers using different numbers. Our main call centers are known as (translated): Internet Banking, Company Network, Purchasing Consortium, Private Pension Plan, Bradesco Financing, Collection and Hello Bradesco.

Hearing impaired clients have separate telephone services using digital language technology so they can inquire about products and services provided by Bradesco.

During 2010, 332.9 million calls were registered, and 331.8 million transactions completed.

Internet

"Portal Bradesco" consists of a set of 80 sites, of which 57 are institutional and 23 transactional, enabling users, wherever they are located, to access various products and services with security assured by our system of passwords and other keys. The sites hosted 2.4 billion transactions in 2010.

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

In addition, we offer our corporate customers in the retail, middle market and corporate segments the "Bradesco Net Empresa" service. For their banking transactions, customers use a digital certificate with an

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electronic signature and the Bradesco Safety Key. Registered companies can thus optimize their businesses' financial management, and access products and services such as transfers between checking and savings accounts, payments, collection and transferring files.

Bradesco also has exclusive sites for certain niches such as: Bradesco Universitários (students), Bradesco Nikkei (Brazilians working in Japan), Bradesco Poder Público (government) and Cidadetran, an exclusive site for offices facilitating vehicle documentation and for driving schools.

Bradesco Celular

Clients may use mobile phones to obtain the balance of their account, get statements, make payments, buy prepaid mobile phone credits, transfer money, apply for loans, obtain share quotations and track buy and sell orders, among other transactions, conveniently and securely. Our website www.bradescocelular.com.br caries detailed information about the channel's products and services.

In addition, "Bradesco Celular" enables customers to reload credits for prepaid cell phones from the phone itself, even if it has no credit.

Using Infocelular, registered clients with mobile phones may be sent SMS messages relating to various types of banking transactions on their account quickly and securely, sorting by period and amount.

This channel was used to complete 32.5 million transactions during 2010.

Mail services

In August 2001 we won a public bidding process held by the government owned postal service company *Empresa Brasileira de Correios e Telégrafos* (or ECT) to offer banking services in post offices as part of a project in which the nationwide network of post offices will be used to supplement the national financial system.

Services offered include forwarding applications for opening new accounts, credit cards and loans, making deposits and withdrawals, receiving utility bills, taxes and bank invoice/pay-in slips etc. All decisions on credit and opening accounts are the responsibility of Bradesco.

In March 2002, we opened our first branch in the state of Minas Gerais. As of December 31, 2010 we had opened 6,203 correspondent branches. Of the 6,203 correspondent branches, around 1,800 were opened in areas previously lacked access to banking services.

These clients are subject to our credit policy and limits.

Banking units in retail chains

We have also entered into partnership agreements with retail chains, supermarkets, drug stores, grocery stores, etc., 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.

Risk management and compliance

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

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

Integrated risk control

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

Risk management

Risk management is of great strategic importance to us due to the increasing complexity of services and products we offer and the globalization of our business. As a result, we constantly seek to improve our processes based on best practices, local regulations and recommendations from the Basel Committee on Banking Supervision.

We believe that measurement is crucial to support risk management. Accordingly, we work with some of the most modern statistical modeling tools to attain state of the art development and use of statistical models in order to constantly improve risk management and control, and optimize capital allocation.

The principles of prudence and ethics are an important part of our policies, standards, procedures and goals. Decisions are guided by factors that combine return on measured risks with those of evaluated risks, enabling risk management to assist in defining the commercial objectives. These principles enable us to maintain a strong financial condition during periods of high market volatility.

We seek to exercise control over risks in an integrated and independent manner, preserving and valuing collective decision-making, devising and implementing methodologies, models, risk measurement and control tools, as well as establishing policies, standards and procedures. We also promote the assimilation of the culture among employees at all levels, from the business areas to the Board of Directors.

We believe these initiatives increase our operational efficiency, thereby reducing losses, as well as optimizing the use of capital.

Detailed reporting on our risk management process, reference equity, capital requirements and our exposure to risk may can be found in the Report on our Investor Relations website www.bradesco.com.br/ir.

Risk Management Structure

We believe that our risk management structure allows risks to be effectively identified, measured, mitigated, monitored and reported in an integrated manner, involving Senior Management when necessary.

In order to obtain synergies throughout the risk management process, we have a permanent high-level forum called the Integrated Risk Management and Capital Allocation Committee, a statutory body presided over by our Chief Executive Officer, who advises the Board of Directors on the approval of institutional policies and risk exposure limits.

The Integrated Risk Management and Capital Allocation Committee is assisted by the Executive Committees for the Management of Risks relating to a) credit, b) market and liquidity, c) operational and d) Grupo Bradesco de Seguros e Previdência, in addition to Executive Committees in the business areas, which, among others, suggest the tolerance limits for their respective risks and prepare the mitigation plans to be submitted to the Integrated Risk Management and Capital Allocation Committee and the Board of Directors.

Credit risk

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

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

We carefully control our exposure to credit risk, which mainly results from credit operations, securities and derivative financial instruments. Credit risk also stems from financial obligations related to loan commitments and financial guarantees.

In order to ensure the quality expected from the portfolio, we focus on all aspects of the credit granting process, including credit concentration, guarantee requirements and maturities.

We aim to map all the activities that could possibly generate exposure to credit risk, classifying them by their probability and magnitude, identifying their managers, as well as their measurement and mitigation plans. Control is exercised on a corporate, centralized and standardized basis.

Credit Risk Management Process

Credit risk management is conducted in an institution-wide, centralized manner. All exposure to risk is analyzed, measured, classified and monitored independently by the Credit Risk area.

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

The Credit Risk area continuously reviews the internal processes, including the roles and responsibilities, information technology training and requirements, and evaluations of risks during the creation or revision of products and services.

As part of our philosophy of risk information disclosure, several meetings are held to monitor and control credit risk. The Business Areas and the *Diretoria Executiva* participate in Loan Portfolio Monitoring and Recovery meetings to examine the evolution of the loan portfolio, delinquency, allowance for loan losses, loan recoveries, portfolio concentrations and other items for each business segment of our Organization and throughout the conglomerate on a monthly basis. This information is also reported to the Audit Committee on a monthly basis.

The Executive Credit Risk Management Committee, which is a deliberative body, meets every quarter to:

- evaluate and recommend strategies, policies, standards and methodologies to measure the risk to the Integrated Risk Management and Capital Allocation Committee;
- follow and assess the credit risk and the measures taken to mitigate said risks;
- follow and assess alternatives to mitigate the credit concentration risk;

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- monitor the implementation and introduction of methodologies, models and tools for the corporate management of credit risk;
- evaluate whether the allowance for loan losses is sufficient to cover the expected loan losses;
- follow behavior and evolution of the credit market, as well as evaluate the impacts, risks and opportunities for us; and
- regularly inform the Integrated Risk Management and Capital Allocation Committee of its activities and make recommendations it deems important.

The credit risk management process includes a periodic self-appraisal to incorporate new practices and processes, as well as to monitor projects to meet the New Basel Capital Accord requirements. All activities are duly monitored to improve the management processes.

Market Risk

Market risk is the possibility of a loss of income due to fluctuating prices and rates resulting from mismatched maturities, currencies and indicators of our asset and liability portfolios.

Market risk is carefully identified, measured, mitigated and managed. We have a conservative exposure profile to market risk, with the market risk guidelines and limits monitored independently on a daily basis.

Market risk is controlled for all companies in our Organization in a corporate-wide and centralized manner. All activities exposed to market risk are mapped, measured and classified according to probability and magnitude, with their respective mitigation plans duly approved by the governance structure.

We measure and manage market risks using methodologies and models adapted to our local and international market conditions to ensure that our strategic decisions are implemented quickly and reliably.

We use Value at Risk (VaR), Economic Value of Equity (EVE), stress tests and sensitivity analysis, as well as management of results and financial exposure limits to measure and control market risk. In order to determine our trading portfolio risk, we use the VaR methodology, which is monitored daily and has a historical accuracy level of 99%. The VaR methodology provides an estimate of maximum potential loss that may be expected for a given adverse event, and volatilities and correlations are derived from statistical methods. Measurement of the banking portfolio's interest rate risk is based on the EVE methodology, which evaluates the impact on our portfolios based on economic scenarios provided by our economic research area, and any positive or negative movements of yield curves affecting our assets and liabilities.

We aim to be in line with the best international market practices, local regulations and recommendations of the Basel Committee for Banking Supervision. On June 30, 2010, we applied to the Central Bank to use its internal market risk models for risk measurement and capital allocation, according to the requirements of the Central Bank and the New Basel Capital Accord.

Our market risk management process relies on the participation of all levels of our Organization, from the business units to the Board of Directors.

In line with best practices for corporate governance and in order to preserve and strengthen our management of market and liquidity risks, as well as to meet the requirements of National Monetary Committee (CMN) Resolution No. 3,464/07, the Board of Directors approved the Market and Liquidity Risk

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Management Policy, which is reviewed every year by the relevant committees and the Board of Directors itself, providing the main operational guidelines for accepting, controlling and managing market and liquidity risk.

In addition to this policy, we have several specific rules that regulate the market and liquidity risk management process, including:

- Classification of operations;
- Reclassification of operations;
- Trading in Government or private securities;
- Use of derivatives; and
- Hedge.

Market Risk Management Process

Management of market risk involves diverse areas, with specific duties in the process, with the aim of ensuring an efficient structure in the measurement and control of market risk. This process, approved by the Board of Directors, is also revalidated annually by the relevant risk management committees and the Board of Directors itself.

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

Trading portfolio: comprises all operations involving financial instruments, including derivatives, held-for-trading or used to hedge other instruments in the trading portfolio, which have no trading restrictions. Held-for-trading operations are those destined for resale, to obtain benefits from actual or expected price variations, or for arbitrage.

Banking portfolio: comprises operations not classified in the trading portfolio and consists of structural operations arising from our diverse business lines and their respective hedges.

For the trading portfolio, we monitor the following limits:

- risk;
- stress;
- results; and
- financial exposure.

For the banking portfolio, we monitor the following limits:

- interest rate risk; and
- equities portfolio.

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Market risk is also monitored by meetings of the Executive Treasury Committee and the Market and Liquidity Risk Management Committee. In addition to monitoring, the Integrated Risk Management and Capital Allocation Committee is responsible for holding special meetings to analyze positions and situations if the risk exposure tolerance limits are exceeded and informing the Board of Directors on the measures and strategies adopted to be approved, when necessary.

The following items are discussed in the weekly meetings of the Executive Treasury Committee:

- report and follow-up of results, behavior and risks of diverse portfolios and indexes held by our Organization, including liquidity reserves;
- definition of treasury’s operational strategies in order to optimize results, based on theanalysis of the domestic and foreign political and economic scenarios;
- validation of the proposed risk exposure tolerance limits for treasury, to be submitted for approval by the Integrated Risk Management and Capital Allocation Committee and the Board of Directors; and
- validation of the proposed liquidity policy to be submitted for the approval by the Integrated Risk Management and Capital Allocation Committee and the Board of Directors.

The meetings of the Executive Market and Liquidity Risk Management Committee are held at least every quarter:

- to ensure compliance with our Liquidity and Market Risk Management Policy;
- to ensure the effectiveness of the liquidity and market risk management processes;
- to approve and review the definitions, criteria and tools as well as the measure(s) to be adopted, including methodologies as well as mathematic, statistics and econometric models in relation to market risk management and liquidity;
- to evaluate and submit to the validation of our Integrated Risk Management and Capital Allocation Committee the policy, structure, roles, procedures and responsibilities of the areas involved in the liquidity and market risk management process, as well as reviews carried out at least once a year;
- to validate the behavior of results, backtesting of models and other matters deemed pertinent;
- to create conditions for reviews by the Independent Validation and Models Area and by the internal and independent audits; and
- to delegate responsibilities to the technical commissions involved in the market and liquidity risk management process.

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

Liquidity risk

Liquidity risk is the possibility of us not having enough funds to meet our obligations due to mismatches of payments and collections, taking into consideration different currencies and settlement terms for our rights and obligations.

Understanding and monitoring this risk is crucial, especially for our Organization to be able to settle transactions in a timely and secure manner.

Liquidity Risk Management Process

One of the objectives of our Policy on Market and Liquidity Risk Management, approved by the Board of Directors, is to establish the rules, criteria and procedures that guarantee the establishment of the Minimum Liquidity Reserve (RML), as well as the strategy and action plans for liquidity crisis situations. The policy and controls we established fully comply with CMN Resolution No. 2,804/00.

Our criteria and procedures determine the minimum liquidity reserve to be maintained on a daily basis and the types of assets considered as funds available. We manage liquidity in both normal and crisis scenarios, with action strategies for each scenario. The Treasury Department is in charge of managing our liquidity.

The monitoring is conducted independently from the management area, which is the Treasury Department. In the liquidity risk management process, the back-office area is responsible for providing the necessary information to the management and for monitoring the compliance with the limits established. The risks area is responsible for measuring the minimum liquidity level, reviewing the policies, standards, criteria and procedures, and conducting studies for new recommendations.

Operational Risk

Operational risk is the loss resulting from inadequate or faulty internal processes, people, systems and external events. This includes legal risk, but does not consider strategic and image risks.

Operational Risk Management Process

We regard operational risk management as part of a process of continuous improvement to follow the evolution of our business and minimize gaps that may jeopardize the quality of operational risk management.

Our governance process to manage operational risk is monitored on a quarterly basis by the Executive Committee of Operational Risk Management (CERO) and by the Integrated Risk Management and Capital Allocation Committee (COGIRAC). The duties of the Executive Committee of Operational Management are:

- ensuring that our Operational Risk and Business Continuity Management Policies are complied with;
- guaranteeing the effectiveness of our operational risk and business continuity management process;
- approving and reviewing the definitions and criteria, as well as the mathematical and statistics models and calculations related to the amount of capital allocation regarding operational risk management;

- evaluating and submitting to the validation of our Integrated Risk Management and Capital Allocation Committee of the policy, structure, roles, procedures and responsibilities involved in the management of operational risk, as well as the reviews carried out at least once a year;
- creating the conditions for the internal and independent auditors to carry out their review; and
- approving methodologies, definitions, criteria and tools for managing the continuity of the business.

Management of internal controls and compliance

The Compliance and Internal Control Department, which reports to an Executive Officer who then reports to the CEO, is responsible for the activities of the Internal Controls Area.

Internal control area

Based on a policy defined and approved by the Board of Directors, we update all components of the internal controls system to mitigate possible potential losses arising from risk exposure and to strengthen processes and procedures focused on Corporate Governance. We also establish additional methodologies and criteria for the identification, classification, evaluation and monitoring of risks and controls thereof.

The Internal Controls and Compliance Area is in charge of preparing and disclosing technical rules, criteria and proceedings related to internal controls and compliance to all Compliance Agents in the departments and our affiliates.

Compliance agents are responsible for executing the identification, classification, assessment and monitoring of risks and controls as well as performing adherence tests and preparing action plans, as per models set forth by the Internal Controls Area.

The reports with diagnoses on the effectiveness of the internal controls system are regularly submitted to the evaluation of the Audit and Internal Controls and Compliance Committees at meetings. The Committees issue an opinion semi-annually on the effectiveness of our internal controls and submits it to the Board of Directors' for approval.

The quality of our staff, as well as our investments in technology and training have allowed us to create internal controls and compliance management that are effective and consistent with international standards and comply with foreign and Brazilian legal requirements.

In addition, our Internal Controls area is responsible for coordinating and/or participating in the development of initiatives to strengthen collaborator ethical culture based on guidelines from Bradesco's ethical conduct committee.

Internal Controls Management Methodology

We exercise management of key risks based on a methodology that gathers eight major activities arranged in a logical sequence of execution which, when concluded, enables us to assert that our internal controls system is effective. For operational processes, this methodology is in line with the ERM - Enterprise Risk Management structure of COSO - Committee of Sponsoring Organizations, of COBIT - Control Objectives for Information and Related Technology for the information technology environments.

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

- Activity 1: Formalizing the process - documenting the flow of operational processes related to products, services and activities;
- Activity 2: Identifying risk events - identifying the potential risk events, generated either by external or internal activities, or both;
- Activity 3: Assessing risks/Answering on risks/Assessing controls - classifying and measuring exposure to inherent risks, establishing the respective type of answer (Accept, Avoid, Mitigate or Transfer the risk), identifying the existence and adequacy of the layout and effectiveness of associated control;
- Activity 4: Acting on risks (executing) - identifying gaps, preparing and following up on the implementation of action plans to correct anomalies or improve existing controls;
- Activity 5: Monitoring - monitoring the process layout and the behavior of its risks and controls, in view of associated losses;
- Activity 6: Performing adherence tests - ensuring, by means of formal execution of adherence tests, that the control definition is adequate and that the activity of controlling has been exercised effectively;
- Activity 7: Applying corporate self-evaluation - applying questionnaires to our employees to evaluate levels of knowledge, understanding and compliance with issues involving integrity, ethical and moral values, policies and rules inherent to risk and internal control management; and
- Activity 8: Reporting - reporting evaluation results and risk and control behaviors to the appropriate levels of management.

Prevention of money laundering division

- we maintain specific policies, processes and systems so as to prevent, detect and combat the utilization of our products and services for money laundering and terrorist financing purposes. Training programs for our collaborators use various formats such as booklets, videos, e-learning and classroom courses, in addition to specific programs for business areas as required;
- strategic guidelines and monitoring effective adherence to the PLD/FT Program (program for prevention and combating these types of illicit acts) are the responsibility of our executive committee for prevention and combating money laundering and terrorist financing which meets at least quarterly to assess progress and the need to adopt new measures in order to align this program with best international practices and rules issued by regulatory agencies;
- we are also constantly improving the technology with which to monitor financial movement in order to help identify transactions that might be directly or indirectly related to crimes leading to money laundering as defined in Law 9,613/98; and

- atypical cases identified are assessed by a standing committee comprising representatives from various departments, which then examines the pertinence of notifying the competent authorities.

Area of independent validation of models

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

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

Therefore, along with the activities of developing, monitoring and improving models, market practices propose to complement them by creating the Independent Validation process that critically analyzes internal models and revises measuring / monitoring systems, and the applicability and technological environments of internal models on a timely basis and separately from the ambit of application.

Therefore we have an internal area known as Independent Model Validation to support and respond for this process. The role of this area is to provide well-grounded reporting showing whether internal models are functioning as planned in terms of our stated objectives and whether results obtained are adequate for their intended uses. The area's main responsibilities are:

- managing the inventory of models;
- defining the methodology for carrying out independent validation considering the model and market practices;
- defining and demanding data needed for independent validation and testing programs;
- perform predetermined validation activities independently from developers and users;
- submit a report to the model on the independent validation and recommend steps to improve models; and
- provide reports and materials used in the independent model validation process for internal auditing.

Corporate security

The Corporate Security Department was created in September 2009 in order to strengthen fraud prevention, data security, and business support systems. It reports to the *Diretoria Executiva* and its main purpose is to act on the strategic corporative level to ensure the functioning of the self-service network channels and information systems, as well as to access, process and propose improvements to prevent any critical exposure to vulnerability, based on a global overview of incidents and trends obtained internally and externally. The department also acts as the focal point to compile technical reports on strategic security aspects, and our implementation of products, services or processes.

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Among the main "Corporate Security Global Vision" items, we highlight the following:

- defining our system for data security management, based on our corporate policy for information security and a set of directives and guidelines dealing with the principles of confidentiality, integrity and availability. The objective is to protect the information assets of our Organization and our clients. These activities are complemented by awareness and training initiatives for all our collaborators, and by assessments of data-security risks for our products, services and processes;
- our fraud-prevention and electronic-channel security areas are tasked with managing processes to detect and mitigate risks in order to prevent any financial losses or adverse effects to Bradesco's image. They monitor transactions on electronic service channels and track strategic and corporate actions in order to propose solutions to managers of technical and business areas, thus enhancing security to products and electronic service channel accesses; and
- orientation for access to security management applications at the strategic organizational level in order to protect systemic resources, and work with the business and technology units in order to identify acceptable risk levels, establishing processes to safeguard and protect information.

Credit policy

Our credit policy is focused on:

- ensuring the safety, quality, liquidity and diversification of asset allocation;
- pursuing flexibility and profitability in business; and
- minimizing risks inherent to loans.

Our credit policy defines criteria for lending and setting operational limits. Credit limits are set by the Executive Credit Committee, which is comprised of our vice-presidents, the managing officers responsible for our operational area and our credit officer. The Executive Credit Committee updates our credit limits in accordance with changes in our internal policy and the Brazilian market in general. Our *Diretoria Executiva* also approves evaluation systems used by our branches and departments for each type of loan when reviewing loan applications.

Our transactions are diversified, not concentrated, and target individuals and companies that show ability to pay and creditworthiness, in all secured by collateral adequate for the uses and tenors of loans as well as risk rating using our own risk rating system. In Brazil, the risk rating has nine categories ranging from "excellent" to "very poor" based on financial and economic considerations such the borrower’s credit profile and ability to pay. See "Item 4.B. Business Overview-Regulation and Supervision-Bank regulations-Treatment of loans."

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

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

- does not have an updated record;
- has any material credit restrictions; or
- who is in default on any of his or her existing credit obligations.

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

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

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

Consumer loans

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

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

(1) Branch with total deposits equal to or below R$1,999,999.
(2) Branch with total deposits equal to or between R$2,000,000 and R$5,999,999.
(3) Branch with total deposits equal to or between R$6,000,000 and R$14,999,999.
(4) Branch with total deposits equal to or above R$15,000,000.

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

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

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

	Total Risk Amount	
	Minimum	Maximum
	(R$ in thousands)	
Decision-making authority:		
Credit department	51	12,000
Credit officer	12,001	15,000
Executive credit committee (Daily Meeting)	15,001	50,000
Executive credit committee (Plenary Meeting)	Over 50,000	-

Corporate loans

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

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

(1) Branch with total deposits equal to or below R$1,999,999.
(2) Branch with total deposits equal to or between R$2,000,000 and R$5,999,999.
(3) Branch with total deposits equal to or between R$6,000,000 and R$14,999,999.
(4) Branch with total deposits equal to or above R$15,000,000.
(5) Branch with exclusive middle market companies.

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

	Total Risk Amount	
	Minimum	Maximum
	(R$ in thousands)	
Decision-making authority:		

Credit department	401	12,000
Credit officer	12,001	15,000
Executive credit committee (Daily Meeting)	15,001	50,000
Executive credit committee (Plenary Meeting)	Over 50,000	-

In order to serve clients' needs as soon as possible and more securely, the credit department uses segmented analyses with different methodologies and instruments for credit analysis in each segment, in particular:

- in the "Retail," "Prime" and "Private - Individuals" segments, we consider the individual's reputation and credit worthiness, profession, monthly income, assets (goods and real property, any liabilities or interests in companies), the bank indebtedness and history of their relationship with Bradesco, scrutinizing loan terms and current fees, and the guarantees involved;

- in the "Corporate Retail Segment," in addition to the points above, since at this level a company's business affairs are related to those of its owners, and we also consider the period in business and the monthly revenues;
- In the "Empresas" (middle market) and "Corporate" segments, management capability, the company/group's positioning in the market, its size, the economic-financial evolution, cashflow capability, and business perspectives, our analysis always includes the proponent, its parent company/subsidiaries, and the type of business; and
- This also includes analyses of social and environmental risk for projects that require clients to show compliance with social and environmental regulations and the Equator Principles, consisting of socioenvironmental criteria required as conditions for loans, which was introduced in 2002 by the International Finance Corporation (IFC), the World Bank's financial arm.

Deposit-taking activities

Our principal source of funding is deposits from Brazilian individuals and businesses. As of December 31, 2010, our total deposits were R$193.2 billion, representing 34.0% of our total liabilities.

We provide the following types of deposit and registration accounts:

- checking accounts;
- deposit accounts for investments;
- savings accounts;
- time deposits;
- interbank deposits from financial institutions;
- savings integrated with investments account; and
- accounts for salary purposes.

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

	As of December 31,			% of total deposits
	2008	**2009**	**2010**	**2010**
	(*R$ in millions, except percentages*)			
From customers:				
Demand deposits	28,612	35,664	37,334	19.3%
Savings deposits	37,768	44,162	53,436	27.7%
Time deposits	97,423	90,537	102,158	52.9%
From financial institutions	698	752	275	0.1%
Total	**164,501**	**171,115**	**193,203**	**100%**

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Under monetary authority regulations, we must place a percentage of the demand deposits, savings deposits and time deposits we receive from our clients and deposits from leasing companies and foreign-currency short positions with the Central Bank as compulsory deposits, as follows:

- Demand deposits and deposit accounts for investments: we are required to deposit 43.0% of the average daily balance of our demand deposits and deposit accounts for investment in excess of R$44.0 million with the Central Bank on a non-interest-bearing basis;
- Savings deposits: each week we are required to deposit in an account with the Central Bank an amount in cash equivalent to 20.0% of the total average balance of our savings account deposits during the prior week. The account bears interest annually at TR plus interest rate of 6.2%;
- Time funds: we deposited with the Central Bank 20.0% of the average balance of our time deposits and leasing company CDIs less a portion of R$30.0 million (percentage applicable as of December 17, 2010, after altered compulsory deposits rules issued the same month, previously 15.0%). The requirement thus calculated is deposited in cash and we are paid remuneration at the Selic rate; and
- Short position in foreign exchange: we are required to make daily deposits amounting to 60% of our short position in foreign exchange, net of our long position, less the lower of the: (i) US$3 billion; or (ii) the amount corresponding to our current Tier I regulatory capital. We make cash deposits on a non-interest-bearing basis by the second business day after determining our foreign exchange position, without any exchange rate adjustment.

In addition, we are required to deposit each week in an account with the Central Bank an additional amount corresponding to (a) 12.0% on the average time deposits balance and of demand account deposits (percentages applicable as of December 20, 2010, after changes in reserve requirement rules published in the same month) during the prior week plus (b) 10.0% of the average balance of our saving account deposits during the prior week. This additional amount is settled in cash, and the Selic. Central Bank regulations prohibit any deductions from the Bank's adjusted shareholders' equity value for purposes of determining compulsory deposit requirements.

Present Central Bank regulations require that we:

- allocate a minimum of 29.0% of cash deposits to providing rural credit (if we do not do so, we must deposit the unused amount in a non-interest bearing account with the Central Bank);
- allocate 2.0% of demand deposits received to micro credit transactions; and
- allocate a minimum of 65.0% of the total amount of deposits in savings accounts to finance residential real estate or housing construction. Amounts that can be used to satisfy this requirement include direct residential real estate financings, mortgage notes, charged-off residential real estate or housing construction loans and certain other financings, all as specified in guidance issued by the Central Bank.

Savings deposits in Brazil typically only pay interest at the TR reference rate plus 6.2% per year, after funds have been left on deposit for at least one calendar month by individuals or non-profit entities, and 90 days by profit-corporations. Income from individual savings accounts is exempt from income tax.

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

Demand deposits, deposits allowing withdrawal with prior notice, checking accounts providing investment opportunities, savings accounts deposits, term deposits with or without issue of certificates, mortgage notes, bills of exchange, mortgage notes and deposits in non-checking accounts used for recording and controlling the flow of funds referring to services from processing payments of salaries other payments, pension and other similar services are guaranteed, by the Credit Guarantee Fund, known as "FGC," for up to R$70,000 per client or deposit account, in the event of a bank being liquidated.

We issue interbank deposit certificates (CDIs) to other financial institutions. Trading in these CDIs is restricted to the interbank market. They are traded at a pre- or post-fixed rate for one day or longer terms.

Other funding sources

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

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

	As of December 31,		
	2008	**2009**	**2010**
	(*R$ in millions*)		
Funding Sources:			
Import/export financing	10,958	4,761	3,673
Internal funds onlending	19,095	20,908	40,497
Leasing obligations	1,042	988	831
Capital markets:			
Federal funds purchased and securities sold under agreements to repurchase	74,730	108,357	160,701
Euronotes	217	237	1,662
Mortgage-backed securities	771	899	1,277
Subordinated debt	19,249	22,795	26,116
Debentures (non-convertible)	1,220	740	743
Securitization of credit card receivables	5,305	4,220	3,850
Commercial paper	2,890	3,214	4,062
Foreign currency loans	356	30	261
Others	1	1	-
Total	**135,834**	**167,150**	**243,673**

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

As of December 31, 2010, 2009 and 2008, federal funds purchased and securities sold under agreements to repurchase accounted for 65.9%, 64.8%, and 55.0% of our funding sources, respectively. These amounts include securities attached to repurchase agreements mainly comprising Brazilian government securities and corporate debt securities. This type of operation is usually short-term and volatile in terms of volume since they are directly impacted by market liquidity.

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

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

Processing systems

The Organization's data processing and communication systems are located in Cidade de Deus in a building called the Information Technology Center (CTI). This 11,900 square meter facility was built especially to house our IT infrastructure, and has all the requirements for class-4 certification from Uptime Institute, which ensures 99.995% availability.

Data is continuously replicated in a Processing Center located at Alphaville, in the city of Barueri, featuring equipment with enough capacity to take over the main system's activities in case of a problem at our Technology Center (CTI). All the branches and ATMs have telecommunications services that work with either of the two processing centers. We hold annual exercises simulating situations in which our IT center is impeded in order to ensure that we have effective contingency structures, processes and procedures in place. These exercises involve our business managers and are monitored by independent auditors. In addition, all backup copies of electronic files stored and maintained at our IT center in the Alphaville Processing Center are saved and second copies maintained.

Alphaville's IT infrastructure also houses all activities for developing application systems.

If the public energy supply is interrupted, both centers have sufficient capacity to operate independently for 72 hours non-stop.

The IT structure is backed by processes implemented in light of the ITIL (IT Infrastructure Library) reference and applies recognized practices for IT service management.

Seasonality

We believe that seasonality does not materially affect our business.

Competition

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

In 2009, Banco do Brasil concluded its acquisition of shareholder control of Banco Nossa Caixa, which belonged to the São Paulo State government, and entered into a strategic partnership through which it became the holder of 49.9% of voting capital and 50.0% of total Capital Stock of Banco Votorantim, thus again becoming the largest Brazilian bank in terms of total assets.

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

- Banco Santander's acquisition of the ABN AMRO Real conglomerate's Brazilian operations, making Santander the third largest private bank in Brazil; and
- The merger of *Banco Itaú* and *Unibanco*, resulting in the second largest Brazilian bank in terms of assets.

As of December 31, 2010, publicly owned financial institutions held 41.5% of the national financial system's assets, followed by private sector locally owned financial institutions (taking into consideration financial conglomerates) with a 40.7% share and foreign-controlled financial institutions, with a 17.8% 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, 2010, there were 165 financial conglomerates comprised of multiple-service and commercial banks (including *Caixa Econômica Federal*), providing a full range of commercial banking activities, such as consumer finance, investment banking, brokerage services, leasing, savings and loans and other financial services in Brazil. For further information 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."

Credit cards

The Brazilian credit card market is highly competitive, with approximately 153 million credit cards issued as of December 31, 2010, according to ABECS. Our primary competitors are Banco do Brasil, Banco Itaú Unibanco, Citibank and Santander. Management believes that the primary competitive factors in this area are interest rates, annual fees, card distribution network and benefits offered.

Credit cards have a competitor in the form of post-dated checks, a popular means of postponing payment in Brazil in which customers pay for merchandise and services with future dated bank checks, in effect allowing payment by installments over a longer term. Because of their convenience and growing acceptance, we believe credit cards will gradually replace post-dated checks.

Leasing

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

Asset management

Brazil's asset management industry ended 2010 with R$1.7 trillion under management, thus showing nominal growth of 16.8% on 2009. The variation was mainly due to:

- a significant net inflow of R$25.6 billion into multimarket funds and R$38.0 billion in fixed-income funds;
- year-round growth in funding for open pension plans, which closed 2010 with a positive balance of R$19.2 billion; and
- consolidation of the structured investment funds market, such as receivables funds (FIDCS), private equity and real estate funds.

By end-2010, the funds industry was at its highest level in volume terms since the 2008 financial crisis. However, in terms of funding, corporate and institutional client segments were showing the highest growth, whereas the retail segment has been redeeming more in recent years and funds have been lost to other types of investments such as bank deposit certificates (CDBs) and savings accounts. Our main competitors are Banco do Brasil, Banco Itaú/Unibanco, Caixa Econômica Federal and Santander.

Insurance, pension plans and certificated savings plans

Insurance sector

Grupo Bradesco de Seguros e Previdência, the leading insurance company in the Brazilian market with a 24.5% market share, faces increased competition from a number of Brazilian and multinational corporations in all types of insurance business.

As of December 31, 2010, our principal competitors were Banco do Brasil, Itaú Unibanco Seguros S.A., Sul América Cia. Nacional Seguros, Porto Seguros Cia. de Seguros Gerais, Santander Seguros, Caixa Seguros and HSBC Seguros, which accounted for a combined total of approximately 56.8% 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, particularly in the health insurance segment, where they are able to operate at lower cost, or specialize in providing coverage for specific risk groups.

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

We believe that the principal competitive factors in this area are price, financial stability, name recognition and 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 individual clients. We believe that our ability to distribute insurance products through our branch network gives us a competitive advantage over most other insurance companies. Because most of our insurance products are offered through our retail banking branches, we benefit from certain cost savings and marketing synergies compared with our competitors. This cost advantage could become less significant over time, however, as other large private banks begin using their own branch networks to offer insurance products through exclusive agents.

Pension plan sector

The monetary stabilization brought by the *Real* Plan stimulated the pension plan sector and the Brazilian market attracted new international players, such as Principal, which created Brasilprev in association with Banco do Brasil; Hartford, through a joint venture with the Icatu Group; ING, through a partnership with Sul América; MetLife; Nationwide and others.

In addition to monetary stability, factors contributing to heightened competition were favorable tax treatment and the prospects of more far-reaching reform of Brazil’s social security system.

Bradesco Vida e Previdência is currently the pension plan market leader with 34.8% of total assets under management in the sector, according to Fenaprevi.

We believe that the Bradesco brand name, together with our extensive branch network, strategy, our record of being in the forefront and our product innovation, are our competitive advantages.

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Certificated savings plans sector

The certificated savings plans market has been competitive since 1994, when exchange rates became more stable and inflation came under control. As of December 31, 2010, Bradesco Capitalização was second in the industry ranking with 21.1% of revenues from certificated savings plans and 21.6% in terms of technical provisions, according to SUSEP.

Our principal competitors in the certificated savings plans sector are Brasilcap Capitalização S.A., Itaú Unibanco Capitalização S.A., Caixa Capitalização S.A, Sul America Capitalização, Santander Capitalização S.A. and Icatu Hartford Capitalização S.A. The principal competitive factors in this industry are offering low-cost products with more frequent prize draws, security, financial stability and brand recognition.

REGULATION AND SUPERVISION

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 Brazilian Monetary Council (CMN).

Principal financial institutions

As of December 31, 2010, 13 financial conglomerates operated in Brazil, consisting of public-sector commercial and multiple-service banks controlled by federal and state governments (including Caixa Econômica Federal) and 148 financial conglomerates consisting of private-sector commercial and multiple-service banks. For Brazilian regulatory purposes, insurance companies, private pension plans and certificated savings plans providers are not considered financial institutions.

Public-sector financial institutions

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

The principal government-controlled banks include:

- *Banco do Brasil*, under federal government control, which provides a full range of banking products to the public and private sectors. Banco do Brasil is the largest multiple-service bank in Brazil and the primary financial agent of the federal government;
- BNDES, a development bank wholly owned by the federal government, is the largest bank in terms of long-term loans for investments across all sections of the economy, focusing on mitigating social and regional inequality and protecting the environment; and
- *Caixa Econômica Federal*, a multiple-service bank wholly owned by the federal government which acts as the principal agent of the government-regulated housing finance system. Caixa Econômica Federal is ranked first among Brazilian banks in terms of savings accounts and housing finance.

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Private sector financial institutions

As of December 31, 2010, Brazil’s private-sector financial industry comprised:

- 163 financial conglomerates (including commercial, investment and multiple-service banks) that provide a full range of commercial banking, investment banking (including underwriting and trading in securities), consumer finance and other services including fund management and real estate finance; and
- 61 consumer credit companies, 125 securities dealers, 147 securities and foreign exchange brokerage firms, 32 leasing companies, 10,083 investment funds and 14 savings and loans associations / real estate financing companies.

Principal regulatory agencies

CMN

CMN, currently the highest authority responsible for Brazilian monetary and financial policy, 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-Bases Supervision System" in order to: (i) identify risks to which the market is exposed; (ii) rank these risks by their potential for harm; (iii) establish mechanisms for mitigating these risks and the losses they might cause; and (iv) control and monitor the occurrence of risk events. Additional measures necessary to implement this "Risk-Bases Supervision System" (SBR) have yet to be published by CMN.

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.

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The Central Bank supervises financial institutions by:

- setting minimum capital requirements, compulsory reserve requirements and operational limits;
- authorizing corporate documents, capital increases and the establishment or transfer of principal places of business or branches (in Brazil or abroad);
- authorizing 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 credit and foreign exchange transactions, import and export transactions and other directly related economic activities.

CVM

The CVM is responsible for regulating the Brazilian securities markets in accordance with 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. For more information, see "Regulation and Supervision -Asset management regulation."

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 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 shareholders' 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 Audit Committee of such entity, or any immediate family member of such individuals;

- any entity that, directly or indirectly, holds more than 10.0% of its shares (with 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 management consists of the same or substantially the same members as its own executive committee; or
- its executive officers and directors (including their immediate families) or any company controlled by its executive officers and directors or their immediate families or in which any of them, directly or indirectly, holds more than 10.0% of 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 a 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 shareholders' 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 utilizing third party funds;
- when determining shareholders' 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 asset for income and social contribution taxes but not for those arising from 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.

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For further details see "Item 5.B. Liquidity and Capital Resources-Capital Compliance with capital requirements."

Financial institutions are also required to maintain their reference shareholders' equity at a certain level. A financial institution's reference shareholders' 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 shareholders' 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 shareholders' 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. As of February 17, 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 by December 2011.

Financial institutions, excepting 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.

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 fulfills 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 shareholders'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

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- 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.

Risk Weighting

In October 2010, the Central Bank issued instructions consolidating risk factor weightings applied to different exposure levels, for the purposes of calculating reference shareholders' equity required. Under these rules, the following factors must be applied:

(i) 0% to amounts held in cash or securities issued by Brazil's Treasury or the Central Bank, except for those related to repurchase agreements;

(ii) 20% to demand deposits held in banking institutions, rights related to certain transactions with cooperatives, and repurchase agreements for securities issued by the Treasury or the Central Bank;

(iii) 50% to time deposits in financial institutions not subject to special arrangements, exposures for which underlying assets are securities issued by them, interbank deposits and credit commitments undertaken;

(iv) 100% to investments in shares of investment funds, other securities in repurchase agreements, sureties, guarantees, co-obligations and collaterals provided, and transactions for which there is no specific weighting factor;

(v) 300% to exposures related to tax credits not excluded for purposes of calculating reference shareholders' equity (except for deferred tax assets arising from temporary differences), for which a 100% weighting factor applies.

In December 2010, the Central Bank issued instructions applying a 150% risk weighting factor to exposures relating to loans and financial leasing agreements for individuals as of December 6, 2010, with certain exceptions to this rule (including rural credit, payroll-deductible loans for not more than 36 months, certain financing or leasing agreements for vehicles or homes).

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. For a summary of current compulsory reserve requirements applicable to demand deposits, savings deposits and time deposits, see "Deposit taking activities."

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

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Brazil and abroad by institutions of the same conglomerate is required to be added to the respective conglomerate's net consolidated exposure.

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

Asset composition requirements

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

Repurchase transactions

Repurchase transactions are subject to operational capital limits based on the financial institution's shareholders' equity, as adjusted in accordance with Central Bank regulations. A financial institution may only hold repurchase transactions in an amount up to 30 times its reference shareholders’ equity. Within that limit, repurchase operations involving private securities may not exceed five times the amount of the financial institution's reference shareholders’ 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 the 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 3,434/09, the total of loans 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" were unified under a single foreign currency exchange regime ("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.

Pursuant to CMN regulations, the investment abroad of available funds in foreign currency must be limited to (i) securities issued by the Brazilian government; (ii) securities issued by foreign governments; (iii) securities issued by financial institutions, or entities under their responsibility; and (iv) time deposits in financial institutions. In February 2011, the Central Bank adopted new rules for investments by Brazilian entities or individuals in non-Brazilian companies.

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. 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.

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.

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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 2 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 credit operations

According to the Central Bank, financial institutions are required to classify their loans 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.

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

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

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

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

Rating	Bradesco Classification
E	Deficient
F	Bad

G	Critical
H	Uncollectible

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

Financial institutions 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 client or economic group whose aggregate loan amount exceeds 5.0% of the financial institution's reference shareholders' equity, and once each twelve months for all loan operations, with certain exceptions.

Past due loans must be reviewed monthly. For these operations, the regulations establish maximum risk classifications, as follows:

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

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

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

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

Classification of Loan	Minimum Provision (%)
AA	-
A	0.5
B	1.0
C	3.0
D	10.0
E	30.0
F	50.0

G	70.0
H[1]	100.0

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

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

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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 loan portfolio data in accordance with several requirements. The Central Bank may admit discrepancies in these statements of up to 5.0% per risk level and 2.5% in the reconciled total.

Exclusivity for loan transactions

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 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 under 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.

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 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.

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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 amounts over R$5,000 may be covered by electronic transfers between institutions with funds available immediately. 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 payments 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;

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- 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 twelve 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;

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- fails to comply with compulsory reserves rules;
- has reckless or fraudulent management; or
- has operations or circumstances requiring an intervention.

Repayment of creditors in liquidation

In the case of liquidation of a financial institution, employees' wages, indemnities and tax claims have the highest priority among claims against the bankrupt institution. In November 1995, the Central Bank created the FGC (Deposit Guarantee Fund) to guarantee the payment of funds deposited with financial institutions in case of intervention, administrative liquidation, bankruptcy, or other state of insolvency. Members of the FGC are financial institutions that accept demand, time and savings deposits as well as savings and loans associations. The FGC is funded principally by mandatory contributions from all Brazilian financial institutions accepting deposits from clients.

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, the 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 shareholders' equity, calculated on the base date June 30 earning interest monthly at the Selic rate; (ii) the equivalent of twice the reference shareholders' 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.

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.

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The board of executive officers 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. Management 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.

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, 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 clients 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 clients' registration details.

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 set forth rules to combat money laundering in international transfers, including more detailed operational information requirements for payment orders, such as the name and identification document of the parties involved, address and bank account when applicable. Financial institutions shall also adopt measures to learn about methods and practices used by their correspondents abroad so as to inhibit 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, shareholders' equity and/or earnings condition of the involved parties; operations evidencing default on behalf of third parties; transactions intended to create loss or gain with no economic grounds; transactions 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 client's technical qualification; transactions involving non-resident parties, trustees and companies, private banking clients and politically exposed individuals.

The CVM directed special attention to politically exposed individuals 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

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interested parties. Banking secrecy may also be breached by court order when necessary for the investigation of any illegal act.

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) Osama Bin Laden, members of the Al-Qaeda organization, members of the Taliban and other individuals, groups, companies or entities connected with them; (ii) the former government of Iraq or its agencies or companies located outside of Iraq, as well as funds or other financial assets that might have been withdrawn from Iraq or acquired by Saddam Hussein or by other former Iraqi government senior officials or by the closest members of their families, including companies owned by, or directly or indirectly controlled by them or by individuals working for them or 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.

Change of independent accounting firm

Under Brazilian regulations, all financial institutions must:

- be audited by an independent accounting firm; and
- the specialist in charge, officer, 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, officers, 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. For more details on appointment of directors see "Item 10.B. Memorandum and Articles of Incorporation-Organization-Voting Rights."

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 matters applicable to all Brazilian financial institutions; and they 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 shareholders’ 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 an audit committee 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 Audit Committee has been fully operational since July 1, 2004. The Audit Committee 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 an audit committee. In May 2004, our Board of Directors approved the internal regulations for the Audit Committee and appointed its first members. In October 2006, the CMN enacted stricter requirements to be followed by the members of the Board of Directors. See "Item 16.D. Exemptions from filing requirements for Audit Committees."

As of July 1, 2004, we are required to publish a semi-annual audit committee report together with our financial statements. Our Audit Committee's first report was issued together with our financial statements for the second half of 2004.

In July 2007, the CVM enacted a rule requiring publicly held companies to adopt as of the fiscal year ended in 2010 international accounting standards, pursuant to rules issued by the International Accounting Standards Board (IASB). This will represent a change in our accounting practices, since our fiscal statements are currently prepared and disclosed in accordance with Brazilian and US GAAP. A similar rule was issued by the CMN in September 2009 specifically for financial institutions, according to which consolidated financial statements must include the opinion of an independent auditing company on the compliance of such statements with the pronouncements issued by the IASB. Pursuant to Circular No. 3,472/09, financial statements must be published within ninety days of December 31 of the corresponding fiscal year and be prepared by the parent company of the group of consolidated entities.

With regard to interim consolidated financial statements, the Central Bank issued, in May 2010, a resolution determining that financial institutions organized as corporations (*sociedades anônimas*), or required to set up auditing committees and publish their consolidated interim financial statements, must follow rules (pronouncements) issued by the International Accounting Standards Board (IASB), and must be translated into Portuguese by a Brazilian entity certified by the International Accounting Standards Committee Foundation (IASC Foundation).

In September 2009, the Central Bank issued rules 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.

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Regulation of operations in other jurisdictions

We have branches and subsidiaries in several other jurisdictions, such as New York, Buenos Aires, Tokyo, the Cayman Islands, Hong Kong 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. 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, except for holdings in investment funds or in Mercosur, must be registered directly with specific custody deposit accounts opened in the name of the fund. Such accounts must be held 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.

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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 a 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.

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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 clients, including the assignment of rights;
- collect commissions from their clients related to transactions of securities during the primary distribution;
- acquire assets, including real estate properties, which are not for their own utilization; or
- obtain loans from financial institutions, except for: (i) loans for the acquisition of goods for use in connection with the firm's corporate purpose; or (ii) loans for amounts not more than twice the firm's net assets.

Broker and dealer firms' employees, managers, partners, controlling and controlled entities 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 states 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, which we call "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, rules for which were consolidated by SUSEP 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

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- 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, the conditions of their portfolios and the results of their operations with IRB, a quasi-public corporation controlled by the Brazilian government. Insurers must also meet certain capital requirements consolidated by SUSEP Resolution No. 227/10.

On January 15, 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 prohibited a local insurance or reinsurance company from transferring more than 20% of each policy premium to their foreign affiliates. This restriction does not apply to the guarantee business, nuclear risks and risks related to export credit, rural credit and domestic credit, which are subject to different legal requirements and regulations.

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 the ambit of entities subject to CMN, SUSEP promulgated 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.

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 1, 2006. Notwithstanding the above, certain provisions of Law No. 11,196/05 will only become effective when SUSEP and CVM issue regulatory texts. For more information, see "-Regulation and Supervision-Asset Management Regulation."

Regulation of Internet and electronic commerce

The Brazilian Congress has not enacted any specific legislation regulating electronic commerce. Accordingly, electronic commerce remains subject to existing laws and regulation on ordinary commerce and business transactions.

There are currently several bills dealing with Internet and electronic commerce regulation in the Brazilian congress. The proposed legislation, if enacted, would recognize the legal effect, validity and enforceability of information in the form of electronic messages, allowing parties to enter into an agreement 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 lending, foreign exchange, insurance and trading in securities. The Minister of Finance sets the rate of the IOF subject

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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.

In January 2008, the Brazilian government raised the IOF rate on certain transactions to offset lost revenue due to the abolition of CPMF tax.

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. 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 shareholders' capital to foreign investors. The IOF rate was also reduced to 0% for converting incoming funds or funds leaving the country as of October 2008 in the form of foreign borrowing or financing.

In October 2009, in order to curb the appreciation of the *real*, the Brazilian government raised the IOF rate on forex transactions from 0% to 2% for foreign investors in the Brazilian financial and capital markets. Forex transactions for funds leaving the country continue to pay a rate of 0%, and there is currently no restriction as to the date of funding.

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

IOF tax may also be charged on issues of securities, including transactions on Brazilian stock, futures or commodities exchanges. The IOF rate levied on 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 this 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 December 30, 2010, Brazil's tax authorities published instructions lowering the rate of IOF tax on foreign exchange transactions. This new provision consolidated the general rate of IOF on foreign exchange transactions at 0.38%, while maintaining the rate of 6.0% on investments in financial and capital markets, but increasing the cases subject to IOF at a rate of 2.0%, as of January 1, 2011.

The following foreign exchange transactions start paying IOF tax at the 2.0% rate under the new legislation:

- foreign exchange transactions settled as of January 1, 2011 by foreign investors' funds entering Brazil, including those doing so through simultaneous transactions, for acquisition of shares in private equity funds, emerging company funds, and funds of funds duly incorporated and authorized by the Brazilian Securities Commission;
- settlement of simultaneous foreign exchange transactions, contracted as of January 1, 2011, for the purpose of funds entering due to cancellation of depositary notes, for investment in shares traded on exchange; and
- settlement of simultaneous foreign exchange transactions, contracted as of January 1, 2011, for funds entering Brazil arising from altered arrangements for foreign investors, direct investment, investment in shares traded on exchange.

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In March 2011, Decree No. 7,454/11 increased the tax 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 purchase of goods and services from abroad made by their cardholders.

Decree No. 7,456/11 increased the tax rate on foreign exchange transactions settled as of March 29, 2011 by foreign investors' funds entering Brazil, including those doing so through simultaneous transactions related to foreign loans subject to registration with the Central Bank, to 6% for currency loans for repayment within an average of 360 days, including both direct loans and those related to the issue of bonds in the international markets. Previously, such rate was of 5.38% for loans with repayment in up to 90 days, and of 0% for loans with a longer maturity.

IOF is levied on all types of loan transactions, including overdrafts, at a rate of 0.0041% per day on the principal. Until November 2008, the rate applicable to amounts borrowed by individuals was 0.0082%. In those loan transactions in which the principal amount is not determined prior to the transaction, in addition to the principal, IOF tax is also levied on interest and other charges at the same rate. In any case, IOF tax is subject to a maximum rate of 1.5% in any one year.

Additionally, since January 2008, credit transactions are subject to IOF at an additional rate of 0.38%, regardless of the transaction term and regardless of whether the borrower is an individual or corporate entity.

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 out 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; or
- 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.

IOF is also charged on gains from transactions with terms of up to 30 days for sale, assignment, repurchase or renewal of fixed-income investments or the redemption of shares in financial investment funds, equity funds or investment clubs. For more information on financial investment funds and equity funds, see "Regulation and Supervision-Asset management regulation." The maximum rate of IOF payable in such cases is 1.0% per day and decreases with the 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; and

- redemptions of shares in equity funds.

Income tax and social contribution 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 the rates 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%.

For further information on our income tax expense, see Note 16 to our consolidated financial statements in "Item 18. Financial Statements."

Companies are taxed based on their worldwide income rather than 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 the same income, if there is reciprocal treatment between Brazil and the country where the profit or gain was obtained, as in the case of 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 the corporate or individual a beneficiary 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 remunerating shareholders in the form of "interest on shareholders' capital" 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 shareholder equity calculated in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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 shareholders' capital paid to holders of preferred shares, including payments to the depositary bank in respect of preferred shares underlying ADSs, are subject to Brazilian withholding tax at a rate of 15.0%, except for payments to (i) persons exempt 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%. For more information on the taxation of interest on shareholders' capital, see "Item 10.E. Taxation-Brazilian tax considerations-Distributions of interest on shareholders' capital"

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

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

- 20.0% if the transaction is "day-trade" on a stock exchange; or
- 15.0% for all other transactions.

In addition, persons resident in Brazil who trade on 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 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 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 above, but the rate is 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 preferred 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 preferred 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, which were represented by the shares sold; or
- the foreign investment in preferred shares is registered with the Central Bank pursuant to Resolution No. 2,689/00.

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Otherwise, the same treatment afforded 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, funds of funds and emerging markets investment funds in 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 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 for fiscal year 2008.

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 shareholders' 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 tax and social contributions.

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 calendar year 2011, 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.

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 shareholders' capital.

Brazilian legislation authorize certain adjustments to the calculation base of those taxes depending on the business segment and on other aspects.

Between 2002 and 2003, the Brazilian government implemented a non-cumulative collection system 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 changed on payments of interest on shareholders' capital 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 institutions.

Before February 1, 1999, we were not a COFINS taxpayer. On February 1, 1999, COFINS was imposed on our gross revenues at a rate of 3.0%. After September 1, 2003, this tax rate was increased to 4.0% for financial 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 1, 2012.

SELECTED STATISTICAL INFORMATION

We have included the following information for analytical purposes. You should read this information in conjunction with "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements in "Item 18. Financial Statements."

Average balance sheet and interest rate data

The following table presents the average balances of our interest-earning assets and interest-bearing liabilities, other assets and liabilities accounts, the related interest income and expense amounts and the

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average real yield/rate for each period. We calculated the average balances using the month-end book balances, which include the related allocated interest.

We show liabilities in two categories: local and foreign currencies. Local currency balances represent liabilities expressed in *reais*, while foreign currency balances represent liabilities denominated in foreign currencies, primarily the U.S. dollar.

We excluded non-performing loans from "Loans" in determining average assets and liabilities, and classified them as non-interest-earning assets. Loan repayments not received during the normal contract period are included in interest income on loans. We do not consider these amounts as material.

We do not show interest income on a tax-equivalent basis, as Brazilian tax law does not currently provide for tax exemptions for interest earned on investment securities.

Additionally, fees received from various loan commitments are included in interest income on loans.

We do not consider these amounts significant.

	December 31,								
	2008			2009			2010		
	Average balance	Interest	Average yield/ Interest	Average balance	Interest	Average yield/ Interest	Average balance	Interest	Average yield/ Interest
	(*R$ in millions, except percentages*)								
Interest-earning assets[1]:									
Loans	146,404	33,662	23.0%	173,048	32,708	18.9%	191,537	37,291	19.5%
Federal funds sold and securities purchased under agreements to resell	46,893	6,466	13.8%	68,998	7,701	11.2%	80,879	8,867	11.0%
Trading assets and securities received in resale agreements	72,789	7,685	10.6%	94,940	8,737	9.2%	114,650	9,569	8.3%
Available-for-sale securities[2]	24,727	3,248	13.1%	28,650	2,591	9.0%	31,361	3,411	10.9%
Held to maturity securities	3,458	509	14.7%	3,927	439	11.2%	3,778	489	12.9%
Interest-bearing deposits in other banks	8,360	706	8.4%	10,164	506	5.0%	9,664	595	6.2%
Other interest-earning assets:									
Brazilian Central Bank compulsory deposits	24,590	1,489	6.1%	23,967	1,434	6.0%	37,259	2,879	7.7%
Other assets	648	38	5.9%	601	35	5.8%	532	36	6.8%
Interest-earning assets	**327,869**	**53,803**	**16.4%**	**404,295**	**54,151**	**13.4%**	**469,660**	**63,137**	**13.4%**
Non-interest-earning assets[3]:									
Cash and due from bank	6,193	-	-	8,872	-	-	8,978	-	-
Brazilian Central Bank compulsory deposits	7,338	-	-	7,299	-	-	8,989	-	-

Available-for-sale securities	2,472	-	-	3,792	-	-	3,997	-	-
Non-performing loans	4,312	-	-	6,603	-	-	7,072	-	-
Allowance for loan losses	(8,726)	-	-	(13,481)	-	-	(16,097)	-	-
Equity investees and other investments	875	-	-	772	-	-	2,671	-	-
Premises and equipment, net	3,066	-	-	4,356	-	-	4,467	-	-
Goodwill	1,056	-	-	1,252	-	-	1,194	-	-
Intangible assets	3,057	-	-	3,515	-	-	3,648	-	-
Others	29,034	-	-	36,656	-	-	53,737	-	-
Total non-interest-earning assets	**48,677**	**-**	**-**	**59,636**	**-**	**-**	**78,656**	**-**	**-**
Total assets	**376,546**	**53,803**	**14.3%**	**463,931**	**54,151**	**11.7%**	**548,316**	**63,137**	**11.5%**

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	December 31,								
	2008			2009			2010		
	Average balance	Interest	Average yield/ Interest	Average balance	Interest	Average yield/ Interest	Average balance	Interest	Average yield/ Interest
	(R$ in millions, except percentages)								
Interest-bearing liabilities:									
Deposits from financial institutions:									
Domestic(3)	404	80	19.8%	551	62	11.3%	517	48	9.3%
Foreign(4)	-	-	-	43	5	11.6%	-	-	-
Total	**404**	**80**	**19.8%**	**594**	**67**	**11.3%**	**517**	**48**	**9.3%**
Savings deposits:									
Domestic(3)	34,538	2,442	7.1%	39,349	2,450	6.2%	47,793	2,964	6.2%
Total	**34,538**	**2,442**	**7.1%**	**39,349**	**2,450**	**6.2%**	**47,793**	**2,964**	**6.2%**
Time deposits:									
Domestic(3)	58,843	6,959	11.8%	93,137	8,851	9.5%	89,441	8,262	9.2%
International(4)	3,390	155	4.6%	5,982	78	1.3%	6,377	38	0.6%
Total	**62,233**	**7,114**	**11.4%**	**99,119**	**8,929**	**9.0%**	**95,818**	**8,300**	**8.7%**
Federal funds purchased and securities sold under agreements to repurchase	**74,139**	**9,169**	**12.4%**	**92,759**	**8,704**	**9.4%**	**126,970**	**10,856**	**8.6%**
Borrowings:									
Short-term:									
International(4)	10,252	4,899	47.8%	10,798	(2,197)	(20.3)%	8,525	188	2.2%
Total	**10,252**	**4,899**	**47.8%**	**10,798**	**(2,197)**	**(20.3)%**	**8,525**	**188**	**2.2%**
Long-term:									
Domestic(3)	32,712	3,408	10.4%	37,524	2,823	7.5%	51,863	2,979	5.7%
International(4)	7,733	1,320	17.1%	10,676	242	2.3%	10,098	310	3.1%
Total	**40,445**	**4,728**	**11.7%**	**48,200**	**3,065**	**6.4%**	**61,961**	**3,289**	**5.3%**
Total interest-bearing liabilities	**222,011**	**28,432**	**12.8%**	**290,819**	**21,018**	**7.2%**	**341,584**	**25,645**	**7.5%**
Non-interest-bearing liabilities:									
Demand deposits:									
Domestic(3)	25,991	-	-	27,724	**-**	**-**	33,587	-	-
International(4)	314	-	-	447	**-**	**-**	336	-	-
Total	**26,305**	**-**	**-**	**28,171**	**-**	**-**	**33,923**	**-**	**-**
Other non-interest-bearing liabilities	**93,862**	**-**	**-**	**105,159**	**-**	**-**	**128,077**	**-**	**-**
Total non-interest-bearing liabilities	**120,167**	**-**	**-**	**133,330**	**-**	**-**	**162,000**	**-**	**-**

Total liabilities	**342,178**	**28,432**	**8.3%**	**424,149**	**21,018**	**5.0%**	**503,584**	**25,645**	**5.1%**
Shareholders' equity of the parent company	**33,180**	**-**	**-**	**39,352**	**-**	**-**	**44,340**	**-**	**-**
Noncontrolling interest on consolidated subsidiaries	**1,188**	**-**	**-**	**430**	**-**	**-**	**392**	**-**	**-**
Total liabilities, shareholders' equity and Noncontrolling interest	**376,546**	**28,432**	**7.6%**	**463,931**	**21,018**	**4.5%**	**548,316**	**25,645**	**4.7%**

(1) Primarily denominated in *reais*.

(2) Calculated using the historical average of amortized cost. If calculated using the book value, the average yield/rate amounts would be 10.3% in 2010, 7.8% in 2009 and 12.4% in 2008.

(3) Denominated in *reais*.

(4) Denominated in foreign currency, primarily U.S. dollars.

Changes in interest income and expenses-volume and rate analysis

The following table shows the effects of changes in our interest income and expense arising from changes in average volumes and average yield/rates for the periods presented. We calculated the changes in volume and interest rate based on the evaluation of average balances during the period and changes in average interest rates on interest-earning assets and interest-bearing liabilities. We allocated the net change from the combined effects of volume and rate proportionately to the average volume and rate, in absolute terms, without considering positive and negative effects.

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	December 31,					
	2009/2008			2010/2009		
	Increase/(decrease) due to changes in:					
	Average volume	Average yield/rate	Net change	Average volume	Average yield/rate	Net change
	(*R$ in millions*)					
Interest-earning assets:						
Loans	5,575	(6,529)	(954)	3,577	1,006	4,583
Federal funds sold and securities purchased under agreements to resell under agreements to resell	2,634	(1,399)	1,235	1,305	(139)	1,166
Trading assets and securities received in resale agreements	2,128	(1,076)	1,052	1,697	(865)	832
Available-for-sale securities	461	(1,118)	(657)	261	559	820
Held to maturity securities	63	(133)	(70)	(17)	67	50
Interest-bearing deposits in other banks	131	(331)	(200)	(26)	115	89
Brazilian Central Bank compulsory deposits	(37)	(18)	(55)	947	498	1,445
Other assets	(3)	-	(3)	(4)	5	1
Total interest-earning assets	**10,952**	**(10,604)**	**348**	**7,740**	**1,246**	**8,986**
Interest-bearing liabilities:						
Deposits from financial institutions						
Domestic	23	(41)	(18)	(4)	(10)	(14)
Foreign	-	5	5	-	(5)	(5)
Total	**23**	**(36)**	**(13)**	**(4)**	**(15)**	**(19)**
Savings deposits:						
Domestic	318	(310)	8	524	(10)	514
Total	**318**	**(310)**	**8**	**524**	**(10)**	**514**
Time deposits:						
Domestic	3,460	(1,568)	1,892	(345)	(244)	(589)
International	75	(152)	(77)	5	(45)	(40)
Total	**3,535**	**(1,720)**	**1,815**	**(340)**	**(289)**	**(629)**
Federal funds purchased and securities sold under agreements to repurchase	**2,019**	**(2,484)**	**(465)**	**2,980**	**(828)**	**2,152**
Borrowings:						
Short-term:						
International	248	(7,344)	(7,096)	381	2,004	2,385
Total	**248**	**(7,344)**	**(7,096)**	**381**	**2,004**	**2,385**
Long- term:						
Domestic	453	(1,038)	(585)	921	(765)	156

International	369	(1,447)	(1,078)	(14)	82	68
Total	**822**	**(2,485)**	**(1,663)**	**907**	**(683)**	**224**
Total interest-bearing liabilities	**6,965**	**(14,379)**	**(7,414)**	**4,448**	**179**	**4,627**

Net interest margin and spread

The following table shows the average balance of our interest-earning assets, interest-bearing liabilities and net interest income, and compares the net interest margin and net interest spread for the periods indicated:

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	December 31,		
	2008	2009	2010
	(*R$ in millions, except percentages*)		
Average balance of interest-earning assets	327,869	404,295	469,660
Average balance of interest-bearing liabilities	222,011	290,819	341,584
Net interest income[(1)]	25,371	33,133	37,492
Interest rate on the average balance of interest-earning assets	16.4%	13.4%	13.4%
Interest rate on the average balance of interest-bearing liabilities	12.8%	7.2%	7.5%
Net yield on interest–earning assets[(2)]	3.6%	6.2%	5.9%
Net interest margin[(3)]	7.7%	8.2%	8.0%

(1) Total interest income less total interest expenses.
(2) Difference between the yield on the rates of the average interest-earning assets and the rate of the average interest-bearing liabilities.
(3) Net interest income divided by average interest-earning assets.

Return on equity and assets

The table below shows selected financial indices for the periods indicated:

	December 31,		
	2008	2009	2010
	(*R$ in millions, except percentages and per share information*)		
Parent Company´s net income	7,018	9,216	9,662
Average total assets	376,546	463,931	548,316
Average shareholders' equity of the parent company	33,180	39,352	44,340
Parent Company´s net income as a percentage of average total assets	1.9%	2.0%	1.8%
Total Parent Company´s net income as a percentage of average shareholders' equity	21.2%	23.4%	21.8%
Average shareholders' equity of the parent company as a percentage of average total assets	8.8%	8.5%	8.1%
Dividends payout ratio per class of shares[(1)]	0.37	0.31	0.35

(1) Total declared dividends per share divided by net income.

Securities portfolio

The table below shows securities received in resale agreements and our portfolio of trading assets, available-for-sale securities and held to maturity securities as of the dates indicated. The amounts below exclude our non-consolidated equity investees. For additional information on our non-consolidated equity investees and other investments, see Note 9 to our consolidated financial statements included in "Item 18. Financial Statements." The amounts also exclude our compulsory deposits held in Brazilian government securities, as required by the Central Bank. For more information on our compulsory holdings, see Note 3 to our consolidated financial statements included in "Item 18. Financial Statements." We state trading assets and available-for-sale securities at market value. See Notes 2(e), 2(f), 2(g), 2(h), 4, 5 and 6 to our consolidated financial statements included in "Item 18. Financial Statements" for a further description of our treatment of securities received in resale agreements, trading assets and available-for-sale securities and held to maturity securities.

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	December 31,		
	2008	2009	2010
	(*R$ in millions, except percentages*)		
Securities received in resale agreements:			
Brazilian government securities	19,446	33,323	15,481
Bank debt securities	-	4	156
Total	**19,446**	**33,327**	**15,637**
Securities received in resale agreements as a percentage of total assets	4.5%	6.7%	2.5%
Trading assets:			
Mutual funds(1)	41,042	50,677	57,825
Brazilian government securities	16,281	10,784	17,276
Corporate debt securities	5,950	4,982	16,798
Brazilian sovereign bonds	43	35	30
Derivative financial instruments	2,387	1,371	1,647
Bank debt securities	4,490	4,839	2,740
Foreign government securities	1,756	82	71
Public company shares	454	-	-
Total	**72,403**	**72,770**	**96,387**
Trading assets as a percentage of total assets	16.6%	14.6%	15.5%
Available-for-sale securities:			
Brazilian government securities	20,450	25,976	30,717
Brazilian sovereign bonds	1,777	1,472	13
Corporate debt securities	4,105	4,363	4,176
Bank debt securities	438	1,203	116
Foreign government securities	-	130	-
Marketable equity securities	3,185	4,090	4,826
Total	**29,955**	**37,234**	**39,848**
Available-for-sale securities as a percentage of total assets	6.9%	7.5%	6.4%
Held to maturity securities:			
Brazilian government securities	2,961	2,951	3,283
Brazilian sovereign bonds(2)	1,073	856	5
Foreign government securities	63	76	106
Total	**4,097**	**3,883**	**3,394**
Held to maturity securities as a percentage of total assets	0.9%	0.8%	0.5%

(1) Includes investments funds related to investments contracts (see Note 2(v)).

(2) See Note 6 to our consolidated financial statements included in "Item 18. Financial Statements."

Maturity distribution

The following table shows maturity dates and weighted average yield, as of December 31, 2010, of our securities received in resale agreements, trading assets, available-for-sale securities and held to maturity securities.

As of December 31, 2010, we held no tax-exempt securities in our portfolio.

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	December 31, 2010											
	Due in 1 year or less	Average yield	Due after 1 year to 5 years	Average yield	Due after 5 year to 10 years	Average yield	Due after 10 years	Average yield	Unspecified maturity	Average yield	Total	Average yield
	(in millions of R$, except percentages)											
Securities received in resale agreements:												
Brazilian government securities	15,481	10.0%	-	-	-	-	-	-	-	-	15,481	10.0%
Floating rate	15,481	10.0%	-	-	-	-	-	-	-	-	15,481	10.0%
Financial institutions bonds	156	-	-	-	-	-	-	-	-	-	156	-
Floating rate – bills of exchange	156	-	-	-	-	-	-	-	-	-	156	-
Total securities received in resale agreements	**15,637**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**15,637**	**-**
Trading assets, at fair value:												
Brazilian government securities	12,770	10.7%	4,498	3.6%	5	5.9%	3	5.7%	-	-	17,276	6.6%
Fixed rate	807	11.4%	88	12.3%	-	-	-	-	-	-	895	11.9%
Floating rate	11,963	10.7%	4,410	3.5%	5	5.9%	3	5.7%	-	-	16,381	6.4%
Brazilian sovereign bonds	12	9.5%	18	8.5%	-	-	-	-	-	-	30	9.0%
Floating rate – bills of exchange	12	9.5%	18	8.5%	-	-	-	-	-	-	30	9.0%
Foreign government securities	71	-	-	-	-	-	-	-	-	-	71	-
Floating rate – bills of exchange	71	-	-	-	-	-	-	-	-	-	71	-
Bonds issued by non–financial institutions	3,553	2.4%	7,264	11.6%	5,515	12.0%	466	10.3%	-	-	16,798	9.1%
Floating rate – bills of exchange	20	-	16	-	-	-	-	-	-	-	36	-
Floating rate	3,533	2.4%	7,248	11.6%	5,515	12.0%	466	10.3%	-	-	16,762	9.1%
Financial institutions bonds	2,171	11.5%	521	11.1%	46	12.0%	2	12.0%	-	-	2,740	11.6%
Floating rate – bills of exchange	160	-	-	-	-	-	-	-	-	-	160	-
Floating rate	2,011	11.5%	521	11.1%	46	12.0%	2	12.0%	-	-	2,580	11.6%

Mutual Funds[1]	-	-	-	-	-	-	-	-	57,825	-	57,825	-
Floating rate	-	-	-	-	-	-	-	-	57,825	-	57,825	-
Derivative financial instruments	1,581	-	54	-	12	-	-	-	-	-	1,647	-
Floating rate – bills of exchange	256	-	-	-	-	-	-	-	-	-	256	-
Floating rate	1,325	-	54	-	12	-	-	-	-	-	1,391	-
Total trading assets	**20,158**	**-**	**12,355**	**-**	**5,578**	**-**	**471**	**-**	**57,825**	**-**	**96,387**	**-**
Available-for-sale securities at fair value:												
Brazilian government securities	2,151	10.7%	1,184	7.6%	7,154	5.9%	20,228	5.7%	-	-	30,717	6.6%
Fixed rate	1,559	10.7%	-	-	-	-	-	-	-	-	1,559	10.7%
Floating rate	592	-	1,184	7.6%	7,154	5.9%	20,228	5.7%	-	-	29,158	6.4%
Brazilian sovereign bonds	-	-	3	10.5%	7	8.4%	3	8.4%	-	-	13	9.4%
Floating rate – bills of exchange	-	-	3	10.5%	7	8.4%	3	8.4%	-	-	13	9.4%
Bonds issued by non–financial institutions	64	11.4%	1,638	11.6%	1,040	10.4%	1,434	9.8%	-	-	4,176	10.7%
Floating rate	36	11.4%	1,533	11.9%	987	10.4%	1,429	9.8%	-	-	3,985	10.9%
Floating rate – bills of exchange	28	-	105	6.4%	53	9.7%	5	7.5%	-	-	191	7.8%
Financial institutions bonds	-	-	5	-	30	6.4%	81	10.9%	-	-	116	9.7%
Floating rate – bills of exchange	-	-	5	-	29	6.3%	-	-	-	-	34	6.3%
Floating rate	-	-	-	-	1	11.4%	81	10.9%	-	-	82	11.1%
Marketable equity securities[1]	-	-	-	-	-	-	-	-	4,826	-	4,826	-
Floating rate	-	-	-	-	-	-	-	-	4,826	-	4,826	-
Total available-for-sale securities	**2,215**	**-**	**2,830**	**-**	**8,231**	**-**	**21,746**	**-**	**4,826**	**-**	**39,848**	**-**
Total held to maturity securities, at amortized cost												
Brazilian government securities	-	-	311	6.1%	-	-	2,972	5.8%	-	-	3,283	5.9%
Floating rate	-	-	311	6.1%	-	-	2,972	5.8%	-	-	3,283	5.9%
Brazilian sovereign bonds	-	-	5	11.0%	-	-	-	-	-	-	5	11.0%
Floating rate – bills of exchange	-	-	5	11.0%	-	-	-	-	-	-	5	11.0%
Foreign government securities	106	-	-	-	-	-	-	-	-	-	106	-
	106	-	-	-	-	-	-	-	-	-	106	-

Floating rate – bills of exchange												
Total held to maturity securities	**106**	**-**	**316**	**-**	**-**	**-**	**2,972**	**-**	**-**	-	3,394	-
Overall Total	**38,116**	**-**	**15,501**	**-**	**13,809**	**-**	**25,189**	**-**	**62,651**	**-**	**155,266**	**-**

(1) Investments in mutual funds are redeemable at any time in accordance with our liquidity needs. Average yield is not stated, as future yields are not quantifiable These trading assets were excluded from the total yield computation.

Note: The figures above are not adjusted for exchange rate variation.

The following table shows securities received in resale agreements and our securities portfolio by currency as of the dates indicated:

		At fair value		**Amortized cost**	
	Securities received in resale agreements	**Trading assets**	**Available-for-sale Securities**	**Held-to-maturity securities**	**Total**
			(*R$ in millions*)		
December 31, 2008:					
Indexed to *reais*	19,446	70,288	26,086	2,961	118,781
Denominated in foreign currency(1)	-	2,115	3,869	1,136	7,120
December 31, 2009:					
Indexed to *reais*	33,323	72,542	32,698	2,951	141,514
Denominated in foreign currency(1)	4	228	4,536	932	5,700
December 31, 2010:					
Indexed to *reais*	15,481	95,834	39,610	3,283	154,208
Denominated in foreign currency(1)	156	553	238	111	1,058

(1) Predominantly U.S. dollars

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Central Bank compulsory deposits

We are required to either maintain deposits with the Central Bank, or purchase and keep Brazilian government securities as compulsory deposits.

The following table sets forth the amounts of these deposits as of the dates indicated:

	December 31,					
	2008		2009		2010	
	R$	% of total compulsory deposits	R$	% of total compulsory deposits	R$	% of total compulsory deposits
	(R$ in millions, except percentages)					
Total deposits:						
Non-interest earning(1)	5,591	21.2%	8,962	27.4%	10,984	16.8%
Interest-earning(2)	20,793	78.8%	23,734	72.6%	54,214	83.2%
Total	**26,384**	**100.0%**	**32,696**	**100.0%**	**65,198**	**100.0%**

(1) Primarily demand deposits.
(2) Primarily time and savings deposits.

Credit operations

The following table summarizes our outstanding loans by category of transaction. Substantially all of our loans are to borrowers domiciled in Brazil and are denominated in *reais*. The majority of our loans are denominated in *reais* and indexed to fixed or variable interest rates. A smaller portion of them are denominated in, or indexed to, the U.S. dollar and subject to fixed interest rates.

	As of December 31,				
	2006	2007	2008	2009	2010
	(R$ in millions)				
Type of credit operations					
Commercial					
Industrial and others	32,604	44,380	62,216	62,886	78,905
Import financing	1,465	2,179	3,350	3,824	4,163
Export financing	12,934	15,342	24,130	18,137	21,543
Leasing	3,842	8,097	20,096	19,787	15,277
Construction	519	1,634	3,134	4,201	4,179
Individuals					
Overdraft	1,263	1,881	2,409	2,604	3,367
Real estate	1,326	1,571	2,174	2,640	5,900
Financing(1)	28,828	38,791	34,325	36,604	52,247
Credit card	2,652	2,330	2,501	3,452	5,000
Rural credit	7,399	9,032	10,459	11,661	13,516
Foreign currency loans	1,546	2,529	2,769	2,958	5,020

Public Sector	62	94	94	88	84
Non-performing loans	4,284	5,277	7,178	11,092	10,082
Allowance for loan losses	(6,552)	(7,769)	(10,318)	(14,572)	(15,123)
Net loans	**92,172**	**125,368**	**164,517**	**165,362**	**204,160**

(1) Constituted primarily by loans for the acquisition of vehicles and direct consumer financing.

The types of credit operations presented above are as follows:

Commercial – commercial loans include loans to corporate customers, including small businesses, as well as financing imports for corporate customers. We also provide advances to corporate exporters under trade exchange contracts, which are typically short-term and medium-term loans;

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Leasing – leasing contracts consist primarily of leases of equipment and automobiles to both corporate and individual borrowers;

Construction – real estate construction financing consists primarily of mortgage loans to construction companies;

Individuals – loans to individuals include mortgage loans to individuals for the purchase of their own residences, which generally have long-term maturities, credit cards and lines of credit provided to individuals under pre-approved credit limits as a result of overdrafts on their deposit accounts. We offer individuals personal loans for various other purposes, classified as "financing," which consist of loans for the acquisition of vehicles and direct consumer financing;

Rural credit – rural credit consists of loans to borrowers who operate rural businesses, mainly in the agricultural and livestock sectors;

Foreign currency loans – foreign currency loans are onlending financing raised by Brazilian companies that are indexed to the U.S. dollar and are subject to foreign exchange rate variations and accrued interest;

Public sector – public sector credit operations are loans to Brazilian federal, state and municipal governments or agencies;

Non-performing loans – we classify all loans that are sixty days or more overdue as non-performing. Once the credits are classified as non-performing loans, we stop accruing interest on them;

Impairment – We assess impairment for larger non-homogeneous balances that are more than 90 days overdue, which have already been renegotiated and present deterioration indicators. These loans are classified as "impaired" and are subject to review in accordance with ASC 310, "Accounting by Creditors for Impairment of a Loan."

We estimate the value of impaired loans based on:

- the present value of expected future cash flows discounted at the loan's effective interest rate; and
- for collateral dependent loans, the fair value of the underlying collateral.

Through the allowance for loan losses, we establish a valuation allowance for the difference between the carrying value of the impaired loan and its estimated value, as determined above. We periodically adjust the allowance for loan losses based on an analysis of loan portfolio variations.

We perform periodic and systematic detailed reviews of our loan portfolio to identify credit risks and to assess the overall collectability of those portfolios.

The aggregate loss analysis for groups of homogeneous loans is based on portfolio segment. The loan portfolio of the corporate segment is comprised primarily of large, medium and small entities with a turnover of more than R$ 15 million. The amount of loss incurred in the homogenous pools is estimated based upon how many of the loans will default and the loss that will be incurred in the event of default. The probability of default of a corporate loan is based on an analysis of the movement of the loan that became overdue over a twelve-month period by each internal rating classification. Loans 90 or more days past due within the twelve-month period are assigned a rate of default that measures the percentage of such loans that will default over their lives given the assumption that the condition causing the ultimate default presently exists as of the measurement date.

The loan portfolio of the retail segment is comprised primarily of consumer loans. The amount of loss incurred in the homogenous pools is estimated based on statistically valid models and methodologies to measure the probability of default of those loans. These statistical models (Credit and Behavior Scoring Systems) consider a number of features including, but not limited to, income, assets, restrictions and indebtedness, and other attributes of each counterparty. These models are updated regularly for changes in economic and business conditions.

Charge-offs

Loans are charged-off against the allowance when the loan is considered uncollectible or is considered permanently impaired. Loans are charged off usually when they are between 180 and 360 days overdue. However, longer-term loans, that have original terms greater than 36 months, are charged off when they are between 360 and 540 days overdue.

We generally carry overdue loans as non-performing loans before charging them off. The allowance for loan losses related to any loan remains on our books until the loan is charged off.

For more information on our categorization of loans, see "- Regulation and Supervision-Bank regulations-Treatment of credit operations."

Credit approval process

For a description of our credit approval process, see "- Credit Policy."

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The majority of our loan portfolio is denominated in *reais*. However, a portion of our loan portfolio is indexed or denominated in foreign currencies, predominantly the U.S. dollar. Our loans indexed to and denominated in U.S. dollars consist of onlending of Eurobonds and export and import financing, and represented 10.8%, 11.2% and 14.8% of our loan portfolio as of December 31, 2010, 2009 and 2008, respectively. In many cases our clients hold derivative instruments to minimize exchange rate variation risk.

Maturities and interest rates of loans

The following tables show the distribution of maturities of our loans by type, as well as the composition of our loan portfolio by interest rate and maturity, as of the dates indicated:

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	As of December 31, 2010									
	Due within 30 days or less	Due in 31 to 90 days	Due in 91 to 180 days	Due in 181 to 360 days	Due in 1 to 3 years	Due after 3 years	No stated maturity(1)	Total loans, gross	Allowance for loan losses	Total
Type of loan:						*(R$ in millions)*				
Commercial:										
Industrial and others	12,163	14,010	9,800	10,422	21,199	10,788	3,300	81,682	(6,540)	75,142
Import financing	286	874	1,549	610	225	619	-	4,163	(24)	4,139
Export financing	1,315	2,089	2,084	3,893	7,568	4,594	140	21,683	(310)	21,373
Construction	17	43	119	489	2,537	973	54	4,232	(237)	3,995
Leasing	1,076	1,249	1,831	3,460	7,536	88	1,122	16,362	(1,719)	14,643
Individuals:										
Overdraft	2,783	-	-	-	-	-	1,010	3,793	(204)	3,589
Real estate	36	78	135	350	1,393	3,895	100	5,987	(149)	5,838
Financing(2)	3,459	5,415	6,322	9,907	20,377	6,513	3,469	55,462	(3,894)	51,568
Credit cards	-	-	-	-	-	-	7,011	7,011	(1,526)	5,485
Rural credit	1,184	1,073	2,177	4,299	2,438	2,302	331	13,804	(520)	13,284
Foreign currency loans	641	985	976	856	800	762	-	5,020	-	5,020
Public Sector	2	3	5	9	36	29	-	84	-	84
Total	**22,962**	**25,819**	**24,998**	**34,295**	**64,109**	**30,563**	**16,537**	**219,283**	**(15,123)**	**204,160**

(1) Primarily composed of non-performing credit cards and loans.
(2) Primarily composed of loans for the acquisition of vehicles and direct consumer financing.

	As of December 31, 2010							
	Due within 30 days or less	Due in 31 to 90 days	Due in 91 to 180 days	Due in 181 to 360 days	Due in 1 to 3 years	Due after 3 years	No stated maturity	Total loans, gross
				(R$ in millions)				
Types of loans to customer by maturity								
Floating or adjustable rates(1)	8,901	5,734	8,900	14,009	24,373	19,999	10,082	91,998
Fixed rates	14,061	20,085	16,098	20,286	39,736	10,564	6,455	127,285
Total	**22,962**	**25,819**	**24,998**	**34,295**	**64,109**	**30,563**	**16,537**	**219,283**

(1) Includes non-performing loans.

Outstanding foreign loans

The aggregate amount of our outstanding cross-border commercial loans that are denominated in foreign currencies are mainly raised in U.S. dollars by subsidiaries of Brazilian companies through our Cayman branch. These loans represented, on average, approximately 3.0% of our total assets over the last three years. We believe that there are no significant cross-border risks on these transactions, since a substantial part of the related credit risk is guaranteed by each subsidiary's parent company in Brazil. The remainder of our outstanding cross-border transactions mainly includes investments in securities, which represented, on average, approximately 2.0% of our total assets over the last 3 years.

Additionally, our deposit base is primarily comprised of clients residing in Brazilian and deposits in our branches outside Brazil account for less than 10.0% of our total deposits, and is therefore not considered significant.

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Loans by economic activity

The following table summarizes our loans by borrowers' economic activity, as of the dates indicated. This table does not include non-performing loans.

	As of December 31,					
	2008		2009		2010	
	Loan portfolio	% of loan portfolio	Loan portfolio	% of loan portfolio	Loan portfolio	% of loan portfolio
	(R$ in millions, except percentages)					
Industrial:						
Food, beverages and tobacco	9,733	5.8%	8,083	4.8%	9,147	4.4%
Electric and electronic, communication equipment	1,196	0.7%	1,094	0.6%	945	0.5%
Chemicals and pharmaceuticals	5,592	3.3%	3,855	2.3%	4,647	2.2%
Civil construction	3,268	2.0%	5,379	3.2%	10,663	5.1%
Basic metal industries	6,171	3.7%	3,599	2.1%	3,889	1.9%
Textiles, clothing and leather goods	3,654	2.2%	2,475	1.5%	3,814	1.8%
Manufacturing of machinery and equipment	2,246	1.3%	2,227	1.3%	2,905	1.4%
Paper, paper products, printing and publishing	3,709	2.2%	2,752	1.6%	3,630	1.7%
Automotive	3,478	2.1%	3,599	2.1%	2,447	1.2%
Non-metallic minerals	678	0.4%	704	0.4%	1,241	0.6%
Rubber and plastic	1,876	1.1%	1,583	0.9%	2,722	1.3%
Information technology and office equipment	-	-	196	0.1%	308	0.2%
Wood and wood products, including furniture	972	0.6%	2,621	1.6%	1,554	0.7%
Extractive	1,878	1.1%	1,783	1.1%	2,265	1.1%
Petrochemicals	1,951	1.2%	1,145	0.7%	2,147	1.0%
Others	14,224	8.5%	14,323	8.5%	2,415	1.1%
Subtotal	**60,626**	**36.2%**	**55,418**	**32.8%**	**54,739**	**26.2%**
Individuals:						
Consumer loans	39,235	23.4%	42,660	25.3%	60,614	29.0%
Real estate	2,174	1.3%	2,640	1.5%	5,900	2.8%
Lease financing	808	0.5%	938	0.6%	721	0.3%
Subtotal	**42,217**	**25.2%**	**46,238**	**27.4%**	**67,235**	**32.1%**
Real Estate Construction	**3,134**	**1.8%**	**4,201**	**2.5%**	**4,179**	**2.0%**
Commercial						
Retail	14,472	8.6%	14,524	8.6%	19,257	9.2%
Wholesale	7,833	4.7%	8,251	4.9%	12,677	6.0%
Lodging and catering services	1,260	0.8%	1,180	0.7%	1,213	0.6%

Subtotal	**23,565**	**14.1%**	**23,955**	**14.2%**	**33,147**	**15.8%**
Financial services:						
Financial institutions	1,211	0.7%	2,627	1.5%	560	0.3%
Insurance companies and private pension plans	108	0.1%	114	0.1%	-	-
Subtotal	**1,319**	**0.8%**	**2,741**	**1.6%**	**560**	**0.3%**
Services						
Telecommunications	811	0.5%	517	0.3%	1,836	0.9%
Service providers	3,472	2.1%	4,141	2.5%	5,366	2.5%
Transportation	8,927	5.3%	8,473	5.0%	11,659	5.6%
Real estate	5,538	3.3%	5,963	3.5%	8,641	4.1%
Health and social services	1,781	1.1%	1,195	0.7%	1,662	0.8%
Leisure	880	0.5%	932	0.5%	2,187	1.0%
Education	413	0.2%	475	0.3%	247	0.1%
Public administration and defense	-	-	76	0.1%	43	0.1%
Other	4,515	2.7%	2,856	1.7%	4,184	2.0%
Subtotal	**26,337**	**15.7%**	**24,628**	**14.6%**	**35,825**	**17.1%**
Agriculture, breeding, forestry and fishing	**10,459**	**6.2%**	**11,661**	**6.9%**	**13,516**	**6.5%**
Total	**167,657**	**100.0%**	**168,842**	**100.0%**	**209,201**	**100.0%**

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Non-performing loans and allowance for loan losses

The following table presents a summary of our non-performing loans (comprised entirely of non-accrual loans) together with certain asset quality ratios, as of the dates indicated. We aggregate small balances, of homogeneous loans, such as overdrafts, consumer installment loans and credit card financing, for the purpose of measuring impairment. We assess larger balance loans based on the risk characteristics of each individual borrower. We do not have any material restructured loans.

As previously noted, we classify all loans overdue for 60 days or more as non-performing. Once loans are classified as non-performing they no longer accrue interest.

	As of December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
	(*R$ in millions, except percentages*)				
Non-performing loans	4,284	5,277	7,178	11,092	10,082
Foreclosed assets, net of reserves	161	195	327	457	414
Total non-performing loans and foreclosed assets	**4,445**	**5,472**	**7,505**	**11,549**	**10,496**
Total loans	**98,724**	**133,137**	**174,835**	**179,934**	**219,283**
Allowance for loan losses	6,552	7,769	10,318	14,572	15,123
Non-performing loans as a percentage of total loans	4.3%	4.0%	4.1%	6.2%	4.6%
Non-performing loans and foreclosed assets as a percentage of total loans	4.5%	4.1%	4.3%	6.4%	4.8%
Allowance for loan losses as a percentage of total loans	6.6%	5.8%	5.9%	8.1%	6.9%
Allowance for loan losses as a percentage of non-performing loans	152.9%	147.2%	143.7%	131.4%	150.0%
Allowance for loan losses as a percentage of non-performing loans and foreclosed assets	147.4%	142.0%	137.5%	126.2%	144.1%
Net charge-offs for the period as a percentage of the average balance of loans (including non-performing loans)	2.4%	3.1%	2.7%	3.7%	2.6%

We do not have a significant amount of foreign loans. The majority of our assets are denominated in *reais*.

Allowance for loan losses

The following table states the allowance for loan losses by economic activity for the periods indicated:

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	December 31,				
	2006	**2007**	**2008**	**2009**	**2010**
	(R$ in millions, except percentages)				
Balance at the beginning of the period	**4,964**	**6,552**	**7,769**	**10,318**	**14,572**
Charge–off from assets					
Commercial:					
Industrial and others	(947)	(1,015)	(1,532)	(3,081)	(2,245)
Import financing	-	-	(6)	3	(1)
Export financing	(3)	(1)	(57)	(166)	22
Leasing	(7)	(106)	(139)	(599)	(1,437)
Individuals:					
Overdraft	(247)	(247)	(236)	(320)	(303)
Real Estate	(47)	(61)	28	66	76
Financing[(1)]	(1,301)	(2,252)	(2,351)	(3,016)	(2,745)
Credit card	(257)	(596)	(1,040)	(1,113)	(1,451)
Rural credit	(6)	(2)	(7)	(43)	(65)
Foreign currency loans	(1)	(1)	(5)	5	252
Total charge–off from assets	**(2,816)**	**(4,281)**	**(5,345)**	**(8,264)**	**(7,897)**
Recoveries					
Commercial:					
Industrial and others	253	383	266	336	673
Leasing	14	13	13	15	53
Individuals:					
Overdraft	39	51	299	471	750
Real estate	18	18	20	40	31
Financing[(1)]	281	367	557	701	992
Credit card	19	35	86	133	180
Rural credit	10	10	2	-	-
Foreign currency loans	3	5	-	-	-
Total recoveries	**637**	**882**	**1,243**	**1,696**	**2,679**
Net charge–offs	**(2,179)**	**(3,399)**	**(4,102)**	**(6,568)**	**(5,218)**
Provision for loan losses	**3,767**	**4,616**	**6,651**	**10,822**	**5,769**
Balance at the end of the period	**6,552**	**7,769**	**10,318**	**14,572**	**15,123**
Net charge–offs during the period as a percentage of average loans outstanding (including non–performing loans)	2.4%	3.1%	2.7%	3.7%	2.6%

(1) Primarily composed of vehicle financing and consumer loans.

Based on information available regarding our debtors, we believe that our aggregate allowance for loan losses is sufficient to cover probable losses in our loan operations portfolio.

The following table sets forth our provision for loan losses, charge-offs and recoveries included in results of operations for the periods indicated:

	Year ended December 31,			% Change	
	2008	2009	2010	2009/2008	2010/2009
	(R$ in millions, except percentages)				
Provision for loan losses expenses	6,651	10,822	5,769	62.7%	(46.7)%
Loan charge-offs	(5,345)	(8,264)	(7,897)	54.6	(4.4)
Loan recoveries	1,243	1,696	2,679	36.4	58.0
Net Charge offs	(4,102)	(6,568)	(5,218)	60.1%	(20.6)%
Provision for loan losses[1]	4.4%	6.0%	2.9%	-	-

(1) Provision as a percentage of average loans outstanding.

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Allocation of the allowance for loan losses

The tables below set forth the allocation of the allowance for loan losses for the periods indicated.

The allowance amount allocated and the loan category are stated as a percentage of total loans.

	December 31, 2006				
	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Allocated allowance as a percentage of total loans (2)	Loan category as a percentage of total loans (1)	Loan category as a percentage of total loans (2)
	(R$ in millions, except percentages)				
Type of loans:					
Commercial					
Industrial and others	2,569	2.7%	2.6%	34.8%	34.5%
Import financing	2	-	-	1.6%	1.5%
Export financing	101	0.1%	0.1%	13.8%	13.2%
Construction	56	0.1%	0.1%	0.6%	0.5%
Leasing	105	0.1%	0.1%	4.1%	4.0%
Individuals:					
Overdraft	182	0.2%	0.2%	1.4%	2.0%
Real estate	132	0.1%	0.1%	1.4%	1.4%
Financing(3)	2,941	3.2%	3.0%	29.9%	30.7%
Credit card	265	0.3%	0.3%	2.8%	2.8%
Rural credit	196	0.2%	0.2%	7.9%	7.8%
Foreign currency loans	3	-	-	1.7%	1.6%
Total	**6,552**	**7.0%**	**6.7%**	**100.0%**	**100.0%**

(1) Excludes non-performing loans.
(2) Includes non-performing loans.
(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

	December 31, 2007				
	Allocated allowance	Allocated allowance as a percentage of total loans(1)	Allocated allowance as a percentage of total loans(2)	Loan category as a percentage of total loans(1)	Loan category as a percentage of total loans(2)
	(R$ in millions, except percentages)				
Type of loans:					
Commercial					
Industrial and others	2,759	2.2%	2.1%	34.7%	34.3%

Import financing	10	-	-	1.7%	1.7%
Export financing	79	0.1%	0.1%	12.0%	11.5%
Construction	56	0.1%	0.1%	1.3%	1.3%
Leasing	171	0.1%	0.1%	6.3%	6.2%
Individuals:					
Overdraft	232	0.2%	0.2%	1.5%	1.6%
Real Estate	129	0.1%	0.1%	1.3%	1.2%
Financing(3)	3,424	2.7%	2.6%	30.3%	31.0%
Credit card	686	0.5%	0.5%	1.8%	2.4%
Rural credit	216	0.2%	0.2%	7.1%	6.9%
Foreign currency loans	7	-	-	2.0%	1.9%
Total	**7,769**	**6.2%**	**6.0%**	**100.0%**	**100.0%**

(1) Excludes non-performing loans.
(2) Includes non-performing loans.
(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

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	December 31, 2008				
	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Allocated allowance as a percentage of total loans (2)	Loan category as a percentage of total loans (1)	Loan category as a percentage of total loans (2)
	(*R$ in millions, except percentages*)				
Type of loans:					
Commercial					
Industrial and others	3,294	2.0%	1.9%	38.0%	37.4%
Import financing	15	-	-	1.2%	1.1%
Export financing	446	0.3%	0.2%	14.4%	13.9%
Construction	40	0.1%	0.1%	1.9%	1.8%
Leasing	641	0.4%	0.4%	12.0%	11.7%
Individuals:					
Overdraft	302	0.2%	0.2%	1.4%	1.6%
Real estate	252	0.1%	0.1%	1.3%	1.3%
Financing (3)	4,088	2.4%	2.3%	20.4%	21.4%
Credit card	964	0.6%	0.6%	1.5%	2.1%
Rural credit	271	0.1%	0.1%	6.2%	6.1%
Foreign currency loans	5	-	-	1.7%	1.6%
Total	**10,318**	**6.2%**	**5.9%**	**100.0%**	**100.0%**

(1) Excludes non-performing loans.
(2) Includes non-performing loans.
(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

	December 31, 2009				
	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Allocated allowance as a percentage of total loans (2)	Loan category as a percentage of total loans (1)	Loan category as a percentage of total loans (2)
	(*R$ in millions, except percentages*)				
Type of loans:					
Commercial					
Industrial and others	5,802	3.4%	3.2%	37.3%	36.6%
Import financing	55	-	-	2.3%	2.1%
Export financing	374	0.2%	0.2%	10.7%	10.3%
Construction	47	0.1%	0.1%	2.5%	2.4%
Leasing	1,889	1.0%	1.0%	11.7%	11.9%

Individuals:					
Overdraft	379	0.2%	0.2%	1.5%	1.7%
Real estate	251	0.2%	0.2%	1.6%	1.5%
Financing (3)	3,897	2.3%	2.2%	21.7%	22.3%
Credit card	1,291	0.8%	0.7%	2.0%	2.8%
Rural credit	586	0.4%	0.3%	6.9%	6.7%
Foreign currency loans	1	-	-	1.8%	1.7%
Total	**14,572**	**8.6%**	**8.1%**	**100.0%**	**100.0%**

(1) Excludes non-performing loans.
(2) Includes non-performing loans.
(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

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	December 31, 2010				
	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Allocated allowance as a percentage of total loans (2)	Loan category as a percentage of total loans (1)	Loan category as a percentage of total loans (2)
	(R$ in millions, except percentages)				
Type of loans:					
Commercial					
Industrial and others	6,540	3.1%	3.0%	37.7%	37.3%
Import financing	24	-	-	2.0%	1.9%
Export financing	310	0.2%	0.1%	10.3%	9.9%
Construction	237	0.1%	0.1%	2.0%	1.9%
Leasing	1,719	0.8%	0.8%	7.3%	7.5%
Individuals:					
Overdraft	204	0.1%	0.1%	1.6%	1.7%
Real estate	149	0.1%	0.1%	2.8%	2.7%
Financing (3)	3,894	1.9%	1.8%	25.0%	25.3%
Credit card	1,526	0.7%	0.7%	2.4%	3.2%
Rural credit	520	0.2%	0.2%	6.5%	6.3%
Foreign currency loans	-	-	-	2.4%	2.3%
Total	**15,123**	**7.2%**	**6.9%**	**100.0%**	**100.0%**

(1) Excludes non-performing loans.
(2) Includes non-performing loans.
(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

Average deposit balances and interest rate

The following table shows the average balances of deposits as well as the average interest rate paid on deposits for the periods indicated:

	Year ended December 31,					
	2008		2009		2010	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate
	(R$ in millions, except percentages)					
Domestic deposits:						
Non–interest–bearing deposits						
Demand deposits	25,991	-	27,724	-	33,587	-
Interest–bearing deposits						
Deposits from financial institutions	404	19.8%	551	11.3%	517	9.3%
Savings deposits	34,538	7.1%	39,349	6.2%	47,793	6.2%
Time deposits	58,843	11.8%	93,137	9.5%	89,441	9.2%
Total interest–bearing deposits	**93,785**	**10.1%**	**133,037**	**8.5%**	**137,751**	**8.2%**

Total domestic deposits	**119,776**	**7.9%**	**160,761**	**7.1%**	**171,338**	**6.6%**
International deposits [(1)]:						
Non–interest–bearing deposits						
Demand deposits	314	-	447	-	336	-
Interest–bearing deposits						
Deposits from financial institutions	-	-	43	11.6%	-	-
Time deposits	3,390	4.6%	5,982	1.3%	**6,377**	0.6%
Total interest-bearing deposits	**3,390**	**4.6%**	**6,025**	**1.4%**	6,377	0.6%
Total international deposits	**3,704**	**4.2%**	**6,472**	**1.3%**	6,713	**0.6%**
Total deposits	**123,480**	**7.8%**	**167,233**	**6.8%**	**178,051**	**6.4%**

(1) Denominated in currencies other than *reais*, primarily U.S. dollars.

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Maturity of deposits

The following table shows the distribution of our deposits by maturity at the date indicated:

	December 31, 2010				
	Due in 3 months or less	Due after 3 months to 6 months	Due after 6 months to 1 year	Due after 1 year	Total
			(*R$ in millions*)		
Domestic deposits:					
Non–interest–bearing deposits					
Demand deposits [1]	36,932	-	-	-	36,932
Interest–bearing deposits					
Deposits from financial institutions	197	9	50	19	275
Savings deposits [1]	53,436	-	-	-	53,436
Time deposits	4,343	2,876	20,652	66,852	94,723
Total interest–bearing deposits	**57,976**	**2,885**	**20,702**	**66,871**	**148,434**
Total domestic deposits	**94,908**	**2,885**	**20,702**	**66,871**	**185,366**
International deposits [2]:					
Non–interest–bearing deposits					
Demand deposits	402	-	-	-	402
Interest–bearing deposits					
Time deposits	6,332	252	117	734	7,435
Total interest–bearing deposits	**6,332**	**252**	**117**	**734**	**7,435**
Total international deposits	**6,734**	**252**	**117**	**734**	**7,837**
Total deposits	**101,642**	**3,137**	**20,819**	**67,605**	**193,203**

(1) Demand deposits and savings deposits are classified as due in up to three months, without taking into account the average turnaround history.

(2) Denominated in currencies other than *reais*, primarily U.S. dollars.

The following table shows maturity of outstanding time deposits with balances of over US$100,000 (or its equivalent), by maturity, as of the date indicated:

	December 31, 2010	
	Domestic Currency	International Currency
	(*R$ in millions*)	
Maturity within 3 months	3,104	6,263
Maturity after 3 months but within 6 months	1,662	323
Maturity after 6 months but within 12 months	17,764	116
Maturity after 12 months	45,372	734
Total deposits in excess of US$100,000	**67,902**	**7,436**

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Minimum capital requirements

The following table presents, for the periods indicated, the regulatory capital for purposes of calculating capital for risk-weighted assets according to the Central Bank rules.

	Overall consolidation		
	2008	2009	2010
	(R$ in millions, except percentages)		
Regulatory capital	47,263	55,928	56,146
Minimum Regulatory Capital required	32,318	34,509	41,893
Capital index for risk-weighted assets	16.1%	17.8%	14.7%
Excess of regulatory capital over the minimum regulatory capital required	14,945	21,419	14,253

Federal funds purchased and securities sold under agreements to repurchase and short-term borrowings

Federal funds purchased and securities sold under agreements to repurchase and short-term borrowings totaled R$88,579 million as of December 31, 2008, R$116,333 million as of December 31, 2009 and R$168,436 million as of December 31, 2010. The principal categories of short-term borrowings are import and export financing and commercial paper.

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The following table summarizes the federal funds purchased and securities sold under agreements to repurchase and short-term borrowings for the periods indicated:

	Year ended December 31,		
	2008	2009	2010
	(R$ in millions, except percentages)		
Federal funds purchased and securities sold under agreements to repurchase			
Amount outstanding	74,730	108,357	160,701
Maximum amount outstanding during the period	92,818	113,173	160,701
Weighted average interest rate at period end	13.6%	9.0%	9.8%
Average amount outstanding during period (2)	74,139	92,759	126,970
Weighted average interest rate	12.4%	9.4%	8.6%
Import and export financing			
Amount outstanding	10,958	4,761	3,673
Maximum amount outstanding during the period	13,455	13,151	5,225
Weighted average interest rate at period end	3.0%	1.9%	1.3%
Average amount outstanding during period (2)	7,866	8,101	4,649
Weighted average interest rate (1)	54.9%	(28.8)%	1.8%
Commercial paper			
Amount outstanding	2,890	3,214	4,062
Maximum amount outstanding during the period	3,037	3,214	4,513
Weighted average interest rate at period end	3.2%	1.5%	2.1%
Average amount outstanding during period (2)	2,380	2,688	3,876
Weighted average interest rate	24.5%	5.0%	2.7%
Other	1	1	-
Total	**88,579**	**116,333**	168,436

(1) In 2009 we have recognized negative weighted average interest rate for import and export financing, due to the impact of the appreciation of the *real* against the U.S. dollar.

(2) We calculated the average balances using the month-end book balances, which include the related allocated interest.

4.C. Organizational Structure

We are a publicly-held company controlled by Cidade de Deus Participações, a holding company owned by the Aguiar Family, *Fundação Bradesco* and another holding company, Nova Cidade de Deus Participações S.A., which we call "Nova Cidade de Deus." Nova Cidade de Deus is owned by *Fundação Bradesco* and by BBD Participações. See "Item 7.A. Major Shareholders." Our list of significant subsidiaries as of December 31, 2010 can be found in Exhibit 8.1 to this document.

4.D. Property, Plants and Equipment

As of December 31, 2010, we owned 812 properties and leased 2,914 properties throughout Brazil and eight properties abroad, all of which we used for the operation of our network of branches and our business. We own the building where our headquarters are located in Cidade de Deus, Osasco, São Paulo, State of São Paulo. Nearly all lease agreements have automatic renewal provisions and an average duration of 16 years.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

5.A. Operating Results

This discussion should be read in conjunction with our audited consolidated financial statements, the notes thereto and other financial information included elsewhere in this annual report.

Overview

Our results of operations are affected by, among others, the following factors:

Brazilian Economic Conditions

Our results of operations are directly affected by economic conditions in Brazil. Economic conditions directly impact our customers' ability to pay their financial obligations on time, which affects our provisioning for loan losses and our balance of outstanding loans. In addition, the impact of economic conditions on exchange rates affects our net interest income, since part of our financial assets and liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars.

In 2008, GDP grew by 5.1% compared with the same period in 2007. However, GDP declined 3.7% in the fourth quarter of 2008 compared to the third quarter of 2008 mainly as a result of the international financial crisis. The *real* depreciated to R$2.337 per U.S. dollar as of December 31, 2008 compared to R$1.7713 as of December 31, 2007. For the year ended December 31, 2008, the COPOM increased the base interest rate from 11.25% as of December 31, 2007 to 13.75% as of December 31, 2008. Inflation, as measured by IGP-DI, was 9.11% for the year ended December 31, 2008.

In 2009, the *real* appreciated to R$1.7412 per U.S. dollar as of December 31, 2009 compared to R$2.337 as of December 31, 2008. For the year ended December 31, 2009, the base interest rate decreased from 13.75% as of December 31, 2008 to 8.75% as of December 31, 2009. Inflation, as measured by IGP-DI, was -1.44% for the year ended December 31, 2009.

In 2010, GDP increased by 7.5% compared with the same period in 2009. The *real* appreciated to R$1.6662 per U.S. dollar as of December 31, 2010 compared to R$1.7412 as of December 31, 2009. For the year ended December 31, 2010, the base interest rate increased from 8.75% as of December, 31, 2009 to 10.75% as of December 31, 2010. Inflation, as measured by IGP-DI, was 11.31% for the year ended December 31, 2010. As of April 29, 2011, the *real*/U.S. dollar exchange rate was R$1.5733 per U.S. dollar.

The following table shows Brazilian inflation measured by IGP-DI, the appreciation of the *real* against the U.S. dollar, the exchange rate at the end of each year and the average exchange rate for the periods indicated:

	December 31,		
	2008	**2009**	**2010**
	(R$ in millions, except percentages)		
Inflation (IGP-DI)	9.1%	(1.4)%	11.3%
(Appreciation)/depreciation of the *real* against the U.S. dollar	31.9%	(25.5)%	(4.3)%
Period-end exchange rate-US$1.00	2.3370	1.7412	1.6662
Average exchange rate-US$1.00[1]	1.8334	1.9904	1.7589

(1) The average exchange rate is the sum of the closing exchange rates at the end of each month in the period divided by the number of months in the period.

Sources: FGV and the Central Bank.

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The following table shows GDP variation in real terms and average interbank interest rates for the periods indicated:

	December 31,		
	2008	2009	2010
Change in real GDP(1)	5.1%	(0.2)%	7.5%
Average base interest rates(2)	12.5%	9.9%	9.8%
Average interbank interest rates(3)	12.3%	9.9%	9.8%

(1) Calculated by dividing the change in real GDP during a year by the real GDP of the previous year.
(2) Calculated in accordance with Central Bank methodology (based on nominal rates).
(3) Calculated in accordance with Clearing and Custody Chamber ("CETIP") methodology (based on nominal rates).

Sources: The Central Bank, the Brazilian Geography and Statistics Institute and CETIP.

We believe the long-term outlook for the Brazilian economy remains favorable. Although undeniably suited to being a major exporting country, Brazil's main engine of economic growth has been –and will continue to be – domestic demand. Investment has recovered on a sustainable basis, driven by rebounding business confidence and opportunities related to sporting events in 2014 and 2016, as well as pre-salt layer oil finds. Household consumption continues to grow at a robust pace, supported by a heated labor market, sustainable growth of lending and continuing high levels of social mobility.

Effects of the global financial crisis on our financial condition and results of operation

The global financial crisis has significantly affected the world economy since the second half of 2008. The crisis led to recession and unemployment in the largest world economies, causing a global reduction in investments and a reduction in the prices of commodities, as well as a strong decline in credit availability and in liquidity, reducing the levels of transactions seen in capital markets around the world.

Many large financial institutions, including some of the largest commercial banks, investment banks, real estate financing companies, mortgage backers and insurance companies are reportedly still undergoing significant difficulties. Many financial institutions have recorded significant losses, and several of them have sought additional capital. Central banks around the world have coordinated efforts to boost liquidity in the financial markets, increasing the amounts loaned directly to financial institutions, lowering interest rates and significantly extending temporary reciprocal currency arrangements. Governments around the world intervened in attempts to prevent the financial crisis from deepening, more significantly, including purchasing shares in various financial institutions, announcing programs for guaranteeing debts of financial institutions, raising guarantees for deposits from clients and intermediating acquisitions of financial institutions in difficulty, among other measures.

The global financial crisis greatly affected Brazil in the last quarter of 2008, but since then the effects have moderated, with signs of recovery in the second half of 2009, in particular. Various small- and medium-sized Brazilian banks in particular suffered from the lack of credit availability, but the Brazilian Financial System as a whole has not felt the same impact as financial markets in the United States and Europe. Relatively buoyant domestic demand for goods and services produced by companies and banks has helped soften the impact of the international crisis on Brazilian markets. However, certain companies exporting commodities and manufactured goods saw revenues decline due to the reduced weak demand on international markets. Our results of operations have been adversely affected by the global financial crisis and by the consequent effect on Brazil's economic situation.

Effects of interest rates and devaluation, appreciation on net interest income

During periods of high interest rates, our interest income increases due to increasing interest rates on our interest-earning assets. At the same time, our interest expense increases as interest rates on our interest-bearing liabilities also increase. Changes in the volumes of our interest-earning assets and interest-bearing

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liabilities also affect our interest income and interest expense. For example, an increase in our interest income attributable to an increase in interest rates may be offset by a decrease in the volume of our outstanding loans.

In addition, when the *real* depreciates, we incur (i) losses on our liabilities denominated in, or indexed to, foreign currencies, such as our U.S. dollar-denominated long-term debt and foreign currency loans, as the cost in *reais* of the related interest expense increases and (ii) gains in our assets denominated in, or indexed to, foreign currencies, such as our dollar-indexed securities and loans, as the income from such assets as measured in *reais* increases. Conversely, when the *real* appreciates, as was the case from 2003 to 2007 and 2009 to 2010, we incur (i) losses on our assets denominated in, or indexed to, foreign currencies and (ii) gains in our liabilities denominated in, or indexed to, foreign currencies.

In 2009, our interest income increased by 0.6% as compared to 2008, from R$53,803 million in 2008 to R$54,151 million in 2009, and our interest expense decreased by 26.1%, from R$28,432 million in 2008 to R$21,018 million in 2009. The increase in our interest income was mainly a result of an increase in the average balance of our interest-earning assets, which was partially offset by a decrease in the average interest rates, mainly CDI, which decreased from 12.3% in 2008 to 9.9% in 2009. The decrease in our interest expense was mainly a result of a decrease in the average rate of our interest-bearing liabilities, and was also impacted by a lower CDI rate and a 25.5% appreciation of the *real* against the U.S. dollar.

In 2010, our interest income rose 16.6% as compared to 2009, from R$54,151 million to R$63,137 million in 2010 and our interest expense increased by 22.0% from R$21,018 million in 2009 to R$ 25,645 million in 2010. Our higher interest income was primarily due to an increase in the average balance of our interest bearing assets, which was partially offset by lower average interest rates, mainly due to the interbank rate (CDI), which fell from 9.9% in 2009 to 9.8% in 2010. Our increased interest expense was primarily due to an increase in the average funding volume.

The following table shows our foreign-currency-denominated and -indexed assets and liabilities as of the dates indicated:

	December 31,		
	2008	**2009**	**2010**
		(R$ in millions)	
Assets			
Cash and due from banks	3,473	1,438	1,867
Interest earning deposits in other banks	5,832	3,626	1,191
Federal funds sold and securities purchased under agreements to resell	711	2,415	4,205
Brazilian Central Bank compulsory deposits	45	373	-
Securities received in resale agreements	-	4	156
Trading assets, at fair value	2,115	228	553
Available-for-sale securities, at fair value	3,869	4,536	238
Held to maturity securities, at amortized cost	1,136	932	111
Net loans	25,858	20,090	23,776
Other assets	6,095	1,159	2,595
Total assets	**49,134**	**34,801**	**34,692**
Off-balance sheet accounts – notional value:			
Derivatives:			
Futures	5,994	102	5,648
Forwards	4,287	7,036	7,584
Options	1,960	138	22

Swaps	5,312	2,114	9,302
Total	**66,687**	**44,191**	**57,248**

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	December 31, 2008	2009	2010
		(*R$ in millions*)	
Liabilities:			
Deposits	7,228	5,876	7,837
Federal funds purchased and securities sold under agreements to repurchase	54	435	4,073
Short-term borrowings	13,849	7,976	7,735
Long-term debt	9,207	8,340	11,018
Other liabilities	12,079	4,262	4,878
Total liabilities	**42,417**	**26,889**	**35,541**
Off-balance sheet accounts – notional value:			
Derivatives:			
Futures	22,709	13,462	18,680
Forward	2,848	8,043	5,011
Options	1,222	129	3
Swap	6,587	3,819	12,464
Total	**75,783**	**52,342**	**71,699**
Net exposure	**(9,096)**	**(8,151)**	**(14,451)**

We use swaps, futures contracts and other hedging instruments in order to minimize the potential impact of currency changes on us. For more information on our use of derivatives for hedging purposes, see Notes 2(e), 2(f) and 24(a) to our consolidated financial statements in "Item 18. Financial Statements."

As of December 31, 2008, our net exposure corresponded to 2.1% of our total assets, 1.6% as of December 31, 2009 and 2.3% as of December 31, 2010.

Lending and treasury activities

Our provision for loan losses was R$6,651 million for the year ended December 31, 2008, and increased to R$10,822 million for the year ended December 31, 2009 and decreased to R$5,769 million for the year ended December 31, 2010. The increase in our provision for loan losses in 2009 was mainly due to an increase of our loan portfolio and the effects of the global financial crisis, which raised our delinquency ratios and led to higher provisioning requirements until September 2009. However, beginning in May 2009, the Brazilian economy started to recover more quickly, principally influenced by Brazilian government measures stimulating household consumption and certain economic sectors. The decrease in our provision for loan losses in 2010 was a result of the recovery of the Brazilian economy, positively impacting our results since the last quarter of 2009, when our delinquency ratios improved. The balance of our outstanding loan portfolio increased by 2.9% from R$174,835 million as of December 31, 2008, to R$179,934 million as of December 31, 2009, and by 21.9%, from R$179,934 million as of December 31, 2009 to R$219,283 million as of December 31, 2010. This performance reflects the sustainable growth of the Brazilian economy, which together with our business strategy has facilitated the expansion of our loan operations.

Our trading assets totaled R$72,403 million as of December 31, 2008, increased to R$72,770 million as of December 31, 2009, and to R$96,387 million on December 31, 2010. In 2009, the portfolio remained stable. The increase of R$23,617 million in our trading assets in 2010 was mainly a result of a R$11,816 million increase in our portfolio of corporate debt and equity securities, a R$7,148 million increase in our interests in investment funds and an increase of R$6,492 million in our Brazilian government securities. This performance reflects our treasury strategy of investing in profitable and highly liquid assets.

Taxes

Our income tax expenses comprise two federal taxes: (i) IRPJ, which is assessed at a rate of 15.0% on our adjusted net income, and is increased by an additional income tax at a rate of 10.0% and (ii) the social contribution tax, which is assessed at a rate of 15.0% on our adjusted net income.

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On January 3, 2008, the Brazilian government increased the social contribution tax rate for the financial segment from 9.0% to 15.0%. Financial institutions have been collecting the social contribution tax on adjusted net income at a 15.0% rate since May 1, 2008. The legality of this increase is being challenged in actions brought before Brazil’s Supreme Court. If the Brazilian Supreme Court decides that this increase is not legal, we will be entitled to recover any amount we have collected under the 15.0% tax rate regime in excess of what we would have collected for the social contribution tax under the 9.0% regime.

Brazilian corporations may pay shareholders interest on shareholders' equity as an alternative form of making dividend distributions fully deductible from taxable income. We intend to maximize the amount of dividends we pay in the form of interest on shareholders' equity. For further information on our tax expenses, see "Item 4.B. Business Overview-Regulation and Supervision-Taxation" and "Item 10.B Memorandum and Articles of Incorporation-Organization-Allocation of net income and distribution of dividends" and "Item 10.E. Taxation-Brazilian tax considerations-Distributions of interest on shareholders' equity."

Impact of material acquisitions on our future financial performance

We have made the following significant acquisitions during the past three years:

- in March 2008, we entered into an agreement with the shareholders of Ágora Corretora to acquire 100% of the total capital of Ágora Corretora for R$908 million. In accordance with this agreement, we delivered shares representing 7.8% of the total capital of BBI to Ágora Corretora shareholders and converted Ágora Corretora into BBI's wholly owned subsidiary.
  This transaction was closed in September 2008 after Central Bank approval. In November and December 2008, we repurchased 6.1% of the total capital of BBI from Ágora Corretora's former shareholders;
- in April 2009, Bradesco disclosed that it acquired through its Insurance Group 20% of the voting capital and total Capital Stock of Integritas, a holding company of Grupo Fleury, for R$342 million. Grupo Fleury, which has been doing business for the past 83 years, is one of Brazil's most renowned and respected medical and health organizations. It provides diagnosis, clinical treatment and medical analysis services, and is a benchmark in complex medical tests for nearly 1,500 clinical laboratories and hospitals;
- in June 2009, Bradesco entered into an agreement to acquire Ibi Participações Ltda., Banco Ibi and its subsidiaries for a total of R$1.5 billion, paid to the former controlling shareholders upon delivery of our shares, representing approximately 1.6% of our capital stock. Banco Ibi is among the main credit card issuers in Brazil, both in the private-label segment as well as in branded cards, and its acquisition substantially strengthened our position in both markets. The transaction includes a partnership agreement with C&A Modas Ltda., a leader in the fashion and clothing markets, under which Bradesco started offering its products and financial services at C&A stores, for 20 years;
- in October 2009 we announced that the Board of Directors of both Odontoprev and of Bradesco (as an indirect controlling company of Bradesco Dental) approved the execution of an agreement establishing the terms of the merger between Bradesco Dental and Odontoprev in the segment of dental care plans. Under the plan of merger, Bradesco Dental became a wholly owned subsidiary of Odontoprev and Bradesco Saúde, the direct controlling company of Bradesco Dental, received shares representing 43.50% of Odontoprev's total capital. Bradesco Saúde (43.50%) and Odontoprev's main shareholder, Mr. Randal Luiz Zanetti (7.56%) entered into a shareholders´ agreement to jointly hold 51.06% of the combined company's capital;

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- In June 2010, Bradesco concluded the acquisition of the entire Capital Stock of the controlling group of Ibi Services S. de R.L. México ("Ibi México") and of RFS Human Management S. de R.L., a subsidiary of Ibi México. This transaction includes a partnership contract with C&A México S. de R.L. (C&A México) for a period of 20 years for the exclusive joint sale of financial products and services through the C&A México chain of stores;
- In July 2010, Bradesco concluded the acquisition of 2.09% of the Capital Stock of Cielo S. A., for a total consideration of R$431.7 million, increasing its ownership interest in Cielo to 28.65%; and
- In July 2010, Bradesco announced the acquisition of 10.67% of the Capital Stock of Companhia Brasileira de Soluções e Serviços (CBSS) for R$141.4. In January 2011, Bradesco acquired an additional 5.01% stake in CBSS for R$85.8 million. As a result of these acquisitions, Bradesco increased its ownership interest in CBSS to 50.01%.

We believe that these acquisitions and related transfers of assets and liabilities contributed to increase our revenues and expenses, and that each acquisition and the related transfers of assets and liabilities will increase our future revenues, expenses and income. The amount of these increases is uncertain, and we therefore cannot estimate their impact on our future financial performance. For more information, see "Item 4.A. History, Development of the Company and Business Strategy-Recent acquisitions."

None of our acquisitions made since January 2007 have been significant if measured in accordance with U.S. GAAP.

Critical accounting policies

Our significant accounting policies are described in Note 2 to our audited consolidated financial statements in "Item 18. Financial Statements" The following discussion describes the areas that require the most judgment or involve a higher degree of complexity in the application of the accounting policies that currently affect our financial condition and results of operations. The accounting estimates we make in these contexts involve making assumptions about highly uncertain matters. In each case, other estimates or changes in the estimates between periods could have had a material impact on our financial condition and results of operations, as shown in our financial statements.

Allowance for loan losses

We periodically adjust our allowance for loan losses based on an analysis of our loan portfolio, including our estimate of the probable losses inherent in our loan and leasing portfolio at the end of each period.

The determination of the amount of the allowance for loan and leasing losses by its nature requires us to make judgments and assumptions regarding our loan portfolio, both on a portfolio basis and on an individual basis. When we review our portfolio as a whole, several factors can affect our estimate of the likely range of losses, including which methodology we use for measuring historical delinquency rates and what historical period we consider in making those measurements. Additional factors that can affect our determination of the allowance for loan losses include:

- general Brazilian economic conditions and conditions in the relevant industry;
- past experience with the relevant debtor or industry, including recent loss experience;

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- credit quality trends;
- amounts of loan collateral;
- the volume, composition and growth of our loan portfolio;
- the Brazilian government's monetary policy; and
- any delays in the receipt of information needed to evaluate loans or to confirm existing credit deterioration.

We use models to assist us in analyzing our loan portfolio and in determining what allowance for loan losses to make. We apply statistical loss factors and other risk indicators to loan pools with similar risk characteristics in arriving at an estimate of incurred losses in the portfolio to calculate the models. Although we frequently revise and improve our models, they are by their nature dependent on our judgment and on the information and estimates that we receive. In addition, the volatility of the Brazilian economy may lead to greater uncertainty in our models than would be expected in more stable macroeconomic environments. Accordingly, our allowance for loan losses may not be indicative of future charge-offs. For a sensitity analysis, we assess the impact of an increase in the probability of default (PD) over the allowance. In this assessement an increase in 10% of the PD in December 31, 2010 would have increased the allowance for impairment in R$ 311 million. This sensitivity analysis is hypothetical, and is only meant to illustrate the impact that the defaults have on determining allowance for loan losses.

The process of determining the level of allowances for credit losses requires a high degree of judgment. It is possible that others, given the same information, may at any point in time reach different reasonable conclusions.

For additional information regarding our practices related to the allowance for loan losses, see "Item 4.B. Business Overview-Selected Statistical Information-Loans" and "Item 4.B. Business Overview-Selected Statistical Information-Non-performing loans and allowance for loan losses."

Fair value of financial instruments

Financial instruments reported at fair value in our financial statements consist primarily of securities classified as trading and available-for-sale and other trading assets, including derivatives. Fair value is defined as the value at which a position could be closed out or sold in a transaction with a willing and knowledgeable party.

On January 1, 2008, the Company adopted ASC 820, which established a three-level valuation hierarchy for disclosure of fair value measurements. Under ASC 820, instruments are categorized within a hierarchy based on the lowest level of input that is significant for measuring fair value. We input less of our own judgment in arriving at fair market value measurements for instruments classified as levels 1 and 2, where inputs are principally based on observable market data. By contrast, for instruments classified as level 3, we have to input a significant amount of our own judgment to obtain at fair market value measurements. We base our judgment decisions on our knowledge and observations of the markets relevant to the individual assets and liabilities, and those judgments may vary based on market conditions. In applying our judgment, we look at a range of third-party prices and transaction volumes to understand and assess the extent of market benchmarks available and the judgments or modeling required in third-party processes. Based on these factors, we determine whether the fair values are observable in active markets or whether the markets are inactive.

The fair values of trading assets, liabilities and available-for-sale securities are primarily based on actively traded markets where prices are based on either direct market quotes, observed transactions or market prices for similar assets. Liquidity is a significant factor in the determination of the fair values of trading assets or liabilities and available-for-sale securities. Situations of illiquidity generally are triggered by the market's perception of credit uncertainty regarding a single company or a specific market sector. In these instances, the securities are classified within level 3 of the valuation hierarchy once the fair value is determined, based on unobservable inputs that are supported by limited available market information and that are significant to the fair value of the assets, as well as other factors which require management to exercise significant judgment or estimation. As of December 31, 2010, R$20.7 billion, or 15.3%, of trading assets and available-for-sale securities were classified as level 3 fair-value assets.

Exchange-traded derivatives valued using quoted prices are classified within level 1 of the valuation hierarchy. However, few classes of derivatives contracts are listed on exchange, therefore, the majority of our derivative positions are determined by using quantitative models that require the use of multiple inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, including the period to maturity. These inputs are used to value the position. Most market inputs are observable and can be obtained mainly from BM&FBovespa and the secondary market. As of December 31, 2009 and 2010, the net fair values of derivatives assets and liabilities classified as level 3 was R$16 million and R$(2) million.

Imprecision in estimating unobservable market inputs can impact the amount of revenue or loss recorded for a particular position. Furthermore, while we believe our valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. For a detailed discussion of the determination of fair value of financial instruments, see Note 21 of the Financial Statements.

Net trading gains/(losses), which represent the net amount earned from our trading positions, can be volatile and are largely driven by general market conditions and customer demand. Net trading gains/(losses) are dependent on the volume and type of transactions, the level of risk assumed, and the volatility of price and rate movements at any given time within the ever-changing market environment. To evaluate risk in our trading activities, we focus on the actual and potential volatility of individual positions as well as portfolios. At a portfolio and corporate level, we use trading limits, stress testing and tools such as "VaR" modeling to estimate a potential daily loss not to be exceeded with a specified confidence level to measure and manage market risk. As of December 31, 2010, the amount of our "VaR" was R$23 million based on a 99% confidence level. For more information on "VaR", see "Item 11. Quantitative and Qualitative Disclosure about Market Risk - Value at Risk ("VaR")."

Other-Than-Temporary Impairment

In determining whether or not impairment of a security is other-than-temporary, we have applied the three step model described in ASC 320, "Investments - Debt and Equity Securities." We use a combination of factors aimed at determining whether recovery of the value of a security is likely. These factors include: the length of time and the extent to which fair value has been less than cost to assist in determining the extent of the analysis to be made of securities; financial condition and near-term prospects of the security's issuer, including any specific events which may influence the issuer's operations; any failure of the security's issuer to make scheduled interest payments; changes in the rating of the security by a rating agency; the historic and implied volatility of the security; and the intent and ability of the Bank to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value. In addition, for marketable equity securities our assessment includes forecasting analyses of the period (date) when the security will recover its cost basis and whether the bank will hold the security in that period (on that date). These analyses are based on an assessment of individual terms and attributes of each security. For more information on other-than-temporary impairment, see "Item 18. Financial Statements."

Beginning in 2009, under new accounting guidance for impairments of debt securities that are deemed to be other-than-temporary, the credit component of an other-than-temporary impairment loss is recognized in earnings and the non-credit component is recognized in accumulated other comprehensive income, in situations where we have no intention of selling the security and when it is more likely than not that we will not be required to sell the security prior to the fair value recovery. Prior to January 1, 2009, unrealized losses (both the credit and non-credit components) on available-for-sale securities that we deemed to be other-than-temporary were included in current period earnings.

Classification of securities

The classification of securities in trading, available-for-sale or held to maturity categories is based on management's intention to hold or trade such securities at the time of acquisition. The accounting treatment of the securities we hold thus depends on whether we classify them at acquisition as trading, available-for-sale or held to maturity. Changes in circumstances may modify our strategy with respect to a specific security, requiring transfers among the three categories indicated above.

Income tax

The determination of the amount of our income tax liability is complex, and our assessment is related to our analysis of our deferred tax assets and liabilities and income tax payable. In general, our evaluation requires that we estimate future amounts of deferred tax benefits and income tax payable. Our assessment of the possibility that a deferred tax benefit could be realized is subjective and involves assessments and assumptions that are inherently uncertain in nature. The realization of deferred tax benefits is subject to changes in future tax rates and developments in our tax planning strategies. The underlying support for our assessments and assumptions could change over time as a result of unforeseen events or circumstances, affecting our determination of the amount of our tax liability.

We constantly monitor and evaluate the impact of new tax laws on our liabilities, as well as new developments that could affect the assessments and assumptions underlying our analysis of the possibility of realizing deferred tax benefits.

We have applied the ASC 740, “Income Taxes”, which consists of a framework to determine the appropriate level of tax reserves for these uncertain tax positions. See Note 16 to our consolidated financial statements.

Significant judgment is required in determining whether it is more likely than not that an income tax position will be sustained upon examination, even after the outcome of any related administrative or judicial proceedings based on technical merits. Further judgment is then required to determine the amount of benefit eligible for recognition in our consolidated financial statements.

In addition, we have also applied ASC 740 to monitor the interpretation of tax laws by, decisions of, tax authorities and Courts so that we can adjust any prior judgment of accrued income taxes. This monitoring may also result from our own tax planning or income tax controversies being settled, and may be material to our operating results for any given period. For additional information about ASC 740, see Note 2(q) and Note 16 to our consolidated financial statements.

For additional information regarding our income tax, see "Item 4.B. Business Overview-Regulation and Supervision-Taxation-Income tax and social contribution on profits."

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Pension plan reserves

Certain products we offer, such as pension investment contracts and funds where the policyholders bear the investment risk, are considered investment contracts in accordance with the requirements of ASC 944 "Financial Services - Insurance." During the accumulation phase of the pension investment contracts, when the policyholders bear the investment risk, the contracts are treated as investment contracts. During the annuity phase, the contract is treated as an insurance contract with mortality risk. Funds related to pension investment contracts where the policyholders bear the investment risk are equal to the account value. Account values are not actuarially determined. Rather, account values increase with deposits and interest credited (based on contractual provisions) and are reduced by redemptions at the policyholder's discretion.

In addition, we determine the need to record an additional liability for the contract feature if the present value of expected annuitization payment at the expected annuitization date exceeds the expected account balance at the annuitization date, in accordance with ASC 944 "Financial Services - Insurance." Such liabilities are established based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards.

Principal assumptions used in the establishment of liabilities for future policy benefits are mortality, morbidity, policy lapse, renewal, retirement, disability incidence, disability termination, inflation, expenses and other contingent events as appropriate to the respective product type. These assumptions are established at the time the policy is issued and are intended to estimate the experience for the period the policy benefits are payable.

For a sensitity analysis, we assess the impact of an increase and a decrease in the interest rate and the longevity of beneficiaries on net income and shareholders´ equity, after taxes and contributions. In this assessement, an increase (0.1%) or a decrease (0.1%) in the interest rate would result in an increase of R$ 185.9 million and a decrease of R$ 191.4 million, respectively on net income and shareholders´ equity, after taxes and contributions. Also an increase (1%) or a decrease (1%) in the longevity of beneficiaries would result in a decrease of R$ 131.6 million and an increase of R$ 129.7 million, respectively.

Insurance technical provisions

Insurance technical provisions (reserves) are liabilities representing estimates of the amounts that will come due at some point in the future, to or on behalf of our policyholders. U.S. GAAP allows for some degree of managerial judgment and prescribes the method for establishing reserves. Future policy benefits and claims include reserves for traditional individual and group life insurance, health insurance and accident insurance, among others. These benefits are computed using assumptions of mortality, morbidity, lapse, investment performance, inflation and expense. These assumptions are based on our experience and are periodically reviewed against industry standards to ensure actuarial credibility. For long duration insurance contracts, once the assumptions are made for a given policy or group of policies, they will not be changed over the life of the policy. However, significant changes in experience or assumptions may require us to provide for expected future losses on a product by establishing premium insufficiency provisions. Premium insufficiency provisions may also be established for short duration contracts to provide for expected future losses. Future policy benefits and claims also include reserves for incurred but unreported health, disability and life insurance claims. We recognize claims costs in the period the service was provided to our policyholders. However, claim costs incurred in a particular period are not known with certainty until after we receive, process and pay the claims. We determine the amount of liability using actuarial methods based on historical claim payments to determine our estimate of claim liabilities. Methods for determining these estimates and establishing reserves are reviewed and updated regularly. Adjustments resulting thereof are recognized in earnings for the respective period. For additional information, see Note 2 of our consolidated financial statements.

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For a sensitity analysis, we assess the impact of an increase and a decrease in the claim ratio. In this assessement, an increase (0,1%) or a decrease (0.1%) in the claim ratio in the last 12 months of the base date, would result in an impact in R$ 71.0 million in the net income and shareholders´ equity, after taxes and contributions.

Use of estimates

In presenting the financial statements, our management also makes estimates and assumptions relating to the calculation of insurance technical reserves, the selection of useful lives for certain assets and the determination of whether a specific asset or group of assets would be impaired. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could be different from those estimates.

Commitments and contingencies

We have contractual obligations to make certain payments to third parties, in accordance with the amounts presented in the following table:

	Payments due as of December 31, 2010				
	Less than 1 year(1)	1 to 3 years	3 to 5 years	More than 5 years	Total
	(R$ in millions)				
Contractual Obligations					
Time deposits	34,571	60,140	5,877	1,570	102,158
Federal funds purchased and securities sold under agreements to repurchase	126,091	31,708	2,123	779	160,701
Long-term debt	22,054	34,239	10,737	8,207	75,237
Other obligations(2)	98,950	30,218	2,171	565	131,904
Total(3)	**281,666**	**156,305**	**20,908**	**11,121**	**470,000**

(1) Based on our historical experience, we expect that most of our obligations that are contractually due within one year will be rolled over.
(2) Includes reserves for insurance claims, pension plans and pension investment contracts.
(3) Excludes the liability for unrecognized tax benefits, in the amount of R$1,789 million.

Off-balance sheet financial guarantees

In addition to our loans, we have credit-related transactions with our customers for attending to their financing needs. These transactions are not recorded on our balance sheet in accordance with U.S. GAAP. The following table summarizes these off-balance sheet financial arrangements as of December 31, 2010:

	Payments due as of December 31, 2010				
	Less than 1 year	1 to 3 years	3 to 5 years	More than 5 years	Total
	(R$ in millions)				
Contractual Obligations					
Financial guarantees	6,281	5,112	3,792	25,581	40,766
Letters of credit	1,465	-	-	-	1,465
Total	**7,746**	**5,112**	**3,792**	**25,581**	**42,231**

We guarantee our clients' performance in obligations with third parties. We have the right to seek reimbursement from our clients for any amounts paid under these guarantees. Additionally, we may hold cash or other highly liquid collateral to guarantee these obligations. These agreements are subject to the same credit evaluation as other loan originations.

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Letters of credit are conditional commitments issued by us to guarantee the performance of a customer's obligations with third parties. We issue commercial letters of credit to facilitate foreign trade transactions and to support public and private borrowing agreements, including commercial paper, bond financing and similar transactions. These instruments are short-term commitments to pay a third-party beneficiary under certain contractual conditions. Letters of credit are subject to the same credit evaluations as other extensions of credit.

We expect many of these guarantees to expire without the need to advance any cash. Therefore, in the ordinary course of business, we expect that these transactions will have virtually no impact on our liquidity.

Results by segment

We operate and manage our business through two principal operating segments: (i) the banking segment and (ii) the insurance, pension plans and certificated savings plan segment. Our segments are managed based on types of products and services offered and their related client bases. We evaluate the performance of our segments based on net income, net interest income, and non-interest income and expense.

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

For additional segment information, see Note 27 to our consolidated financial statements in "Item 18. Financial Statements."

In our banking segment, we offer a range of banking products and services to our customers, including deposit-taking and loan operations, credit and debit card services and capital markets services, through our broad distribution network. For a description of the banking segment's operations, see "Item 4.B. Business Overview-Banking activity."

In our insurance, pension plan and certificated savings plan segment, we offer a range of products and services to our customers, including health, life, automobile and property/casualty, individual and corporate pension plans, and certificated savings plans, through our broad distribution network. For a description of the operations of the insurance, pension plan and certificated savings plan segment, see "Item 4.B. Business Overview-Insurance, pension plans and certificated savings plans."

Results of operations for the year ended December 31, 2010 compared with the year ended December 31, 2009

The following tables set forth the principal components of our net income for 2010 and 2009, on a consolidated basis and by segment:

	For the year ended December 31, Consolidated		
	2009	**2010**	**% change**
	(R$ in millions, except %)		
Net interest income	33,133	37,492	13.2%
Provision for loan losses	(10,822)	(5,769)	(46.7)%
Non-interest income	31,734	30,170	(4.9)%
Non-interest expense	(40,376)	(46,713)	15.7%
Income before income taxes	**13,669**	**15,180**	**11.1%**
Income tax and social contribution	(4,420)	(5,428)	22.8%
Net income before attribution to noncontrolling interest	**9,249**	**9,752**	**5.4%**
Net income attributed to noncontrolling interest	(33)	(90)	172.7%
Parent company´s net income	**9,216**	**9,662**	**4.8%**

	For the year ended December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2009	**2010**	**% Change**	**2009**	**2010**	**% Change**
	(R$ in millions, except percentages)					
Net interest income	25,551	28,817	12.8%	7,569	8,605	13.7%
Provision for loan losses	(10,822)	(5,769)	(46.7)%	-	-	-
Non-interest income	15,721	13,145	(16.4)%	15,900	16,776	5.5%
Non-interest expense	(21,554)	(26,512)	23.0%	(18,775)	(20,155)	7.4%
Income before income taxes	**8,896**	**9,681**	**8.8%**	**4,694**	**5,226**	**11.3%**
Income tax and social contribution	(2,733)	(3,432)	25.6%	(1,661)	(1,975)	18.9%
Net income before attribution to noncontrolling interest	**6,163**	**6,249**	**1.4%**	**3,033**	**3,251**	**(7.2)%**
Net income attributed to noncontrolling interest	(6)	(16)	166.7%	(26)	(22)	(15.4)%
Parent company´s net income	**6,157**	**6,233**	**1.2%**	**3,007**	**3,229**	**(7.4)%**

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Net interest income

The following table shows the principal components of our net interest income before provision for loan losses for 2010 and 2009, on a consolidated basis and by segment:

	For the year ended December 31,								
	Consolidated			Banking			Insurance, Pension Plans and Certificated savings plans		
	2009	2010	% Change	2009	2010	% Change	2009	2010	% Change
	(*R$ in millions, except percentages*)								
Interest income	54,151	63,137	16.6%	47,044	54,998	16.9%	7,569	8,605	13.7%
Interest expense	(21,018)	(25,645)	22.0%	(21,493)	(26,181)	21.8%	-	-	-
Net interest income	**33,133**	**37,492**	**13.2%**	**25,551**	**28,817**	**12.8%**	**7,569**	**8,605**	**13.7%**

The following table shows, on a consolidated basis and by segment, how much of the increase in our net interest income was attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and how much was attributable to changes in average interest rates (including the effects of the appreciation/depreciation of the *real*) in each case for the year 2010 as compared to the year 2009:

	As of December 31,		
	Consolidated	Banking	Insurance, Pension Plans and Certificated savings plans
	2010/2009 Increase / (decrease)		
	(*R$ in millions*)		
Due to changes in average volume of interest-earning assets and interest-bearing liabilities	3,292	1,715	1,219
Due to changes in average interest rates	1,067	1,551	(183)
Net change	**4,359**	**3,266**	**1,036**

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Banking

Our net interest income increased by 12.8%, from R$25,551 million in 2009 to R$28,817 million in 2010. This increase was mainly due to a 15.1% increase in the average balance of interest-earning assets, particularly a 10.7% increase in the average balance of outstanding loans, a 21.0% increase in the average volume of federal funds sold and securities purchased under agreements to resell and an increase of 12.5% in the average balance of trading assets and securities received in resale agreements. These factors were partially offset by a 17.5% increase in the average balance of interest-bearing liabilities, particularly an increase of 21.5% in the average balance of savings deposits, a 36.9% increase in the average balance of federal funds purchased and securities sold under agreements to repurchase and a 28.5% increase in the average balance of long-term debt.

The average interest rate of net interest income in relation to average interest-earning assets decreased from 7.7% in 2009 to 7.6% in 2010.

Insurance, pension plans and certificated savings plans

Our net interest income increased 13.7%, from R$7,569 million in 2009 to R$8,605 million in 2010. This growth is mainly due to (i) a 30.2% increase in the average balance of trading assets and securities received in resale agreements, which includes a growth of sales of our VGBL and PGBL investment contracts, and (ii) a 14.6% increase in the average balance of available-for-sale securities.

The average interest rate of net interest income for average interest-earning assets decreased from 10.3% in 2009 to 9.8% in 2010.

Interest income

The following tables show, on a consolidated basis and by segment, the average balance of the principal components of our interest-earning assets and the average interest rates earned in 2009 and 2010:

	As of December 31, Consolidated		
	2009	**2010**	**% Change**
	(*R$ in millions, except percentages*)		
Average balance of interest-earning assets:			
Loans	173,048	191,537	10.7%
Federal funds sold and securities purchased under agreements to resell	68,998	80,879	17.2%
Trading assets and securities received in resale agreements	94,940	114,650	20.8%
Available-for-sale securities	28,650	31,361	9.5%
Held to maturity securities	3,927	3,778	(3.8)%
Interest earning deposits in other banks	10,164	9,664	(4.9)%
Brazilian Central Bank compulsory deposits	23,967	37,259	(55.5)%
Other interest-earning assets	601	532	(11.5)%
Total	**404,295**	**469,660**	**16.2%**
Average interest rate earned	**13.4%**	**13.4%**	

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	As of December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2009	2010	% Change	2009	2010	% Change
	(*R$ in millions, except percentages*)					
Average balance of interest-earning assets:						
Loans	173,048	191,537	10.7%	-	-	-
Federal funds sold and securities purchased under agreements to resell	66,838	80,879	21.0%	2,161	-	-
Trading assets and securities received in resale agreements	50,827	57,198	12.5%	43,949	57,227	30.2%
Available-for-sale securities	4,844	4,001	(17.4)%	23,878	27,359	14.6%
Held to maturity securities	969	252	(74.0)%	2,958	3,526	19.2%
Interest earning deposits in other banks	9,970	9,519	(4.5)%	194	144	(25.8)%
Brazilian Central Bank compulsory deposits	23,967	37,259	55.5%	-	-	-
Other interest-earning assets	601	532	(11.5)%	-	-	-
Total	**331,064**	**381,177**	**15.1%**	**73,140**	**88,256**	**20.7%**
Average interest rate earned	**14.2%**	**14.4%**		**10.3%**	**9.8%**	

For further information about average interest rates by type of assets, see "Item 4.B. Business Overview-Selected Statistical Information-Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest income was attributable to changes in the average volume of interest-earning assets, and how much was attributable to changes in average interest rates (including the effects of the floating of the *real*), in each case comparing the year 2010 with the year 2009:

	As of December 31,		
	Consolidated	Banking	Insurance, Pension Plans and Certificated savings plans
	2010/2009 Increase / (decrease)		
	(*R$ in millions*)		
Due to changes in average volume of interest-earning assets	7,740	6,310	1,219
Due to changes in average interest rates	1,246	1,644	(183)
Net change	**8,986**	**7,954**	**1,036**

Banking

Our interest income increased 16.9%, from R$47,044 million in 2009 to R$54,998 million in 2010. This increase was mainly due to growth in interest income from (i) loans; (ii) federal funds sold and securities purchased under agreements to resell; and (iii) compulsory deposits.

Interest income from loans rose by 14.0%, from R$32,708 million in 2009 to R$37,291 million in 2010. This increase relates to a 10.7% growth in the average balance of our loan portfolio from R$173,048 million in 2009 to R$191,537 million in 2010, due in part to the acquisition of Banco Ibi. The sustainable growth of the Brazilian economy, combined with our commercial strategy, has benefitted the expansion of our lending, mainly operations related to payroll deductible loans, real estate financing, BNDES onlending and credit cards.

Income from trading assets and securities received in resale agreements increased 22.1%, from R$3,795 million in 2009 to R$4,632 million in 2010. This increase was mainly due to the average interest rate rising from 7.5% in 2009 to 8.1% in 2010, basically due to an increase in the base interest rate from 8.75% at year-end 2009 to 10.75% at year-end 2010.

Income from available-for-sale securities decreased by 18.4%, from R$770 million in 2009 to R$628 million in 2010. This variation was due to a reduction of 17.4% in the average balance of available-for-sale securities from R$4,844 million in 2009 to R$4,001 million in 2010.

Interest income from Central Bank compulsory deposits increased 100.8%, from R$1,434 million in 2009 to R$2,879 million in 2010. This variation reflects the following Central Bank measures: (i) Circular 3,513/10 introduced a compulsory deposit of 20% on demand and time deposits and (ii) Circular 3,514/10 introduced an additional 12% on time deposits and 10% on savings deposits. The increase in interest income from Central Bank compulsory deposits was also due to the rise in the average rate from 6.0% in 2009 to 7.7% in 2010, mainly influenced by the COPOM's raising the base interest rate, to 10.75% at the end of 2010 from 8.75% at the end of 2009.

Our interest income from federal funds sold and securities purchased under agreements to resell increased by 15.1%, from R$7,701 million in 2009 to R$8,867 million in 2010. This increase was mainly due to an increase in the average balance of these operations, from R$66,838 million in 2009 to R$80,879 million in 2010, due to growth in repurchase agreements.

Insurance, pension plans and certificated savings plans

Our net interest income increased by 13.7%, from R$7,569 million in 2009 to R$8,605 million in 2010. This growth was mainly due to (i) a 30.2% increase in the average balance of trading assets and securities received in resale agreements, reflecting an increase in the sale of "VGBL" and "PGBL" contracts and (ii) a 14.6% increase in the average balance of available-for-sale securities.

The average interest rate of net interest income for average interest-earning assets increased from 10.3% in 2009 to 9.8% in 2010.

Interest expense

The following table shows the principal components of our average interest-bearing liabilities and the average interest rates paid on those liabilities in 2009 and 2010:

	As of December 31, Consolidated		
	2009	**2010**	**% Change**
	(R$ in millions, except percentages)		
Average balance of interest-bearing liabilities:			
Savings deposits	39,349	47,793	21.5%
Time deposits	99,119	95,818	(3.3)%
Federal funds purchased and securities sold under agreements to repurchase	92,759	126,970	36.9%
Short-term borrowings	10,798	8,525	(21.1)%
Long-term debt	48,200	61,961	28.5%
Deposits from financial institutions	594	517	(13.0)%
Total	**290,819**	**341,584**	**17.5%**
Average interest rate paid	**7.2%**	**7.5%**	

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	As of December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2009	2010	% Change	2009	2010	% Change
	(*R$ in millions, except percentages*)					
Average balance of interest-bearing liabilities:						
Savings deposits	39,422	47,793	21.2%	-	-	-
Time deposits	99,140	95,823	(3.3)%	-	-	-
Federal funds purchased and securities sold under agreements to repurchase	92,759	126,970	36.9%	-	-	-
Short-term borrowings	10,798	8,525	(21.1)%	-	-	-
Long-term debt	48,200	61,977	28.6%	-	-	-
Deposits from financial institutions	594	517	(13.0)%	-	-	-
Total	**290,913**	**341,605**	**17.4%**	**-**	**-**	**-**
Average interest rate paid	**7.4%**	**7.7%**		**-**	**-**	**-**

For further information on average interest rates by type of liability, see "Item 4.B. Business Overview-Selected Statistical Information-Average balance sheet and interest rate data."

The following table shows, on a consolidated basis and by segment, how much of the increase in our interest expense was attributable to changes in the average volume of interest-bearing liabilities and how much was attributable to changes in average interest rates (including the effects of the fluctuations in the *real*/U.S. dollar rate), in each case, for 2010 as compared to 2009:

	As of December 31,		
	Consolidated	Banking	Insurance, Pension Plans and Certificated savings plans
	2010/2009 Increase/(decrease) (*R$ in millions*)		
Due to changes in average volume of interest-bearing liabilities	4,448	4,595	-
Due to changes in average interest rates	179	93	-
Net change	**4,627**	**4,688**	-

Banking

Our financial expenses increased by 21.8%, from R$21,493 million in 2009 to R$26,181 million in 2010. This increase relates to a rise in the average interest rate of the average balance of our interest-bearing liabilities, from 7.4% in 2009 to 7.7% in 2010, and an increase of 17.4% in the average volume of our interest-bearing liabilities, which in turn was due mainly to (i) the increase of 28.6% in the average balance of long-term loans from R$48,200 million in 2009 to R$61,977 million in 2010; (ii) the increase of 21.2% in the average balance of savings deposits from R$39,422 million in 2009 to R$47,793 million in 2010; and (iii) the increase of 36.9% in the average balance of federal funds purchased and securities sold under agreements to repurchase, from R$92,759 million in 2009 to R$126,970 million in 2010. The increase in our financial expenses was partially offset by a 21.1% decrease in the average volume of our short-term loans from R$10,798 million in 2009 to R$8,525 million in 2010.

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Provision for loan losses

The following table shows changes in our allowance for loan losses, provision for loan losses, loan charge-offs and loan recoveries for the years ended 2010 and 2009, as well as our provisions-to-loans ratio (provisions as a percentage of the average balance of our loans):

	As of December 31,		
	2009	**2010**	**% Change**
	(*R$ in millions, except percentages*)		
Allowance for loan losses at the beginning of the year	10,318	14,572	41.2%
Provision for loan losses	10,822	5,769	(46.7)%
Loan charge-offs	(8,264)	(7,897)	(4.4)%
Loan recoveries	1,696	2,679	58.0%
Allowance for loan losses at the end of the year	**14,572**	**15,123**	**3.8%**
Ratio of provision for loan losses to average loans outstanding	6.3%	3.0%	

The balance of our allowance for loan losses increased by 3.8%, from R$14,572 million in 2009 to R$15,123 million in 2010. This increase was mainly due to a growth in our allowance for loan losses for the retail segment, which grew 5.9% from R$12,899 million in 2009 to R$13,664 in 2010, as a result of a 21.6% increase in the loan portfolio for this segment. The increase in our allowance for loan losses was partially offset by the decrease in our allowance for loan losses for the corporate segment, from R$1,673 million to R$1,459 million, reflecting the improvement of the loan portfolio quality. Non-performing loans decreased 9.1%, from R$11,092 million in 2009 to R$10,082 million in 2010, providing an improvement of the loan portfolio quality. The ratio of non-performing loans to total loan portfolio decreased from 6.2% in 2009 to 4.6% in 2010.

The calculation of allowance for loan losses comprises an individual analysis of impaired losses and an aggregate loss analysis for groups of homogeneous loans, as follows:

	As of December 31,	
	2009	**2010**
	(*R$ in millions*)	
Impaired loans	552	642
Homogeneous loan losses	14,020	14,481
Total	**14,572**	**15,123**

The ratio of homogeneous allowance for loan losses to total loans (including non-performing loans) fell from 7.8% in 2009 to 6.6% in 2010. This decrease was mainly due to the recovery of the Brazilian economy and the related improvement in the credit quality of our loan portfolio, leading to a decrease in levels of provisions, despite loans increasing 21.9%.

Our level of losses from annual loans, defined as the value of loan charge-offs to average balance of loans, fell from 4.8% in 2009 to 4.1% in 2010. Problem loan recoveries increased by 58.0% and charge-offs decreased by 4.4% compared to 2009. In 2010, provision for loan losses fell 46.7% compared to 2009, mainly due to the recovery of the Brazilian economy, thus resulting in the decrease of our ratio of allowance for loan losses to outstanding loans from 8.1% as of December 31, 2009 to 6.9% in 2010.

We believe that our current allowance for loan losses is sufficient to cover probable losses associated with our portfolio. For more information, see "Item 4.B. Business Overview-Selected Statistical Information-Charge-offs" and "Item 4.B. Business Overview-Selected Statistical Information-Non-performing loans and allowance for loan losses."

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The amount of changes in allowance for loan losses as a percentage of the total portfolio is consistent with our historical experience with delinquency ratios, charge-offs and net losses. The changes in the quality of our loan portfolio were the most significant elements when establishing our allowance for loan losses as compared to any other change or trend in non-performing loans.

Loans granted to individuals presented 46.8% growth compared to 2009, mainly due to the 123.5% increase in mortgages, which rose to 8.9% of loans to individuals in 2010 from 5.8% in 2009, and 42.7% growth in other financings, mainly vehicle and consumer financing.

With respect to credit to corporate customers, credits assigned to export financing rose 18.8% from R$18,137 million in 2009 to R$ 21,543 million in 2010, and industrial and other credits rose 25.5% from R$62,886 million in 2009 to R$78,905 million in 2010. Housing finance portfolios remained stable, import financing increased 8.9% and foreign currency loans increased by 69.7%, compared with 2009.

For a description of the Central Bank's regulation on loan operations, see "Item 4.B. Business Overview-Regulation and Supervision-Bank regulations-Treatment of loans" and Note 2(j) to our consolidated financial statements in "Item 18. Financial Statements."

Non-interest income

The following tables show, on a consolidated basis and by segment, the principal components of our non-interest income for 2009 and 2010.

	For the year ended December 31, Consolidated		
	2009	**2010**	**% Change**
	(*R$ in millions, except percentages*)		
Fee and commission income	9,381	10,942	16.6%
Net gains (losses) on trading assets and securities received in resale agreements	3,075	1,189	(61.3)%
Net realized gains (losses) on available-for-sale securities, net of impairment losses	164	783	377.4%
Equity in the earnings of unconsolidated companies	644	539	(16.3)%
Insurance premiums	12,521	14,068	12.4%
Pension plan income	607	692	14.0%
Other non-interest income	5,342	1,957	(63.4)%
Total	**31,734**	**30,170**	**(4.9)%**

	For the year ended December 31,					
	Banking			**Insurance, Pension Plans and Certificated savings plans**		
	2009	**2010**	**% Change**	**2009**	**2010**	**% Change**
	(*R$ in millions, except percentages*)					
Fee and commission income	8,371	9,759	16.6%	851	972	14.2%
Net gains (losses) on trading assets and securities received in resale agreements	2,807	1,161	(58.6)%	265	28	(89.4)%
	(75)	103	-	238	680	185.7%

Net realized gains (losses) on available-for-sale securities, net of impairment losses						
Equity in earnings of unconsolidated companies	499	327	(34.5)%	146	120	(17.8)%
Insurance premiums	-	-	-	12,521	14,068	12.4%
Pension plan income	-	-	-	607	692	14.0%
Other non-interest income	4,119	1,795	(56.4)%	1,272	216	(83.0)%
Total	**15,721**	**13,145**	**(16.4)%**	**15,900**	**16,776**	**5.5%**

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Banking

Our non-interest income decreased 16.4%, from R$15,721 million in 2009 to R$13,145 million in 2010. This reduction was mainly due to (i) a decrease of 58.6% in net gains from trading assets and securities received in resale agreements, from R$2,807 million in 2009 to R$1,161 million in 2010, and (ii) a decrease of 56.4% in other non-interest income, influenced by the partial sale of Cielo stock in the amount of R$2,410 million in 2009. Those decreases were partially offset by the 16.6% increase in fee income, mainly credit card fee, which increased 32.2% in the period.

Insurance, pension plans and certificated savings plans

Our non-interest income increased by 5.5%, from R$15,900 million in 2009 to R$16,776 million in 2010. This performance was mainly due to (i) the 12.4% increase in income from insurance premiums, from R$12,521 million in 2009 to R$14,068 million in 2010, due to (a) growth of health insurance premiums, from R$6,099 million in 2009 to R$7,071 million in 2010 and (b) increase in the premiums for auto, property/casualty and liability insurance, from R$3,277 million in 2009 to R$3,863 million in 2010 and (ii) an increase of 185.7% in net gains on available-for-sale securities, net of impairment losses, from R$238 million in 2009 to R$680 million in 2010. Those events were partially offset by the decrease of 83.0% in other non-operating income due to the income of R$ 732 million related to the exchange of shares with Odontoprev, which occurred in 2009.

Non-interest expense

The following tables show, on a consolidated and per segment basis, the principal components of our non-interest expense for 2009 and 2010:

	For the year ended December 31, Consolidated		
	2009	**2010**	**% Change**
	(R$ in millions, except percentages)		
Salaries and benefits	(7,404)	(8,724)	17.8%
Administrative expenses	(8,211)	(9,800)	19.4%
Amortization of intangible assets	(660)	(916)	38.8%
Insurance claims	(8,329)	(9,307)	11.7%
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(6,008)	(6,209)	3.3%
Pension plan operating expenses	(410)	(456)	11.2%
Insurance and pension plan selling expenses	(1,654)	(1,521)	(8.0)%
Depreciation and amortization	(1,053)	(1,267)	20.3%
Other non-interest expense	(6,647)	(8,513)	28.1%
Total	**(40,376)**	**(46,713)**	**15.7%**

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	For the year ended December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2009	2010	% Change	2009	2010	% Change
	(*R$ in millions, except percentages*)					
Salaries and benefits	(6,615)	(7,785)	17.7%	(532)	(729)	37.0%
Administrative expenses	(7,645)	(9,057)	18.5%	(768)	(964)	25.5%
Amortization of intangible assets	(660)	(916)	38.8%	-		
Insurance claims	-	-	-	(8,329)	(9,307)	11.7%
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	-	-	-	(6,008)	(6,209)	3.3%
Pension plan operating expenses	-	-	-	(410)	(456)	11.2%
Insurance and pension plan selling expenses	-	-	-	(1,655)	(1,522)	(8.0)%
Depreciation and amortization	(1,020)	(1,228)	20.4%	(31)	(36)	16.1%
Other non-interest expense	(5,614)	(7,526)	34.1%	(1,042)	(932)	10.6%
Total	**(21,554)**	**(26,512)**	**23.0%**	**(18,775)**	**(20,155)**	**7.4%**

Banking

Our non-interest expense increased by 23.0%, from R$21,554 million in 2009 to R$26,512 million in 2010, due to a 17.7% growth in salaries and benefits expenses, impacted by increased salary levels and the 18.5% growth in our administrative expenses, due to the organic growth and consequent increases in points of sale.

Insurance, pension plans and certificated savings plans

Our non-interest expense increased by 7.4%, from R$18,775 million in 2009 to R$20,155 million in 2010. This increase was mainly due to: (i) a 3.3% increase in our changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts from R$6,008 million in 2009 to R$6,209 million in 2010 and (ii) a 11.7% increase in insurance claims, from R$8,329 million in 2009 to R$9,307 million in 2010. Increases in our expenses are the result of our business expansion.

Income tax and social contribution

Income tax in Brazil consists of federal income taxes and the social contribution tax on adjusted income. See "Item 5.A. Operating Results-Overview-Taxes." The combined rate of these two taxes was 34.0% up to April 2008. As of May 2008, the combined rate increased to 40%, due to the raise of social contribution taxes on adjusted net income rate, from 9% to 15%. Our income tax expenses are composed of current income tax and deferred tax. Certain amounts of income and expenses are recognized in our statement of income but do not affect our taxable basis. Similarly, certain amounts of taxable income and deductible expenses are used as a basis to calculate our income taxes but do not affect our statement of income. Additionally, under Brazilian tax regulations, foreign exchange variation from gains and losses of investments abroad are not taxable when the foreign exchange variation is positive and non-deductible when the foreign exchange variation is negative.

Income tax expenses increased from R$4,420 million in 2009 to R$5,428 million in 2010. This variation was mainly due to: (i) income before income tax, social contribution and equity earnings from unconsolidated companies in the amount of R$1,616 million, corresponding to a 12.4% growth in the period, reflected in our tax expense affected by the statutory rate that increased from R$5,210 million in 2009 to R$5,856 million in 2010 and (ii) non-deductible expenses and provisions, which generated a negative adjustment in 2010 of R$323 million, against a positive adjustment in 2009 of R$22 million. These effects were partially mitigated by the higher fiscal benefit obtained due to interest on shareholders’ capital paid to shareholders, increasing

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from R$853 million in 2009 to R$986 million in 2010. For more information on Income tax and social contribution, see Note 16 to our Financial Statements in "Item 18. Financial Statements".

As a percentage of our income before taxes, adjusted for non-taxable income from equity earnings in unconsolidated companies, income tax went from a 33.9% expense in 2009 to a 37.1% expense in 2010.

Net income

As a result of the above, our net income increased by 4.8%, from R$9,216 million in 2009 to R$9,662 million in 2010.

Results of operations for year ended December 31, 2009 compared with the year ended December 31, 2008

The following tables show the principal components of our net income for 2009 and 2008, on a consolidated basis and by segment:

	For the year ended December 31, Consolidated		
	2008	**2009**	**Percentage change**
	(R$ in millions, except percentages)		
Net interest income	25,371	33,133	30.6%
Provision for loan losses	(6,651)	(10,822)	62.7%
Non-interest income	23,660	31,734	34.1%
Non-interest expense	(35,632)	(40,376)	13.3%
Income before income taxes	**6,748**	**13,669**	**102.6%**
Income tax and social contribution	401	(4,420)	-
Net income before attribution to noncontrolling interest	**7,149**	**9,249**	**29.4%**
Net income attributed to noncontrolling interest	(131)	(33)	(74.8)%
Parent Company's Net income	**7,018**	**9,216**	**31.3%**

	For the year ended December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	**2009**	**% Change**	**2008**	**2009**	**% Change**
	(R$ in millions, except percentages)					
Net interest income	19,054	25,551	34.1%	6,295	7,569	20.2%
Provision for loan losses	(6,651)	(10,822)	62.7%	-	-	-
Non-interest income	10,564	15,721	48.8%	12,977	15,900	22.5%
Non-interest expense	(20,620)	(21,554)	4.5%	(14,946)	(18,775)	25.6%
Income before income taxes	**2,347**	**8,896**	**279.0%**	**4,326**	**4,694**	**8.5%**
Income tax and social contribution	1,970	(2,733)	-	(1,545)	(1,661)	7.5%
Net income before attribution to noncontrolling interest	**4,317**	**6,163**	**42.8%**	**2,781**	**3,033**	**9.1%**

Net income attributed to noncontrolling interest	(42)	(6)	(85.7)%	(89)	(26)	(70.8)%
Parent Company's Net income	**4,275**	**6,157**	**44.0%**	**2,692**	**3,007**	**11.7%**

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Net interest income

The following table shows the principal components of our net interest income before provision for loan losses for 2009 and 2008, on a consolidated basis and by segment:

	For the year ended December 31,								
	Consolidated			Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	2009	% Change	2008	2009	% Change	2008	2009	% Change
	(R$ in millions, except percentages)								
Interest income	53,803	54,151	0.6%	47,936	47,044	(1.9)%	6,295	7,569	20.2%
Interest expense	(28,432)	(21,018)	(26.1)%	(28,882)	(21,493)	(25.6)%	-	-	-
Net interest income	**25,371**	**33,133**	**30.6%**	**19,054**	**25,551**	**34.1%**	**6,295**	**7,569**	**20.2%**

The following table shows, on a consolidated basis and by segment, how much of the increase in our net interest income was attributable to changes in the average volume of interest-earning assets and interest-bearing liabilities, and how much was attributable to changes in average interest rates (including the effects of the appreciation/depreciation of the *real*) in each case for 2009 and 2008:

	As of December 31,		
	Consolidated	Banking	Insurance, Pension Plans and Certificated savings plans
	2009/2008 Increase/(decrease) *(R$ in millions)*		
Due to changes in average volume of interest-earning assets and interest-bearing liabilities	3,987	4,063	412
Due to changes in average interest rates	3,775	2,434	862
Net change	**7,762**	**6,497**	**1,274**

Banking

Our net interest income increased by 34.1% from R$19,054 million in 2008 to R$25,551 million in 2009. This increase was mainly due to a 28.0% increase in the average volume of interest-earning assets, in particular the 18.2% increase in the average volume of outstanding loans, an increase of 56.4% in average volume of federal funds sold and securities purchased under agreements to resell, and 56.4% in the average volume of trading and securities received in resale agreements. These factors were partially offset by a 31.0% increase in the average volume of interest-bearing liabilities, particularly an increase of 59.3% in the average volume of time deposits, a 25.1% increase in the average volume of federal funds purchased and securities sold under agreements to repurchase, a 19.2% increase in the average volume of long-term debt and a 14.1% increase in the average volume of savings deposits.

The average interest rate of net interest income in relation to average interest-earning assets increased from 7.4% in 2008 to 7.7% in 2009. This positive growth reflects improved funding conditions, given lower funding costs and a higher average volume of operations with individuals, who pay higher interest rates.

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Insurance, pension plans and certificated savings plans

Our net interest income increased by 20.2% from R$6,295 million in 2008 to R$7,569 million in 2009. This growth was mainly due to (i) a 9.5% increase in the average balance of trading assets and securities received in resale agreements, basically due to increased sales of "VGBL" and "PGBL" investment contracts, and (ii) a 12.9% increase in the average balance of available-for-sale securities. This growth was partially offset by a 37.5% decrease in our average balance of federal funds sold and securities purchased under agreements to resell.

The average interest rate of net interest income for average interest-earning assets rose from 9.2% in 2008 to 10.3% in 2009.

Interest income

The following tables show, on a consolidated basis and by segment, the average balance of the principal components of our average interest-earning assets and the average interest rates earned in 2009 and 2008:

	As of December 31, Consolidated		
	2008	**2009**	**% Change**
	(R$ in millions, except percentages)		
Average balance of interest-earning assets:			
Loans	146,404	173,048	18.2%
Federal funds sold and securities purchased under agreements to resell	46,893	68,998	47.1%
Trading assets and securities received in resale agreements	72,789	94,940	30.4%
Available-for-sale securities	24,727	28,650	15.9%
Held to maturity securities	3,458	3,927	13.6%
Interest earning deposits in other banks	8,360	10,164	21.6%
Brazilian Central Bank compulsory deposits	24,590	23,967	(2.5)%
Other interest-earning assets	648	601	(7.3)%
Total	**327,869**	**404,295**	**23.3%**
Average interest rate earned	**16.4%**	**13.4%**	

	As of December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	**2009**	**% Change**	**2008**	**2009**	**% Change**
	(R$ in millions, except percentages)					
Average balance of interest-earning assets:						
Loans	146,404	173,048	18.2%	-	-	-
Federal funds sold and securities purchased under agreements to resell	42,746	66,838	56.4%	3,456	2,161	(37.5)%
Trading assets and securities received in resale agreements	32,501	50,827	56.4%	40,123	43,949	9.5%
Available-for-sale securities	3,358	4,844	44.3%	21,144	23,878	12.9%

Held to maturity securities	707	969	37.1%	2,751	2,958	7.5%
Interest earning deposits in other banks	7,740	9,970	28.8%	620	194	(68.7)%
Brazilian Central Bank compulsory deposits	24,590	23,967	(2.5)%	-	-	-
Other interest-earning assets	648	601	(7.3)%	-	-	-
Total	**258,694**	**331,064**	**28.0%**	**68,094**	**73,140**	**7.4%**
Average interest rate	**18.5%**	**14.2%**		**9.2%**	**10.3%**	

For further information about average interest rates by type of assets, see "Item 4.B. Business Overview-Selected Statistical Information-Average balance sheet and interest rate data."

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The following table shows, on a consolidated basis and by segment, how much of the increase in our interest income was attributable to changes in the average volume of interest-earning assets, and how much was attributable to changes in average interest rates (including the effects of the fluctuation of the *real*), in each case for the year 2009 as compared to the year 2008:

	As of December 31,		
	Consolidated	Banking	Insurance, Pension Plans and Certificated savings plans
	2009/2008 Increase/(decrease) (*R$ in millions*)		
Due to changes in average volume of interest-earning	10,952	10,984	412
Due to changes in average interest rates	(10,604)	(11,876)	862
Net change	**348**	**(892)**	**1,274**

Banking

Our interest income remained practically stable but with a slight decrease of 1.9%, from R$47,936 million in 2008 to R$47,044 million in 2009. This decrease was mainly due to the following factors: (i) a drop in interest income from loan operations; (ii) a decrease in interest income of trading assets and available-for-sale securities; and (iii) lower interest income with compulsory deposits. These effects were mitigated by the increase of interest income from federal funds sold and securities purchased under agreements to resell.

Interest income with loan operations decreased by 2.8%, from R$33,662 million in 2008 to R$32,708 million in 2009. This decrease is related to the drop in the average rate of the loan portfolio from 23.0% in 2008 to 18.9% in 2009, as a result of a more competitive market. The 18.2% increase in the average volume of loan operations mitigated the drop in interest income generated by the decrease in the average rate. The sustainable growth of the Brazilian economy, plus our commercial strategy, has benefitted the expansion of our loan operations to individual and corporate customers, mainly operations related to consumer finance, real estate financing and BNDES onlending.

Income from trading assets and securities received in resale agreements decreased by 9.5%, from R$4,194 million in 2008 to R$3,795 million in 2009. This variation is due to the decrease in the average rate, from 12.9% in 2008 to 7.5% in 2009, mainly driven by cuts made by COPOM to the base interest rate, from 13.75% at the end of 2008 to 8.75% at the end of 2009.

Income from available-for-sale securities decreased by 36.2%, from R$1,207 million in 2008 to R$770 million in 2009. This variation is due to the decrease in the average rate, from 35.9% in 2008 to 18.3% in 2009, mainly driven by the cuts made by COPOM to the base interest rate, from 13.75% at the end of 2008 to 8.75% at the end of 2009, and by the variation of the Amplified Consumer Price Index (IPCA), of 5.9% in 2008 versus 4.3% in 2009.

Interest income from Central Bank compulsory deposits decreased 3.7%, from R$1,489 million in 2008 to R$1,434 million in 2009. This variation was due to the decrease in the average rate, from 6.1% in 2008 to 6.0% in 2009, mainly influenced by the cuts made by COPOM on the base interest rate, from 13.75% at the end of 2008 to 8.75% at the end of 2009.

Our interest income from federal funds sold and securities purchased under agreements to resell increased by 19.1%, from R$6,466 million in 2008 to R$7,701 million in 2009. This increase was mainly due

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to an increase in the average volume of these types of operations, from R$42,746 million in 2008 to R$66,838 million in 2009, due to the increase in our own portfolio position and funded portfolio.

Insurance, pension plans and certificated savings plans

Our net interest income increased by 20.2% from R$6,295 million in 2008 to R$7,569 million in 2009. This growth was mainly due to (i) a 9.5% increase in the average balance of trading assets and securities received in resale agreements, basically due to increased sales of "VGBL" and "PGBL" investment contracts, and (ii) a 12.9% increase in the average balance of available-for-sale securities. This growth was partially offset by a 37.5% decrease in our average balance of federal funds sold and securities purchased under agreements to resell.

The average interest rate of net interest income for average interest-earning assets rose from 9.2% in 2008 to 10.3% in 2009.

Interest expense

The following table shows the principal components of our average interest-bearing liabilities and the average interest rates paid on those liabilities in 2009 and 2008, all of which are in the banking segment:

	As of December 31, Consolidated		
	2008	**2009**	**% Change**
	(*R$ in millions, except percentages*)		
Average balance of interest-bearing liabilities:			
Savings deposits	34,538	39,349	13.9%
Time deposits	62,233	99,119	59.3%
Federal funds purchased and securities sold under agreements to repurchase	74,139	92,759	25.1%
Short-term borrowings	10,252	10,798	5.3%
Long-term debt	40,445	48,200	19.2%
Deposits from financial institutions	404	594	47.0%
Total	**222,011**	**290,819**	**31.0%**
Average interest rate paid	**12.8%**	**7.2%**	

	As of December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	**2009**	**% Change**	**2008**	**2009**	**% Change**
	(*R$ in millions, except percentages*)					
Average balance of interest-bearing liabilities:						
Savings deposits	34,538	39,422	14.1%	-	-	-
Time deposits	62,233	99,140	59.3%	-	-	-
	74,139	92,759	25.1%	-	-	-

Federal funds purchased and securities sold under agreements to repurchase						
Short-term borrowings	10,252	10,798	5.3%	-	-	-
Long-term debt	40,445	48,200	19.2%	-	-	-
Deposits from financial institutions	404	594	47.0%	-	-	-
Total	**222.011**	**290.913**	**31.0%**	**-**	**-**	**-**
Average interest rate paid	**13.0%**	**7.4%**	**-**	**-**	**-**	

For further information on average interest rates by type of liability, see "Item 4.B. Business Overview-Selected Statistical Information-Average balance sheet and interest rate data."

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The following table shows, on a consolidated basis and by segment, how much of the increase in our interest expense was attributable to changes in the average volume of interest-bearing liabilities and how much was attributable to changes in average interest rates (including the effects of the fluctuation of the real against U.S. dollar), in each case, for 2009 as compared to 2008:

	As of December 31,		
	Consolidated	**Banking**	**Insurance, Pension Plans and Certificated savings plans**
		2009/2008 Increase/(decrease)	
		(*R$ in millions*)	
Due to changes in average volume of interest-bearing liabilities	6,965	6,921	-
Due to changes in average interest rates	(14,379)	(14,310)	-
Net change	**(7,414)**	**(7,389)**	**-**

Banking

Our financial expenses decreased 25.6% from R$28,882 million in 2008 to R$21,493 million in 2009. This decrease related to a reduction in the average interest rate of the average balance of our interest-bearing liabilities, from 13.0% in 2008 to 7.4% in 2009, mainly due to the real appreciating 25.5% against the U.S. dollar in that period, thus impacting expenses related to short-term and long-term debt. This effect was mitigated by the increased financial expenses relating to time deposits, which were impacted by the increase in average volume of these transactions from R$62,233 million to R$99,119 million, this showing a 59.3% increase in 2009.

Provision for loan losses

The following table shows changes in our allowance for loan losses, provision for loan losses, loan charge-offs and loan recoveries for the years ended 2009 and 2008, as well as our provisions-to-loans ratio (provisions as a percentage of the average balance of our loans):

	As of December 31,		
	2008	**2009**	**% Change**
	(*R$ in millions, except percentages*)		
Allowance for loan losses at the beginning of the year	7,769	10,318	32.8%
Provision for loan losses	6,651	10,822	62.7%
Loan charge-offs	(5,345)	(8,264)	54.6%
Loan recoveries	1,243	1,696	36.4%
Allowance for loan losses at the end of the year	**10,318**	**14,572**	41.2%
Ratio of provision for loan losses to average loans outstanding	4.5%	6.3%	

Our allowance for loan losses increased by 41.2%, from R$10,318 million in 2008 to R$14,572 million in 2009. This increase was mainly due to:

- the 18.2% increase in the average balance of lending, mainly due to growth of our loan portfolio, particularly personal loans; and
- the effects of the world financial crisis, which led to deterioration in our default rates and thus higher provisioning needs until mid-September 2009. Beginning in May 2009 the Brazilian economy began to recover more quickly, principally influenced by Brazilian government measures to stimulate household consumption and certain sectors of the economy. The recovery of the Brazilian economy has positively affected our results since the last quarter of 2009, when our delinquency ratios improved and accordingly, our

provision for loan losses decreased. The main types of lending that impacted our loan losses were: (i) industrial and others, with the for loan losses for these loans increasing from R$3.3 billion in 2008 to R$5.8 billion in 2009, and (ii) leasing operations, with the losses on these loans rising from R$641 million in 2008 to R$1.9 billion in 2009.

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The calculation of allowance for loan losses comprises an individual analysis of impaired loans and an aggregate loss analysis for groups of homogeneous loans, as follows:

	As of December 31, (*R$ in millions*)	
	2008	**2009**
Impaired loans	538	552
Homogenous loan losses	9,780	14,020
Total	**10,318**	**14,572**

The ratio of allowance for homogeneous loan losses to total loans (including non-performing loans) increased from 5.6% in 2008 to 7.8% in 2009. This increase reflects the effects of the global financial crisis that started at the end of 2008 affecting the ability of companies in different sectors of the Brazilian economy to repay debt owed to us, thereby generating greater provisioning needs. We note that the 9.4% increase in individual loans also contributed to this increased indicator, since these transactions have historically had higher risk than corporate loans.

Our level of losses from annual loans, defined as the value of loan charge-offs to average balance of loans, rose from 3.7% in 2008 to 4.8% in 2009. Problem loan recoveries increased by 36.4% and loan charge offs increased 54.6% compared to 2008. In 2009, provision for loan losses increased 62.7% compared to the levels in 2008, increasing our ratio of allowance for loan losses to outstanding loans from 5.9% as of December 31, 2008, to 8.1% in 2009.

We believe that our current allowance for loan losses is sufficient to cover probable losses associated with our portfolio. For more information, see "Item 4.B. Business Overview-Selected Statistical Information-Charge-offs" and "Item 4.B. Business Overview-Selected Statistical Information-Non-performing loans and allowance for loan losses."

The amount of, and variation in, our allowance for loan losses, as a percentage of the total portfolio, are consistent with our historical experience of delinquency ratios, charge-offs and net losses. Alterations in the quality of our loan portfolio were the most significant component to determining our allowances for loan losses than any change or trend in non-performing loans.

Loans to individuals presented 9.4% growth compared to 2008, mainly due to: (i) 38.0% growth in our credit card portfolio; (ii) growth of home mortgages by 21.4% in 2009; and (iii) 6.6% growth in other financings, principally vehicle and consumer financing.

In relations to lending to corporate clients, export finance fell from R$24,130 million in 2008 to R$18,137 million in 2009, and the fall of 24.8% was partially due to the real appreciating 25.5% against the U.S. dollar in 2009. Housing finance portfolios increased by 34.0%, import finance increased by 14.2% and foreign-currency loans increased 6.8% compared with 2008.

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For a description of the Central Bank's regulation of lending operations, see "Item 4.B. Business Overview-Regulation and Supervision-Bank regulations-Treatment of loans" and Note 2(j) to our consolidated financial statements in "Item 18. Financial Statements."

Non-interest income

The following tables show, on a consolidated basis and by segment, the principal components of our non-interest income for 2008 and 2009.

	For the year ended December 31, Consolidated		
	2008	**2009**	**% Change**
	(R$ in millions, except percentages)		
Fee and commission income	8,997	9,381	4.3%
Net gains (losses) on trading assets and securities received in resale agreements	(371)	3,075	-
Net realized gains (losses) on available-for-sale securities, net of impairment losses	609	164	(73.1)%
Equity in the earnings of unconsolidated companies	597	644	7.9%
Insurance premiums	10,963	12,521	14.2%
Pension plan income	710	607	(14.5)%
Other non-interest income	2,155	5,342	147.9%
Total	**23,660**	**31,734**	**34.1%**

	For the year ended December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	**2009**	**% Change**	**2008**	**2009**	**% Change**
	(R$ in millions, except percentages)					
Fee and commission income	7,883	8,371	6.2%	972	851	(12.4)%
Net gains (losses) on trading assets and securities received in resale agreements	(225)	2,807	-	(146)	265	-
Net realized gains (losses) on available-for-sale securities, net of impairment losses	341	(75)	-	268	238	(11.2)%
Equity in earnings of unconsolidated companies	554	499	(9.9)%	42	146	247.6%
Insurance premiums	-	-	-	10,963	12,521	14.2%
Pension plan income	-	-	-	710	607	(14.5)%
Other non-interest income	2,011	4,119	104.8%	168	1,272	657.1%
Total	**10,564**	**15,721**	**48.8%**	**12,977**	**15,900**	**22.5%**

Banking

Our non-interest income rose 48.8%, from R$10,564 million in 2008 to R$15,721 million in 2009. This increase was mainly due to: (i) recovery on world financial markets seen in the second half of 2009, which along with net gains from trading assets and securities received in resale agreements, a loss of R$225 million in 2008 to a gain R$2,807 million in 2009; (ii) a 6.2% increase in fee and commission income in 2008, primarily due to the increase in credit card revenues which were impacted by growth in the card base, from 83,3 million cards in 2008 to 132,8 million cards in 2009, basically due to the acquisition of Banco Ibi; and (iii) the 104.8% increase in other non-interest income, impacted by the result of the partial sale of interest held in Cielo for R$2,410 million.

Insurance, pension plans and certificated savings plans

Our non-interest income rose 22.5%, from R$12,977 million in 2008 to R$15,900 million in 2009.

This increase was mainly due to: (i) 14.2% growth in income from insurance premiums, from R$10,963 million in 2008 to R$12,521 million in 2009, mainly due to (a) health plan products, for which premiums grew R$840 million, from R$5,259 million in 2008 to R$6,099 million in 2009; (b) increase in premiums for vehicles, property/casualty and liability insurance, from R$2,905 million in 2008 to R$3,277 million in 2009; and (c) growth of R$346 million in premiums from life and personal accident insurance, reaching R$3,145 million in 2009 against R$2,799 million in 2008; (ii) net gains on trading assets and securities received in resale agreements, from a loss of R$146 million in 2008 to gains of R$265 million in 2009 due to the recovery on global financial markets seen in the second half of 2009; and (iii) growth of R$1,104 million in other non-interest income, mainly due to the R$732 million resulting from exchange of shares with Odontoprev.

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Non-interest expense

The following tables show, on a consolidated and per segment basis, the principal components of our non-interest expense for 2008 and 2009:

	For the year ended December 31, Consolidated		
	2008	2009	% Change
	(*R$ in millions, except percentages*)		
Salaries and benefits	(6,880)	(7,404)	7.6%
Administrative expenses	(7,288)	(8,211)	12.7%
Amortization of intangible assets	(802)	(660)	(17.7)%
Insurance claims	(7,391)	(8,329)	12.7%
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(4,225)	(6,008)	42.2%
Pension plan operating expenses	(482)	(410)	(14.9)%
Insurance and pension plan selling expenses	(1,014)	(1,654)	63.1%
Depreciation and amortization	(881)	(1,053)	19.5%
Other non-interest expense	(6,669)	(6,647)	(0.3)%
Total	**(35,632)**	**(40,376)**	**13.3%**

	For the year ended December 31,					
	Banking			Insurance, Pension Plans and Certificated savings plans		
	2008	2009	% Change	2008	2009	% Change
	(*R$ in millions, except percentages*)					
Salaries and benefits	(6,130)	(6,615)	7.9%	(570)	(532)	(6.7)%
Administrative expenses	(6,873)	(7,645)	11.2%	(682)	(768)	12.6%
Amortization of intangible assets	(799)	(660)	(17.4)%	(3)	-	-
Insurance claims	-	-	-	(7,391)	(8,329)	12.7%
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	-	-	-	(4,225)	(6,008)	42.2%
Pension plan operating expenses	-	-	-	(482)	(410)	(14.9)%
Insurance and pension plan selling expenses	-	-	-	(1,014)	(1,655)	63.2%
Depreciation and amortization	(820)	(1,020)	24.4%	(59)	(31)	(47.5)%
Other non-interest expense	(5,998)	(5,614)	(6.4)%	(520)	(1,042)	100.4%
Total	**(20,620)**	**(21,554)**	**4.5%**	**(14,946)**	**(18,775)**	**25.6%**

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Banking

Our non-interest income rose 4.5% from R$20,620 million in 2008 to R$21,554 million in 2009. Due to 7.9% growth in salaries and benefits expenses, affected by higher salaries and the 11.2% growth in our administrative expenses, due to organic growth and consequent more numerous points of sale.

Insurance, pension plans and certificated savings plans

Our non-interest expense rose 25.6%, from R$14,946 million in 2008 to R$18,775 million in 2009. This increase was mainly due to: (i) a 42.2% increase in our provision for insurance, pension plans, certificated savings plans and pension investment contracts from R$4,225 million in 2008 to R$6,008 million in 2009; (ii) a 12.7% increase in insurance claims, from R$7,391 million in 2008 to R$8,329 million in 2009; and (iii) a 63.2% increase in insurance and pension plan selling expenses to reach R$1,655 million in 2009, against R$1,014 million in 2008. Our increases expenses reflect the growth of our business ventures.

Income tax and social contribution tax

Taxes on income in Brazil consist of federal income tax and the social contribution tax on taxable income. See "Item 5.A. Operating Results - Overview - Taxes." The combined rate of these two taxes was 34.0% until April 2008. As of May 2008, the combined rose increased to 40%, due to an increase in the social contribution rate on net taxable income from 9% to 15%. Our income tax expenses comprise current income tax and deferred taxes. Certain items of income and expenses recognized in our income statement do not affect our tax base, whereas other taxable income items and expenses deductible that are from our tax base but do not affect our income statement. In addition, under Brazilian legislation, gains or losses due to exchange-rate variation affecting investments held in foreign subsidiaries are not taxable when exchange-rate variation is positive and not deductible exchange-rate variation is negative.

Income tax expense (revenue) went from R$401 million in 2008 to a revenue of R$4,420 million in 2009. This variation was mainly due to: (i) income before income tax, social contribution and equity earnings from unconsolidated companies in the amount of R$6,873 million, showed an increase of 111.7% in the period, reflected in our tax expense at the statutory rate which rose from R$2,460 million in 2008 to R$5,210 million in 2009 and (ii) the non-deductible exchange-rate loss on investments held abroad, which led to a negative adjustment of R$673 million in 2009, against a positive adjustment R$803 million in 2008. These effects were partially mitigated by an increase in fiscal benefit obtained from interest on shareholders' capital paid to shareholders, which rose from R$783 million in 2008 to R$853 million in 2009.

As a percentage of our income before tax, adjusted for the non-taxable income from equity earnings in unconsolidated companies, income tax went from a 6.5% in 2008 to an expense of 33.9% in 2009.

Net Income

As a result of the above, our net income rose 31.1% from R$7,018 million in 2008 to R$9,216 million in 2009.

5.B. Liquidity and Capital Resources

Asset and liability management

Our general policy on asset and liability management is to manage interest rate, liquidity, foreign exchange and maturity risks in order to maximize our net income from financial operations and our return on assets and equity, in light of our internal risk management policies, and maintain adequate levels of liquidity and capital.

As part of our asset and liability management, we seek to avoid material mismatches between assets and liabilities by matching, to the extent possible, the maturity, currency and interest rate structure of loans we make with terms of the transactions under which we fund these loans. Subject to our policy constraints, we occasionally take mismatched positions in relation to interest rates, maturities and, in more limited circumstances, foreign currencies, when we believe such positions are justified in view of market conditions and prospects.

We monitor our asset and liability position in accordance with Central Bank requirements and guidelines. Our management's treasury committee meets on a weekly basis to:

- present and discuss our transactions conducted during the previous week;
- present exposure for each item of our portfolio, to factors such as fixed rates, variable rates, foreign currency and exchange rates;
- set exposure limits based on our evaluation of the risks presented by our currency, term and rate gap positions and current market volatility levels;
- determine asset allocation and funding policies; and
- take decisions on the maturity term structure of our assets and liabilities.

In making such decisions, our Senior Management evaluates not only our exposure limits for each market segment and product, but also market volatility levels and the extent to which we are exposed to market risk through interest, maturity, liquidity and currency mismatches. It also considers other potential risks, as well as market liquidity, our institutional needs and perceived opportunities for gains. The committee holds special meetings as required in response to unexpected macroeconomic changes.

In addition, our senior managers receive daily reports on our mismatched and open positions, while the treasury committee assesses our risk position weekly.

Liquidity and funding

Central Bank requirements for compulsory deposits determine our minimum liquidity levels. We review our asset and liability management periodically to ensure that we have sufficient liquidity available to honor withdrawals, deposits, repay other liabilities on due date, extend loans or other forms of credit to our customers and meet our own working capital needs.

Our treasury department acts as a support center for our different business segments by managing our funding and liquidity positions, and executing our investment objectives in accordance with our asset and liability management policies. It is also responsible for setting rates for our different products, including exchange and interbank transactions. The treasury department covers any funding shortfall by borrowing in the interbank market. It seeks to maximize efficient use of our deposit base by investing any surpluses in liquid instruments in the interbank market.

We have used our excess liquidity to invest in Brazilian government securities and expect to continue doing so, subject to regulatory requirements and investment considerations. Our principal sources of financing are:

- demand, savings, and time deposits, as well as deposits from financial institutions; and
- short-term and long-term borrowings, part of which is denominated in foreign currencies.

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The following table shows the average balance and average real interest rates of our sources of funding (interest-bearing, as well as non-interest bearing) for the periods indicated:

	2008			2009			2010		
	Average balance	% of total	Average rate	Average balance	% of total	Average rate	Average balance	% of total	Average rate
	(R$ in millions, except percentages)								
Deposits from financial institutions.	404	0.1%	19.8%	594	0.1%	11.3%	517	0.1%	9.3%
Savings deposits	34,538	10.1%	7.1%	39,349	9.3%	6.2%	47,793	9.5%	6.2%
Time deposits	62,233	18.2%	11.4%	99,119	23.4%	9.0%	95,818	19.0%	8.7%
Interest-bearing liabilities:									
Federal funds purchased and securities sold under agreements to repurchase	74,139	21.7%	12.4%	92,759	21.9%	9.4%	126,970	25.2%	8.6%
Short-term borrowings	10,252	3.0%	47.8%	10,798	2.5%	(20.3)%	8,525	1.7%	2.2%
Long-term debt	40,445	11.8%	11.7%	48,200	11.4%	6.4%	61,961	12.3%	5.3%
Total interest-bearing liabilities	**222,011**	**64.9%**	**12.8%**	**290,819**	**68.6%**	**7.2%**	**341,584**	**67.8%**	**7.5%**
Non-interest-bearing liabilities:									
Demand deposits	26,305	7.7%	-	28,171	6.6%	-	33,923	6.7%	-
Other non-interest-bearing liabilities(1)	93,862	27.4%	-	105,159	24.8%	-	128,077	25.5%	-
Total non-interest-bearing liabilities	**120,167**	**35.1%**	-	**133,330**	**31.4%**	-	162,000	32.2%	-
Total liabilities	**342,178**	**100.0%**	-	**424,149**	**100.0%**	-	503,584	100.0%	-

(1) Other non-interest-bearing liabilities, whose primary components are technical reserves for insurance, pension plans, certificated savings plans, pension plan investment agreements and provision for contingent liabilities, are not a source of funding.

Deposits are our most important source of funding, accounting for 36.1% of average total liabilities in 2008, compared to 39.4% in 2009 and 35.4% in 2010. Our deposits balance over these years progressed in the following manner:

- In 2008, the average balance of our deposits increased by 43.8%, as compared to 2007. As a percentage of the average balance of total liabilities, the average balance of our deposits increased from 32.8% in 2007 to 36.1% in 2008, mainly due to the increase of 81.0% in time deposits;
- In 2009, the average balance of deposits increased 35.4%, compared to 2008. As a percentage of the liabilities balance, the average balance of our deposits increased from 36.1% in 2008 to 39.4% in 2009, mainly due to the 59.3% increase in time deposits; and
- In 2010, the average balance of deposits increased 6.5% compared to 2009, due mainly to the 21.5% increase in the average balance of our savings deposits, partially affected by a decrease of 3.3% in the average balance of our time deposits.

Short-term and long-term borrowings comprising one our principal sources of funding, accounted for 14.8% of total average liabilities in 2008, compared to 13.9% in 2009 and 14.0% in 2010. When comparing 2009 and 2010, there was an increase in the average balance of short-term and long-term borrowings, while it remained stable as a percentage of our liabilities.

The following table shows our sources of funding and liquidity as of December 31, 2010:

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	December 31, 2010	
	(R$ in millions)	**% of total**
Deposits from financial institutions	275	0.1%
Savings deposits	53,436	9.4%
Time deposits	102,158	18.0%
Federal funds purchased and securities sold under agreements to repurchase	160,701	28.2%
Short-term borrowings	7,735	1.4%
Long-term debt	75,237	13.2%
Total interest-bearing liabilities	**399,542**	**70.3%**
Demand deposits	37,334	6.5%
Other non-interest-bearing liabilities(1)	131,904	23.2%
Total non-interest-bearing liabilities	**169,238**	**29.7%**
Total liabilities	**568,780**	**100.0%**

(1) Other non-interest-bearing liabilities, whose primary components are technical reserves for insurance, pension plans, certificated savings plans, pension plan investment agreements and provision for contingent liabilities, are not a source of funding.

Deposits

Deposits accounted for approximately 34.0% of total liabilities as of December 31, 2010. Our deposits consist primarily of *real*-denominated, interest-bearing time and savings deposits and *real*-denominated, non-interest-bearing demand deposits. The increase in the average balances of our savings and demand deposits from December 31, 2009 through December 31, 2010 was due to the increase in our client base. As of December 31, 2009, we had approximately 20.9 million checking account holders and 37.7 million savings account holders, compared to approximately 23.1 million checking account holders and 41.1 million savings accounts as of December 31, 2010. For additional information regarding our deposits, see "Item 4.B. Business Overview-Selected Statistical Information-Maturity of deposits."

Federal funds purchased and securities sold under agreements to repurchase

Federal funds purchased and securities sold under agreements to repurchase consist mainly of funds we obtained from financial institutions in the market by selling securities with agreements to repurchase. On December 31, 2009, we had federal funds purchased and securities sold under agreements to repurchase in the amount of R$108,357 million, an increase of R$33,627 million, as compared to December 31, 2008. On December 31, 2010, we had federal funds purchased and securities sold under agreements to repurchase in the amount of R$160,701 million, a R$52,344 million increase as compared to December 31, 2009. The increase presented in the periods reflects the increase in our money market transactions in order to increase our liquidity.

Short-term borrowings

Our short-term borrowings in foreign currencies consist primarily of lines obtained from banking correspondents for import and export financings, as well as issuances of short-term debt securities. We have consistently had access to short-term borrowings on market terms.

Our credit facilities could be impacted by various factors, including rating downgrades, fluctuations in Brazilian exchange rates and base interest rates, increased rates of inflation, currency devaluations and adverse developments in the Brazilian and world economies. For a further discussion of risks that could have an adverse effect on our credit facilities, see "Item 3.D. Risk Factors-Macroeconomic risks" and "Item 3.D. Risk Factors-Risks relating to Bradesco and the Brazilian banking industry."

On December 31, 2009, we had short-term borrowings (up to 360 days) totaling R$7,976 million, a decrease of R$5,873 million as compared to December 31, 2008. Our short-term borrowings decreased as demand for import and export finance, which we provide through short-term borrowings, decreased 56.6%, from R$10,958 million on December 31, 2008 to R$4,761 million, on December 31, 2009. The balance of our U.S. dollar-denominated and indexed commercial papers increased 11.2%, from R$2,890 million on December 31, 2008 to R$3,214 million, on December 31, 2009. We also highlight that the variation in the period is being impacted by the 25.5% appreciation of *real* against the U.S. dollar.

On December 31, 2010, we had short-term borrowings (up to 360 days) amounting to R$7,735 million, a decrease of R$241 million in relation to December 31, 2009. Our short-term borrowings decreased as demand for imports and exports financing, which we financed by means of short-term borrowings, dropped by 22.9 %, from R$4,761 million on December 31, 2009 to R$3,673 million on December 31, 2010. The balance of our commercial papers denominated in and indexed to U.S. dollar increased by 26.4%, from R$3,214 million on December 31, 2009 to R$4,062 million on December 31, 2010. We also note that the variation in the period is being impacted by the 4.3% appreciation of *real* against the U.S. dollar.

Almost all of our import and export finance credit lines from correspondent banks are U.S. dollar-denominated. We have historically funded a substantial portion of our foreign-currency trade operations from foreign-currency credit lines with these correspondent banks.

For additional information on our short-term borrowings, see "Item 4.B. Business Overview-Selected Statistical Information-Federal funds purchased and securities sold under agreements to repurchase and short-term borrowings" and "Item 11. Quantitative and Qualitative Disclosure about Market Risk - Sensitivity analysis."

Long-term debt

We classify as "long-term" all borrowings not classified as short-term. Long-term debt consist primarily of funds borrowed for local onlending, in which we borrow from Brazilian governmental agencies and entities to make loans to Brazilian entities for investments in facilities and equipment, as well as our subordinated notes, Euro notes and foreign currency loans.

As of December 31, 2009, the value of our long-term debt increased to R$50,817 million, from R$47,255 million as of December 31, 2008. The increase in our long-term debt was mainly due to: (i) the R$3,546 million increase in our subordinated debt and the R$1,813 million increase in our funding of internal fund onlending. This increase was offset by a R$1,085 million decrease in securities issued by means of securitization of money orders and receivables from credit card bills.

As of December 31, 2010, the value of our long-term debt increased to R$75,237 million, from R$50,817 million as of December 31, 2009. The increase in our long-term debt was mainly due to: (i) the R$3,321 million increase in our subordinated debt, the R$19,589 million increase in our funding for onlending internal funds and the increase of R$1,425 million in Euro notes. This increase was partially offset by a R$370 million decrease in securities issued by securitizing payment orders and from credit-card invoice receivables.

Medium and long-term securities issuance is also included in our long-term debt, including through our medium-term note issue program. This program permits us to issue up to US$5 billion (or its equivalent in other currencies) of medium-term notes through our branch in Grand Cayman and through our headquarters in Brazil. The program provides that the notes are unsecured, unsubordinated obligations and rank on the same level as all our present and future unsecured and unsubordinated external debt. We may offer the notes issued under the program for sale to qualified institutional buyers in the United States under Rule 144A of the

Securities Act or to non-U.S. persons outside the United States in accordance with Regulation S of the Securities Act.

We had US$100 million outstanding notes on December 31, 2009 and US$1 billion outstanding notes as of December 31, 2010 issued under our medium-term securities program. The securities outstanding on December 31, 2010, were issued during 2010 and earn interest at a fixed rate. Although the program enables us to issue up to US$5 billion in medium term securities, our ability to issue the remaining balance under the program depends on investor demand and appetite for these securities.

Since August 2003, we issued series of securities backed by future flows of payment orders that we receive from abroad and as of December 31, 2010, we had the following securities issued and outstanding under this program: a July 2004 issue of a series in the amount of US$ 100 million with maturity in 2012; 4 series issued in 2007 for a combined amount of US$ 900 million with maturity in 2014; 2 series issued in 2008, each for the amount of US$500 million, maturing in 2017 and 2016, subject to annual revision of grace period; 3 series issued in 2009 for a combined amount of US$ 200 million with maturity in 2015, 2017, and 2020; 2 series issued in 2010 for a combined amount of US$ 175 million with maturity in 2017.

Since December 2001, through our branch on Grand Cayman, we issued 10-year subordinated debt securities. As of December 31, 2010, we had the following issues of subordinated debt outstanding: US$150 million issued in December 2001; JPY 17.5 billion issued in April 2002; US$500 million issued in October 2003; EUR 225 million issued in April 2004; US$750 million issued in September 2009, and US$1.1 billion issued in August 2010 (in January 2011, we reopened this transaction to issue an additional US$ 500 million, making for a combined amount of US$1.6 billion). In June 2005, we issued US$300 million in non-cumulative junior subordinated perpetual bonds, on which we pay interest at a fixed rate on a quarterly basis. In June, 2010 we exercised our full call option.

We use the proceeds of our long-term debt issuances for general onlending purposes, principally to our Brazilian clients. The difference between the interest we pay on our borrowings and the interest we charge our clients, known as "spread," depends on the term of loans, our assessment of client risk and the general condition of the Brazilian economy. With the exception of our local onlendings, there are no regulatory restrictions on the use of our borrowings.

For additional information on our long-term debt, see "Item 11. Quantitative and Qualitative Disclosure about Market Risk-Sensitivity analysis" and Note 14 to our consolidated financial statements in "Item 18. Financial Statements."

Central Bank compulsory deposits

The Central Bank requires us, as a financial institution, either to deposit a determined amount of funds with the Central Bank or to purchase and hold Brazilian federal treasury securities. We cannot use these compulsory deposits for any other purpose. The Central Bank determines the interest to be paid on these deposits, if any. For more information on compulsory deposit requirements, see "Item 4.B. Business Overview-Deposit-taking activities."

As of December 31, 2009, the balance of our compulsory deposits increased by 23.9%, from R$26,384 million as of December 31, 2008 to R$32,696 million as of December 31, 2009, due to a higher average volume of deposits accepted, particularly time deposits.

As of December 31, 2010, the balance of our compulsory deposits increased by 99.4%, from R$32,696 million as of December 31, 2009 to R$65,198 million as of December 31, 2010, mainly due to (i) Circular Letter 3,513/10, which requires 20% compulsory deposits on demand and time deposits; (ii) Circular

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Letter 3,514/10, which requires 12% additional compulsory deposits on time deposits and 10% on savings deposits; and (iii) the increase in the average volume of deposits funded.

Sources of additional liquidity

In certain limited circumstances, we may obtain emergency funds from the Central Bank through a transaction referred to as "*redesconto*." A *redesconto* is a loan from the Central Bank to a financial institution, which is guaranteed by Brazilian government securities owned by the financial institution. The amount of federal government securities held by the financial institution as trading assets limits the amount of the *redesconto* transaction. We have never obtained funds from the Central Bank through *redesconto* transactions for liquidity purposes. As of December 31, 2010, we had available R$17,276 million in Brazilian government securities as trading assets that could be used for this purpose.

Cash flow

In 2008, 2009 and 2010, our cash flow was basically affected by alterations in the Brazilian economic environment. The following table shows the principal variations in cash outflows during the periods indicated:

	As of December 31, (*R$ in millions*)		
	2008	**2009**	**2010**
Net cash (used in) provided by operating activities	(28,299)	18,821	7,949
Net cash used in investing activities	(37,854)	(27,429)	(150,456)
Net cash provided by financing activities	83,619	35,028	95,019
Net increase (decrease) in cash and cash equivalents	**17,466**	**26,420**	**(47,488)**

2008

During 2008, we had a net increase of R$17,466 million in cash and cash equivalents, as a result of R$83,619 million from our financing activities, partially offset by R$(28,299) million in our operating activities, and by the utilization of R$(37,854) million in our investment activities.

The utilization of cash in our investment activities in 2008 mainly resulted from the utilization of R$4,878 million for the acquisition of available-for-sale securities, R$46,315 million in loans, which was offset by R$10,338 million in Central Bank compulsory deposits, and by R$4,715 million generated by the sale of available-for-sale securities.

The cash generated by our financing activities in 2008 basically resulted from a net increase of R$64,678 million in our funding of deposits, mainly time deposits and increase of our short-term and long-term loans of R$12,670 million, net of respective payments and R$5,715 million referring to the increase in federal funds purchased and securities sold under agreements to repurchase.

2009

During 2009, we had a net increase of R$26,420 million in cash and cash equivalents, due to the R$35,028 million from our financing activities, and R$18,821 million from our operating activities, offset by the R$(27,429) million used in from our investment activities.

The use of cash in our investment activities in 2009 resulted primarily from the use of R$21,347 million for the acquisition of available-for-sale securities, from the use of R$9,750 million in loan operations, and the net increase of R$4,723 million in Central Bank compulsory deposits, offset by R$8,614 million generated in the sale of available-for-sale securities and R$2,559 million from the sale of non-consolidated investments.

The cash generated by our financing activities in 2009 resulted primarily from a net increase of R$2,387 million in deposit-taking activities, mainly time deposits, and the R$33,526 million increase in our federal funds purchased and securities sold under agreements to repurchase, offset by a decrease in our short-term and long-term debt in the amount of R$1,719 million, net of the respective payments.

2010

In 2010, we had a net decrease of R$47,488 million in cash and cash equivalents, due to the use of R$150,456 million for our investment activities, offset by R$95,019 million from our financing activities and R$7,949 million from our operating activities.

The use of cash in our investment activities in 2010 resulted primarily (i) from the use of R$35,066 million for the acquisition of available-for-sale securities, (ii) the use of R$44,569 million for lending, (iii) a net increase of R$47,274 million in Central Bank compulsory deposits and (iv) the use of R$30,530 million in federal funds sold and securities purchased under agreements to resell which were offset by R$9,969 million from the sale of available-for-sale securities.

Cash generated by our financing activities in 2010 resulted primarily from a increase of (i) R$20,414 million in deposit taking, (ii) R$52,344 million in our federal funds purchased and securities sold under agreements to repurchase and (iii) R$22,944 million in long-term debt, net of the respective payments.

Capital compliance

The Basel I Accord requires banks to have a ratio of capital to risk-weighted assets of a minimum of 8.0%. At least half of total capital must consist of Tier I capital. Tier I, or core capital, includes equity capital less certain intangibles. Tier II capital includes asset revaluation reserves, allowance for loan losses and subordinated debt, subject to certain limitations. This ratio should be calculated based on BR GAAP financial information.

Brazilian banking regulations differ from Basel Accord requirements in several ways. Brazilian banking regulations:

- require a minimum ratio of capital to risk-weighted assets of 11.0%;
- do not permit allowance for loan losses to be considered as capital;
- require different specific risk-weighted categories;
- require a deduction from capital corresponding to fixed assets held in of over limits imposed by the Central Bank; and
- limit the issuance of subordinated notes to 50.0% of Tier I capital.

Prior to July 31, 2000, capital adequacy requirements could be calculated on either a consolidated or unconsolidated basis. Since July 31, 2000, we have measured our capital adequacy on a consolidated basis, in accordance with Central Bank rules. As of July 1, 2008, we started operating under New Capital Accord (Basel II) rules, standardized approach. See "Item 4.B. Business Overview-Regulation and Supervision-Bank Regulations-Principal limitations and restrictions on activities of financial institutions" for a more detailed discussion of Brazilian capital adequacy requirements.

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Basel III Accord

The G20's December 2010 conference voted to institute a package of measures (known as Basel III) that had been proposed by the Basel Committee on Banking Supervision to remedy deficiencies revealed by the recent economic crisis. The purpose of this reform is to enhance capital and liquidity management rules for financial institutions, thus strengthening the banking sector and dampening the impact of financial crises and their consequences for the real economy.

The first measure requires financial institutions to strengthen their capital levels. Regulatory capital basically comprises share capital (common shares and preferred shares that cannot be redeemed or accrue dividends), plus retained earnings, less amounts related to regulatory adjustments (tax credits, goodwill paid on acquisition of investments and deferred fixed assets, among others). After allowing for all deductions, Basel III will require banks to hold: (i) a regulatory capital ratio of at least 4.5%, (ii) a Tier I capital ratio of at least 6% and (iii) a minimum total capital ratio of 8%.

Basel III recommendations stipulate altered capital requirements for counterparty credit risk, both for the standard approach and for internal risk rating based approaches (IRBs) in order to ensure inclusion of material risks in capital structure.

In addition to new definitions of capital and minimum requirements, two more requirements are to be introduced: conservation capital and countercyclical capital. Conservation capital will be supplementary to the regulatory minimum requirements and consist of components accepted for calculating regulatory capital. Its purpose is to have financial institutions upgrade their ability to absorb losses above the minimum required in favorable periods of the economic cycle, so that the added capital may be used as a buffer in times of stress. According to the schedule stipulated, conservation capital should be introduced as of January 1, 2016, when it would amount to 0.625% of risk-weighted assets, and gradually rise to 2.5% of Risk-weighted Assets (RWA) by January 1, 2019.

Countercyclical capital will ensure that the capital held by financial institutions will cover risks arising from alterations in the macroeconomic environment. Countercyclical capital must also consist of elements accepted as part of regulatory capital and will be required in the event of excessive credit growth associated with a potential build-up of systemic risk. Depending on the way macroeconomic conditions evolve, countercyclical capital may be required as of January 1, 2014. Under Basel III, the initial requirement will be limited to 0.625% of RWA, to be gradually increased following the schedule, which may reach a maximum of 2.5% of RWA by January 1, 2017.

Basel III accord recommends implementation of a leverage ratio as a supplementary capital measure, to be calculated by dividing Tier I capital by total exposure. For calculating total exposure, Basel III uses accounting data net of provisions, without deducting any credit risk mitigator or deposits. Financial institutions are expected to start calculating their leverage ratios as of January 1, 2013, and to disclose their contents and components used to calculate them as of January 1, 2015. As of January 1, 2018 there is to be a minimum requirement for the leverage ratio, which was originally set at 3%.

In order to determine minimum requirements for quantitative liquidity of financial institutions, Basel III proposes two liquidity ratios: one short-term and the other long-term.

The purpose of the short-term liquidity ratio (Liquidity Coverage Ratio, or LCR) is to show that institutions have sufficient high-liquidity funds to withstand a one-month financial stress scenario. The purpose of the long-term liquidity ratio (Net Stable Funding Ratio, or NSFR) is to encourage institutions to finance their activities from more stable sources of funding. The expected requirement will be a ratio of more than one (1) for the LCR as of January 1, 2015 and the NSFR as of January 1, 2018.

Finally, on January 13, 2011, the Basel Committee on Banking Supervision published a document known as the "January 13 Annex" in which it extended Basel III rules with additional requirements applicable

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to Tier 1 and 2 capital. Under the January 13 Annex rules, a capital instrument issued by a bank must include a clause enabling the competent regulatory body to either cancel this instrument, or convert it to common shares on the occurrence of a "trigger event." A "trigger event" is whichever of the following occurs first: (1) a decision that a cancellation is necessary, without which the bank would become insolvent; and (2) the decision to make a public capital injection, or equivalent subsidy, without which the bank would become insolvent. These additional requirements will apply to all instruments issued after January 1, 2013; otherwise, any qualified instruments issued before that date will be gradually deducted from capital measurement for a period of ten years as of 2013.

Brazil has been a member of the Basel Committee on Banking Supervision since late 2009 and must therefore apply Basel III proposals. The Central Bank issued Notice No. 20,615/11 on preliminary guidelines and schedules for implementing recommendations on capital structure and liquidity requirements. According to this communication, the regulator intends to bring forward the implementation of several measures.

Under the current rule (Basel II), Brazilian financial institutions, ourselves included, must hold a capital base (Reference Shareholders´ Equity) of 11% or more of total RWA (Basel ratio) calculated using specific criteria determined by the Central Bank. On December 31, 2010, our Basel ratio in consolidated financial terms, excluding our non-financial subsidiaries, was 15.06% of total RWA, which is higher than the 11% level required by the Central Bank.

The following table shows our capital positions as a percentage of total risk weighted assets, as well as our minimum capital requirements under Brazilian law, for the dates indicated. The table and the following information are based on generally accepted accounting principles in Brazil:

	As of December 31,		
	2008[(1)]	**2009**	**2010**
	(R$ in millions, except percentages)		
Capital - Tier I	12.9%	14.8%	13.1%
Capital - Tier II	3.2%	3.0%	1.6%
Total Capital	16.1%	17.8%	14.7%
Available regulatory capital	47,263	55,928	56,146
Minimum regulatory capital required	32,318	34,509	41,893
Excess over minimum regulatory capital required	**14,945**	**21,419**	**14,253**

(1) As of July 1, 2008, calculations are based on the New Capital Accord (Basel II).

The increase in our available authorized capital from R$55,928 million as of December 31, 2009 to R$56,146 million as of December 31, 2010, was mainly due to: the R$6,653 million corresponding to profit capitalization, after the payment of dividends/interest on shareholders' equity; partially offset by (i) the R$3,003 million decrease from the additional allowance for loan losses over the minimum required by the Central Bank, which is no longer considered as Tier I capital adjustment, pursuant to CMN Resolution No. 3,825/09, and (ii) the R$2,900 million decrease in subordinated debt eligible to Tier II Capital.

The increase in our available authorized capital from R$47,263 million as of December 31, 2008 to R$55,928 million as of December 31, 2009, was mainly due to: (i) the R$5,295 million corresponding to profit capitalization, after the payment of dividends/interest on shareholders' capital; (ii) the R$1,368 million capital increase corresponding to the acquisition process of Banco Ibi and (iii) the R$1,382 million increase from the additional allowance for loan losses, which is now considered as Level I capital adjustment, pursuant to CMN Resolution No. 3,674/08, revoked by CMN Resolution No. 3,825/09, effective as of April 1, 2010.

The excess of our capitalization over the minimum regulatory capital required was R$14,253 million as of December 31, 2010, as compared to R$21,419 million in 2009. This decrease was due to a higher minimum regulatory capital requirement, mainly because of the capital allocation for credit risk, which increased from R$5,892 million, while our available regulatory capital increased R$218 million impacted by the R$3,003 million decrease from the additional provision for loan losses over the minimum required by the Central Bank, which is no longer considered as Tier I capital adjustment, pursuant to CMN Resolution No. 3,825/09.

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As of December 31 of each of 2008, 2009 and 2010, we were in compliance with all minimum capital requirements stipulated by the Central Bank. For a description of our capital requirements and Central Bank capital adequacy regulations see "Item 4.B. Business Overview - Regulation and Supervision - Bank Regulations - Principal limitations and restrictions on activities of financial institutions."

In recent years, we have maintained a significant position in short-term, highly liquid instruments, which in general have a zero or low risk weighting, thereby eliminating or significantly reducing the need to maintain capital against these assets. This position reflects the unfavorable credit environment that prevailed in Brazil during 2002, 2003 and the last quarter of 2008. If we were to increase significantly our loan portfolio, we would be required to maintain capital against these assets which, depending on the capital position at that time, could reduce our capital as a percentage of risk-weighted assets.

Interest rate sensitivity

Management of interest rate sensitivity is a key component of our asset and liability policy. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or re-pricing characteristics of interest-earning assets and interest-bearing liabilities. For any given period, the pricing structure is considered balanced when an equal amount of these assets or liabilities matures or reprices in that period. Any mismatch of interest-earning assets and interest-bearing liabilities is known as a gap position. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a negative effect on net interest income. Conversely, a positive gap denotes asset sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income. These relationships can change significantly from day to day as a result of both market forces and management decisions.

Our interest rate sensitivity strategy takes into account:

- rates of return;
- the underlying degree of risk; and
- liquidity requirements, including minimum regulatory banking reserves, mandatory liquidity ratios, withdrawal and maturity of deposits, capital costs and additional demand for funds.

We monitor our maturity mismatches and positions and manage them within established limits. Our Treasury committee reviews our positions at least weekly and changes our positions as market outlooks change.

The following table shows the maturities of our interest-earning assets and interest-bearing liabilities as of December 31, 2010 and may not reflect interest rate gap positions at other times. In addition, variations in interest rate sensitivity may exist within the re-pricing periods presented due to differing re-pricing dates. Variations may also arise among the different currencies in which interest rate positions are held.

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	December 31, 2010						
	Up to 30 days	31 - 90 days	91 - 180 days	181 - 365 days	1 - 3 years	Over 3 years	Total
	(*R$ in millions, except percentages*)						
Interest-earning assets:							
Deposits from financial institutions	3,215	664	2,350	1,076	1,894	10	9,209
Federal funds sold and securities purchased under agreements to resell	22,995	13,438	7,639	3,058	55,870	12,276	115,276
Brazilian Central Bank compulsory deposits	54,214	-	-	-	-	-	54,214
Securities received in resale agreements	3,370	10,636	1,631	-	-	-	15,637
Trading assets	12,820	1,307	3,116	2,915	6,178	70,051	96,387
Available-for-sale securities	1,813	322	67	13	741	32,066	35,022
Held-to-maturity securities	106	--	--	--	122	3,166	3,394
Loans	29,417	25,819	24,998	34,295	64,109	30,563	209,201
Other assets	--	--	--	--	--	508	508
Total interest-earning assets	**127,950**	**52,186**	**39,801**	**41,357**	**128,914**	**148,640**	**538,848**
Interest-bearing liabilities:							
Deposits from financial institutions	171	26	9	50	19	-	275
Savings deposits	53,436	-	-	-	-	-	53,436
Time deposits	6,304	4,370	3,128	20,769	60,140	7,447	102,158
Federal funds purchased and securities sold under agreements to repurchase	104,999	9,715	4,460	6,917	31,708	2,902	160,701
Short-term borrowings	817	1,843	2,161	2,153	756	5	7,735
Long-term debt	1,855	6,205	4,441	9,553	34,239	18,944	75,237
Total interest-bearing liabilities	**167,582**	**22,159**	**14,199**	**39,442**	**126,862**	**29,298**	**399,542**
Asset/liability gap	(39,632)	30,027	25,602	1,915	2,052	119,342	139,306
Cumulative gap	(39,632)	(9,605)	15,997	17,912	19,964	139,306	-
Ratio of cumulative gap to cumulative total interest-earning assets	(7.35)%	(1.78)%	2.97%	3.32%	3.70%	25.85%	

Exchange rate sensitivity

Most of our operations are denominated in *reais*. Our policy is to avoid material exchange rate mismatches. However, at any given time, we generally have outstanding long-term debt denominated in and indexed to foreign currencies, principally the U.S. dollar. We had R$10,591 million of long-term debt outstanding as of December 31, 2010. At that date, our net foreign currency liability exposure, considering off-balance-sheet derivative financial instruments, was R$14,451 million, or 27.4% of shareholders' equity. Consolidated net foreign currency exposure is the difference between total foreign currency-indexed or -denominated assets and total foreign currency-indexed or -denominated liabilities, including off-balance-sheet derivative financial instruments.

Our foreign currency position arises mainly through our purchases and sales of foreign exchange (primarily U.S. dollars) from Brazilian exporters and importers, from other financial institutions on the interbank market, and on the spot and forward currency markets. The Central Bank regulates our maximum outstanding long and short foreign currency positions.

As of December 31, 2010, the composition of our assets, liabilities and shareholders' equity by currency and term was as shown below. Our foreign currency assets are largely denominated in *reais* but are indexed to foreign currencies, principally the U.S. dollar. Most of our foreign currency liabilities are denominated in foreign currencies, principally the U.S. dollar.

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	December 31, 2010			
	R$	Foreign currency	Total	Foreign currency as % of total
	(R$ in millions, except percentages)			
Assets:				
Cash and due from banks	13,908	1,867	15,775	11.8%
Interest earning deposits from financial institutions	8,018	1,191	9,209	12.9%
Federal funds sold and securities purchased under agreements to resell	111,071	4,205	115,276	3.6%
Brazilian Central Bank compulsory deposits	65,198	-		