

BANK BRADESCO  
Form 20-F  
June 30, 2008

As filed with the Securities and Exchange Commission on June 30, 2008

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SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549  
FORM 20-F  
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
**For the fiscal year ended December 31, 2007**

**Commission File Number: 1-15250**

**Banco Bradesco S.A.**  
**(exact name of registrant as specified in its bylaws)**  
Bank Bradesco  
**(translation of registrant's name into English)**  
Federative Republic of Brazil  
**(jurisdiction of incorporation or organization)**  
Cidade de Deus, Vila Yara, 06029-900, Osasco, SP, Brazil  
**(address of principal executive offices)**

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

<b>Title of each class</b>	<b>Name of each exchange on which they are registered</b>
American Depositary Shares, each representing 1 Preferred Share, without par value ( <b>ADSs</b> )	New York Stock Exchange
Preferred Shares, without par value ( <b>Preferred Shares</b> )	New York Stock Exchange (for listing purposes only)

**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.**

**The number of outstanding shares of each one of the issuer's classes of capital stock as of December 31, 2007 was:**

1,009,337,030	Common Shares
1,009,336,926	Preferred Shares

On March 24, 2008, we effected a stock split of our capital stock. If we adjusted the number of our outstanding shares above to take into account the March 24, 2008 stock split, we would have had 1,514,005,545 common shares and 1,514,005,389 preferred shares on December 31, 2007.

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes      No

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

Yes      No

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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.

Yes      No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which financial statement item the registrant has elected to follow.

Item 17      Item 18

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

Yes      No

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**PRESENTATION OF INFORMATION**

In this annual report, the terms Bradesco, the Company, the Entity, the Bank, we or us refer to Banco 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, insurance and private pension plan services to all segments of the Brazilian domestic market. Our operations are based primarily in Brazil.

Item 18 of this annual report includes our audited consolidated financial statements as of and for the years ended December 31, 2005, 2006 and 2007, including the notes thereto, which have been prepared in accordance with generally accepted accounting principles in the United States, known as U.S. GAAP.

References herein to *real*, *reais* or R\$ are to the Brazilian *real*, the official currency of Brazil. References herein to U.S. dollars or US\$ are to United States dollars.

The following table sets forth, for the dates indicated, the exchange rate of *reais* to U.S. dollars based on the noon buying rate in New York City as reported by the Federal Reserve Bank of New York and the U.S. dollar selling rate as reported by the Central Bank of Brazil, which we call the Central Bank, at closing:

<b>Date</b>	<b>Noon Buying Rate for U.S. dollars</b>	<b>Closing Selling Rate for U.S. dollars</b>
December 31, 2005	2.3340	2.3407
December 31, 2006	2.1342	2.1380
December 31, 2007	1.7790	1.7713
June 16, 2008	1.6249	1.6277

As a result of recent fluctuations in the *real*/U.S. dollar exchange rate, the closing selling exchange rate at June 16, 2008 or at any other date may not be indicative of current or future exchange rates.

For your convenience, certain amounts have been converted from *reais* to U.S. dollars. Unless otherwise indicated, these conversions have been calculated using the U.S. dollar selling rate at closing published by the Central Bank at May 31, 2008 of R\$1.6294 per US\$1.00. Therefore, you should not read these exchange rate conversions as representations that any such amounts have been, could have been or could be converted into U.S. dollars at those or any other exchange rates, or at that or any other date. See Item 3. Key Information Exchange Rate Information for more information regarding the exchange rates applicable to the Brazilian currency since 2002.

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

**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.****SELECTED FINANCIAL DATA**

You should read the following selected financial data in conjunction with **Presentation of Information** and **Item 5. Operating and Financial Review and Prospects** included in this annual report.

We have presented below selected financial information prepared in accordance with U.S. GAAP as of and for the years ended December 31, 2003, 2004, 2005, 2006 and 2007. The selected U.S. GAAP balance sheet information as of December 31, 2006 and 2007 is derived from and should be read in conjunction with our audited consolidated financial statements prepared in accordance with U.S. GAAP provided in Item 18. The remainder selected financial information for the years ended December 31, 2005, 2006 and 2007 is derived from and should be read in conjunction with our audited consolidated financial statements prepared in accordance with U.S. GAAP provided in Item 18. The report of the Independent Registered Public Accounting Firm is included in this annual report.

This information is qualified in its entirety by reference to the U.S. GAAP financial statements and the notes thereto provided in Item 18.

	Year ended December 31,					2007 (US\$ in millions) (1)
	2003	2004	2005	2006	2007	
	(R\$ in millions)					
<b>Data from the Consolidated Statement of Income:</b>						
	R\$	R\$	R\$	R\$	R\$	US\$
Net interest income <sup>(2)</sup>	14,970	14,590	18,485	21,402	23,771	14,589
Provision for loan losses	(2,034)	(1,429)	(1,823)	(3,767)	(4,616)	(2,833)
Net interest income after provision for loan losses	12,936	13,161	16,662	17,635	19,155	11,756
Fee and commission income <sup>(2)</sup>	3,364	4,296	5,121	6,379	7,819	4,798
Insurance premiums	6,149	6,764	7,805	8,121	8,843	5,427
Pension plan income	64	374	377	791	555	341
Equity in the earnings of unconsolidated companies <sup>(3)</sup>	60	66	186	224	407	250
Other non-interest income <sup>(4)</sup>	1,373	2,768	4,051	4,338	6,257	3,840

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Operating expenses <sup>(5)</sup>	(8,586)	(8,921)	(9,645)	(11,310)	(13,005)	(7,982)
Insurance claims	(4,333)	(4,822)	(5,501)	(6,124)	(6,012)	(3,690)
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(3,777)	(4,326)	(3,939)	(4,199)	(4,981)	(3,057)
Pension plan operating expenses	(637)	(751)	(505)	(560)	(478)	(293)
Insurance and pension plan selling expenses	(762)	(907)	(1,041)	(852)	(1,157)	(710)
Other non-interest expense <sup>(2)(6)</sup>	(3,195)	(3,762)	(4,819)	(5,693)	(6,106)	(3,747)
Income before income taxes and minority interest	2,656	3,940	8,752	8,750	11,297	6,933
Taxes on income	(346)	(601)	(2,431)	(2,273)	(3,352)	(2,057)
Minority interest	(8)	(12)	(11)	(15)	(37)	(23)
Net income	R\$ 2,302	R\$ 3,327	R\$ 6,310	R\$ 6,462	R\$ 7,908	US\$4,853



	Year ended December 31,					
	2003	2004	2005	2006	2007	2007
	(R\$, except numbers of shares)					(US\$)
<b>Per Share Data</b>						
<sup>(7)</sup> :						
Earnings per share <sup>(8)(9)</sup>						
Common	R\$ 0.80	R\$ 1.11	R\$ 2.05	R\$ 2.09	R\$ 2.50	US\$1.53
Preferred	0.88	1.22	2.26	2.30	2.75	1.69
Dividends/ interest on shareholders capital per share <sup>(10)</sup>						
Common	0.47	0.44	0.62	0.70	0.89	0.55
Preferred	R\$ 0.51	R\$ 0.49	R\$ 0.67	R\$ 0.77	R\$ 0.98	US\$0.60
Weighted average number of outstanding shares:						
Common	1,385,280,666	1,435,596,690	1,465,770,912	1,470,575,223	1,504,008,900	
Preferred	1,365,482,916	1,416,490,788	1,460,839,863	1,472,508,873	1,505,136,649	
	<b>Year ended December 31,</b>					
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
			<b>(R\$ in millions)</b>			<b>(US\$ in millions)<sup>(1)</sup></b>
<b>Assets</b>						
Cash and due from banks	R\$ 2,473	R\$ 2,690	R\$ 3,447	R\$ 4,748	R\$ 5,485	US\$3,366
Interest earning deposits in other banks	5,170	7,976	13,119	8,918	7,887	4,840
Federal funds sold and securities purchased under agreements to resell	26,175	19,435	10,985	14,649	40,601	24,918
Brazilian Central Bank compulsory deposits	16,690	20,209	21,686	23,461	31,813	19,524
Trading and available for sale securities, at fair value	43,267	43,197	55,658	86,614	88,799	54,498
Held to maturity securities	3,265	4,200	4,121	3,265	2,981	1,830
Loans <sup>(11)</sup>	55,006	63,500	83,311	98,724	133,137	81,709
Allowance for loan losses	(3,846)	(4,063)	(4,964)	(6,552)	(7,769)	(4,768)
Equity investees and other investments	295	708	397	527	761	467
Premises and equipment, net	3,106	2,946	2,721	3,000	3,547	2,177
Goodwill		262	332	667	883	542
Intangible assets, net <sup>(11)</sup>	1,876	1,792	1,554	2,163	2,917	1,790

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Other assets <sup>(11)</sup>	12,853	14,227	14,227	19,087	23,467	14,403
<b>Total assets</b>	<b>166,330</b>	<b>177,079</b>	<b>206,594</b>	<b>259,271</b>	<b>334,509</b>	<b>205,296</b>
<b>Liabilities</b>						
Deposits	58,027	68,647	75,407	83,925	98,341	60,354
Federal funds purchased and securities sold under agreements to repurchase	27,490	16,532	22,886	42,875	69,015	42,356
Short term borrowings	7,795	8,272	7,066	5,709	7,989	4,903
Long term debt	20,093	19,653	23,316	30,122	38,915	23,883
Other liabilities	39,260	48,343	57,612	70,083	86,879	53,320
<b>Total liabilities</b>	<b>152,665</b>	<b>161,447</b>	<b>186,287</b>	<b>232,714</b>	<b>301,139</b>	<b>184,816</b>
<b>Minority interest in consolidated subsidiaries</b>	<b>73</b>	<b>73</b>	<b>88</b>	<b>93</b>	<b>281</b>	<b>173</b>
<b>Shareholders Equity</b>						
Common shares <sup>(12)</sup>	3,525	3,525	6,497	7,095	9,497	5,829
Preferred shares <sup>(13)</sup>	3,475	3,475	6,503	7,105	9,503	5,832
Capital stock	7,000	7,000	13,000	14,200	19,000	11,661
<b>Total shareholders equity</b>	<b>13,592</b>	<b>15,559</b>	<b>20,219</b>	<b>26,464</b>	<b>33,089</b>	<b>20,307</b>
<b>Total liabilities and shareholders equity</b>	<b>166,330</b>	<b>177,079</b>	<b>206,594</b>	<b>259,271</b>	<b>334,509</b>	<b>205,296</b>
Average assets <sup>(14)</sup>	146,872	162,891	188,091	227,898	289,456	177,646
Average liabilities <sup>(14)</sup>	134,625	148,814	170,677	206,466	261,552	160,520
	R\$	R\$	R\$	R\$	R\$	
Average shareholders equity <sup>(14)</sup>	12,138	14,012	17,357	21,323	27,731	US\$17,019

- (1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R\$1.6294 = US\$1.00, the Central Bank exchange rate on May 30, 2008. We used the exchange rate of May 30, 2008, instead of December 31, 2007, because there has been an appreciation in the real U.S. dollar exchange rate since December 31, 2007. For more information, see Item 5. Operating and Financial Review and Prospects Overview Brazilian Economic Conditions. 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) The amounts R\$99, R\$14, R\$16 and R\$231 referring to the balances for the years ended December 31, 2003, 2004, 2005 and 2006, respectively, were reclassified from the item Fee and commission income to the item Net interest income, and the amounts R\$128, R\$228, R\$397 and R\$535 referring to the balances for the years ended December 31, 2003, 2004, 2005 and 2006, respectively, were reclassified from the item Other non-interest income to the item Net interest income. These reclassifications were implemented to allow the comparability of the financial statements for and as of the years ended December 31, 2003, 2004, 2005 and 2006 with the financial statements for and as of the year ended December 31, 2007. These reclassifications do not affect the amounts recorded as assets, liabilities, shareholders equity and net income.
- (3) For more information on the results of equity investees, see Item 5. Operating and Financial Review and Prospects and note 9 to our consolidated financial statements in Item 18.

- (4) Other non-interest income consists of trading income (losses), net realized gains on available-for-sale securities, net gain on foreign currency transactions and other non-interest income.
- (5) Operating expenses consists of salaries and benefits and administrative expenses.
- (6) Other non-interest expense consists of amortization of intangible assets, depreciation and amortization and other non-interest expense.
- (7) Per share data reflects, on a retroactive basis: (a) a reverse split of our shares at a 10,000:1 share ratio, which was approved by our shareholders on March 10, 2004 (as a result, we had 158,587,942 authorized and issued shares outstanding, no par value, as of December 31, 2003). The new shares began trading on the São Paulo Stock Exchange on March 22, 2004; (b) a split of our capital stock on December 9, 2004, in which we issued two new shares for each existing share; (c) a split of our capital stock on November 11, 2005, in which we issued one new share for each existing share; (d) a split of our capital stock on March 12, 2007, in which we issued one new share for each existing share; and (e) a split of 1 share for each two shares of respective type resolved on March 24, 2008.
- (8) For purposes of calculating earnings per share in accordance with the U.S. GAAP, preferred shares are treated in the same manner as common shares. Preferred shareholders are entitled to receive dividends per share in an amount 10.0% greater than the dividends per share paid to common shareholders. For a description of our two classes of shares, see Item 10. Additional Information Memorandum and Articles of Incorporation.
- (9) None of our outstanding obligations are exchangeable for or convertible into equity securities. As a consequence, our diluted earnings per share does not differ from our earnings per share. Accordingly, our basic and diluted earnings per share are equal in all periods presented. See note 2(u) to our consolidated financial statements in Item 18.
- (10) The amounts determined in US dollars were converted into reais using the exchange rate on the date such dividend was paid.
- (11) The amounts R\$211, R\$324, R\$622 and R\$789 regarding loan origination fees and costs and corresponding to the balances as of the years ended December 31, 2003, 2004, 2005 and 2006, respectively, were reclassified from the item Other assets to the item Loans, and the amounts R\$136, R\$224, R\$260 and R\$540 regarding intangible assets related to exclusive rights for rendering banking services and corresponding to the balances as of the years ended December 31, 2003, 2004, 2005 and 2006, respectively, were reclassified from the item Other assets to the item Intangible assets, net. These reclassifications were implemented to allow the comparability of the financial statements for and as of the years ended December 31, 2003, 2004, 2005 and 2006 with the financial statements for and as of the year ended December 31, 2007. These reclassifications do not affect the amounts recorded as assets, liabilities, shareholders equity and net income.
- (12) Common shares outstanding, no par value: 1,009,337,030 authorized and issued up to December 31, 2007; 500,071,456 authorized and issued at December 31, 2006; 489,450,004 authorized and issued at December 31, 2005; and 238,351,329 authorized and issued on December 31, 2004. Data from 2003 to 2007 reflects (a) the reverse split of our shares at a 10,000:1 share ratio, in March 2004; (b) a split of our capital stock in December, 2004, in which we issued two new shares for each existing shares; (c) a split of our capital stock in November, 2005, in which we issued one new share for each existing share; and (d) a split of our capital stock in March, 2007, in which we issued one new share for each existing share.
- (13) Preferred shares outstanding, no par value: 1,009,336,926 authorized and issued up to December 31, 2007; 500,811,468 authorized and issued at December 31, 2006; 489,938,838 authorized and issued at December 31, 2005; and 236,081,796 authorized and issued on December 31, 2004. Data from 2003 to 2007 reflects (a) the reverse split of our shares at a 10,000:1 share ratio, in March 2004; (b) a split of our capital stock in December, 2004, in which we issued two new shares for each existing shares; (c) a split of our capital stock in November, 2005, in which we issued one new share for each existing share; and (d) a split of our capital stock in March, 2007, in which we issued one new share for each existing share.
- (14) See Item 4. Information on the Company Selected Statistical Information.

Preferred shareholders are entitled to receive dividends per share in an amount 10.0% greater than the dividends per share paid to our common shareholders.

**EXCHANGE RATE INFORMATION**

From 2003 to 2007, the *real* appreciated against the U.S. dollar. During the first five months of 2008, the real continued to appreciate against the U.S. dollar. Under the current free convertibility exchange system, the *real* may undergo further devaluation or may appreciate when compared to the U.S. dollar and other currencies.

The following table sets forth the period-end, average, high and low noon buying rate reported by the Federal Reserve Bank expressed in *reais* per U.S. dollars for the periods and dates indicated:

**Noon Buying Rate for U.S. dollars  
R\$ per US\$1.00**

<b>Period</b>	<b>Period-End</b>	<b>Average (1)</b>	<b>High</b>	<b>Low</b>
2003	R\$ 2.8950	R\$ 3.0954	R\$ 3.6640	R\$2.8270
2004	2.6550	2.9131	3.2085	2.6510
2005	2.3340	2.4352	2.7755	2.1695
2006	2.1342	2.1774	2.3340	2.0900
2007	1.7790	1.9452	2.1342	1.7386
December	1.7790	1.7852	1.8204	1.7580
2008				
January	1.7578	1.7710	1.8175	1.7346
February	1.6845	1.7290	1.7655	1.6671
March	1.7441	1.7090	1.7441	1.6673
April	1.6950	1.6863	1.7410	1.6547
May	R\$ 1.6252	R\$ 1.6585	R\$ 1.6880	R\$ 1.6252

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

Source: Federal Reserve Bank of New York

On June 16, 2008, the noon buying rate reported by the Federal Reserve Bank of New York was R\$1.6249 per US\$1.00.

The following table sets forth the period-end, average, high and low selling rate reported by the Central Bank at closing, expressed in *reais* per U.S. dollars for the periods and dates indicated:

**Closing Selling Rate for U.S. dollars  
R\$ per US\$1.00**

<b>Period</b>	<b>Period-End</b>	<b>Average (1)</b>	<b>High</b>	<b>Low</b>
2003	R\$ 2.8892	R\$ 3.0964	R\$ 3.6623	R\$ 2.8219
2004	2.6544	2.9150	3.2051	2.6544
2005	2.3407	2.4341	2.7621	2.1633
2006	2.1380	2.1812	2.3407	2.0892
2007	1.7713	1.9460	2.1380	1.7440
December	1.7713	1.7860	1.8233	1.7616
2008				
January	1.7603	1.7743	1.8301	1.7414
February	1.6833	1.7277	1.7681	1.6715
March	1.7491	1.7076	1.7491	1.6700
April	1.6872	1.6889	1.7534	1.6575
May	R\$ 1.6294	R\$ 1.6605	R\$ 1.6949	R\$1.6294

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

*Source:* Central Bank

On June 16, 2008, the U.S. dollar selling rate reported by the Central Bank at the close of the day was R\$1.6277 to US\$1.00.

## RISK FACTORS

### Risks Relating to Brazil

*Brazilian political and economic conditions have a direct impact on our business and the market price of the preferred shares and ADSs.*

Substantially all of our operations and customers are located in Brazil. Accordingly, 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 addition, our operations, financial condition and the market price of the preferred shares and ADSs may also be adversely affected by changes in government policy or regulations including such factors as:

- exchange rates and exchange control policies;
- interest rates;
- monetary policy;
- liquidity of domestic capital and lending markets;
- domestic economic growth;
- changes in the tax regime, including charges applicable to the banking industry;
- inflation rates; and
- other political, diplomatic, social and economic developments within and outside of Brazil that may affect the country.

The Central Bank determines the Brazilian base interest rate, which we refer to as the base interest rate. The base interest rate is the benchmark interest rate payable to holders of securities issued by the federal government and trade at the Sistema Especial de Liquidação e Custódia Selic (Special System for Settlement and Custody, known as Selic). In the first half of 2007, the Central Bank decreased Brazil's base interest rate from 13.0% to 12.0% and continued to decrease it in the second half of 2007, reaching a rate of 11.25% at December 2007. During the first six months of 2008, Brazil's base interest rate increased to 12.25%.

We have no control over, and cannot predict, what measures or policies the Brazilian government may take in response to the current or future state of the Brazilian economy or how such measures or policies may affect the Brazilian economy and, either directly or indirectly, our operations and revenues.

***A mismatch of our foreign exchange exposure may lead to substantial losses in our liabilities denominated in, or indexed to, foreign currencies, a reduction in our revenues and a decline in the competitiveness of our loan and leasing operations.***

The exchange rate between the *real* and the U.S. dollar has varied significantly in recent years. For example, the *real*/U.S. dollar exchange rate decreased from R\$2.1380 per U.S. dollar at December 31, 2006 to R\$1.7713 at December 31, 2007. In the last two years, the value of the *real* appreciated by 24.3% against the U.S. dollar, and during the first five months of 2008 the value of the *real* increased by 8.0%, to R\$1.6294 per U.S. dollar at May 31, 2008, as compared to R\$1.7713 per U.S. dollar at December 31, 2007. At June 16, 2008, the *real*/U.S. dollar-exchange rate was R\$1.6277 per U.S. dollar.

A significant amount of our financial assets and liabilities are denominated in, or indexed to, foreign currencies, primarily U.S. dollars. When the Brazilian currency is devalued, we incur losses on our liabilities denominated in or indexed to foreign currencies, such as our U.S. dollar-denominated long-term debt and foreign currency loans, and experience gains on our monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into *reais*. If devaluations occur when the value of such liabilities significantly exceeds the value of such assets, including any financial instruments entered into for hedging purposes, we could incur significant losses, even if their value has not changed in their original currency.

Conversely, when the value of the *real* appreciates against the U.S. dollar, we incur losses on our monetary assets denominated in or indexed to foreign currencies and experience gains on our liabilities denominated in or indexed to foreign currencies. If the *real* appreciates and the value of such assets significantly exceeds the value of such liabilities, we could incur significant losses, even if their value has not changed in their original currency.

***If Brazil experiences substantial inflation in the future, our revenues and the market price of the preferred shares and ADSs may be reduced.***

Brazil has in the past experienced extremely high rates of inflation, with annual rates of inflation (IGP-DI) during the last fifteen years reaching as high as 2,708% in 1993. More recently, Brazil's rates of inflation were 3.8% in 2006, 7.9% in 2007 and 5.2% for the five months ended May 31, 2008. Inflation itself and governmental measures to combat inflation have in the past had significant negative effects on the Brazilian economy. Inflation, actions taken to combat inflation and public speculation about possible future actions have also contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets. If Brazil experiences substantial inflation in the future, our costs (if not accompanied by an increase in interest rates) may increase, our operating and net margins may decrease and, if investor confidence lags, the price of our preferred shares and ADSs may fall. Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

***Adverse changes in Brazilian economic conditions could cause an increase in customer defaults on their outstanding obligations to us, which could materially reduce our earnings.***

Our banking, leasing, and other businesses are significantly dependent on our customers' ability to make payments on their loans and to meet their other obligations to us. If the Brazilian economy weakens because of, among other factors, (i) the level of economic activity, (ii) devaluation of the *real*, (iii) inflation, or (iv) an increase in interest rates, some of our customers may be unable to repay their loans or to meet their debt service requirements, which would increase our past due loan portfolio and could materially reduce our net earnings.





***Access to international capital markets for Brazilian companies is influenced by the perception of risk in emerging economies, which may hurt our ability to finance our operations.***

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil, and, to varying degrees, market conditions in other Latin American and other emerging market countries. Although economic conditions in such 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 companies. Crises in other emerging market countries or the economic policies of other countries, in particular those of the United States and countries of the European Union, may reduce investor demand for securities of Brazilian companies, including ours. Any of the foregoing developments could adversely affect the market price of our common shares and hinder our ability to access the capital markets and finance our operations in the future on acceptable terms, or at all.

***Developments in other emerging markets may adversely affect the market price of the preferred shares and ADSs.***

The market price of the preferred shares and ADSs may be adversely affected by declines in the international financial markets and world economic conditions. Brazilian securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America. Although economic conditions are different in each country, investors' reaction to developments in one country can affect the securities markets and the securities of issuers in other countries, including Brazil.

Developments in other countries have also at times adversely affected the market price of our and other Brazilian companies' preferred shares, as investors' perceptions of increased risk due to crises in other emerging markets can lead to reduced levels of investment in Brazil and, in addition, may hurt our ability to finance our operations through the international capital markets. If the current economic situation in Latin America deteriorates, or if similar developments occur in the international financial markets in the future, the market price of the preferred shares and ADSs may be adversely affected.

### **Risks Relating to the Company and the Brazilian Banking Industry**

***The Brazilian government regulates the operations of Brazilian banks and insurance companies, and changes in existing laws and regulations or the imposition of new ones 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 reserve requirements;
- investment requirements in fixed assets;
- lending limits and other credit restrictions; and
- accounting and statistical requirements.

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.

Regulatory changes affecting other businesses in which we are engaged, including our broker-dealer and leasing operations, could also have an adverse effect on our operations and our revenues.

***Changes in base interest rates by the Central Bank may materially adversely affect our results of operations and profit.***

The Central Bank establishes the base interest rates for the Brazilian banking system. In recent years, the base interest rate has fluctuated, with a high of approximately 45.0% per year in March 1999 and a low of 11.25% per year in December 2007. In December 2005, the Central Bank decreased the base interest rate to 18.0% per year. The Central Bank reduced the base interest rate to 13.25% per year in December 2006. 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 Central Bank 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 Central Bank or how often they adjust them.

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

We face significant competition in all of our principal areas of operation from other large Brazilian banks and insurance companies, both public and private. 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 we do, 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 client base and expand our operations;
- reducing our profit margins on the banking, insurance, leasing and other services and products we offer; and
- increasing competition for foreign investment opportunities.

Furthermore, additional publicly-owned banks and insurance companies may be privatized in the future. The acquisition of a bank or insurance company in a privatization process or otherwise by one of our competitors would add to the acquirers' market share, and as a result, we may face increased competition from the acquirer.



***New regulations focused on increasing the competitiveness in the banking sector may adversely affect our competitiveness***

In September 2006, the *Conselho Monetário Nacional* (National Monetary Council), which we call CMN, enacted new regulations to increase competition among Brazilian commercial banks.

Among the key aspects of these new regulations are (i) banks are prohibited from charging their clients fees for services in connection with salary, pension and other income payment accounts that such clients are required to maintain with a bank that is designated by such client's employer, pension fund or income payor; (ii) financial institutions and leasing companies must accept the prepayment of loans and leasing transactions by clients who have elected to refinance such debt with other financial institutions; (iii) clients will have the right to request that a financial institution disclose their credit history to another financial institution; and (iv) changes in the regulation of the Credit Guarantee Fund, known as FGC, which is a government fund created to guarantee payment of funds deposited with financial institutions in case of intervention, administrative liquidation, bankruptcy, or other state of insolvency, thereby providing depositors with greater assurance that their deposits will be safeguarded. For more information on the FGC, see Regulation and Supervision Bank Regulations Dissolution of Financial Institutions Repayment of Creditors in Liquidation.

By creating mechanisms that will make it easier for clients to open new accounts and transfer their funds from one institution to another, these new regulations aim to increase competition among financial institutions by facilitating a client's ability to switch their business from one financial institution to another. In addition, the changes in the Federal depositary insurance regime are intended to provide clients with the security of knowing that if they deposit their funds in a smaller institution, their loss will be guaranteed at up to R\$60,000 per client in the event that the bank becomes insolvent.

We cannot determine at this time how these new regulations may affect our ability to compete with other financial institutions in Brazil. In addition, the Minister of Finance is considering the appropriate implementation regulations for two additional measures, which, if implemented, may also affect our competitiveness. We can provide no assurance that these new regulations, the measures that are currently being considered or any additional future regulations, will not have an adverse impact on our competitiveness, thereby adversely impacting our results of operations and the price of our ADSs.

***Some of our common shares are held by shareholders, whose interests may conflict with other investors' interests.***

At December 31, 2007, Cidade de Deus Companhia Comercial de Participações, which we call Cidade de Deus Participações, directly held 48.22% of our common shares and Fundação Bradesco, directly and indirectly, held 48.21% of our common shares. As a result, these shareholders have the power to prevent a change in control of our company, even if a transaction of that nature would be beneficial to our other shareholders. These shareholders also have the power to approve related-party transactions or corporate reorganizations, which may not be beneficial for our other shareholders. Under the terms of Fundação Bradesco's bylaws, all of our directors, members of the *Diretoria Executiva* and departmental directors (which has been working at Grupo Bradesco for more than ten years), as well as all directors and officers of Cidade de Deus Participações, serve as members of the board of trustees of Fundação Bradesco. The board of trustees has no other members. For more information on our shareholders, see Item 7. Major Shareholders and Related Party Transactions Major Shareholders.

***Changes in reserve and compulsory deposit requirements may hurt our profitability.***

In mid-2002, the Central Bank increased the reserve requirements to 8.0% over demand deposits and time deposits and 10.0% over savings deposits. Such amounts shall be paid in kind by the banks and will bear interest equivalent to the base interest rate for the Brazilian banking system. On December 31, 2007, the reserve requirements over demand, time and savings deposits required us to hold a total of R\$8.1 billion. On December 31, 2007, the reserve requirements over time deposits, required us to hold a total amount of R\$8.3 billion in Brazilian government securities. At the beginning of 2008, the Central Bank determined a new compulsory deposit requirement over interbank deposits of leasing companies. Our leasing company invests most of its cash available for immediate investment in interbank deposit accounts with us. This new Central Bank requirement would have an adverse impact on the cost of our deposit-taking activities. In addition, we could be materially adversely affected by changes in compulsory deposit requirements because the monies held as compulsory deposits generally do not yield the same return as our other investments and deposits because:

- a portion of our compulsory deposits do not bear interest;
- we are obligated to hold some of our compulsory deposits in Brazilian government securities; and
- we must use a portion of the deposits to finance a federal housing program, the rural sector and the microcredit program.

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.

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

Our loan portfolio has grown substantially since 1996. Any corresponding rise in our level of past due loans may lag behind the rate of loan growth, as loans typically do not become due within a short period of time after their origination. Rapid loan growth may also reduce our ratio of past due loans to total loans until growth slows or the portfolio becomes more seasoned. This may result in increases in our loan loss provisions, charge-offs and the ratio of past due loans to total loans.

In addition, as a result of the increase in our loan portfolio and the described lag in any corresponding rise in our level of past due loans, our historic loan loss experience may not be indicative of our future loan loss experience.

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

Marketable securities represent a material portion 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 these gains and losses, which we record when investments in securities are sold, or in certain limited circumstances when the securities we hold are marked to market, 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 upon our investment policies. We cannot predict the amount of realized gain or loss for any future period, and variations from period to period have no practical analytical value. 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.



***If a ceiling on bank loan interest rates is enforced, it may have an adverse effect on our interest income and our ability to extend credit.***

As promulgated in 1988, the Brazilian Constitution established a 12.0% per year ceiling on loan interest rates, including bank loan interest rates. This ceiling was not enforced, however, because the Brazilian Congress did not adopt the necessary implementing legislation. In May 2003, the relevant article was revoked pursuant to a constitutional amendment.

Any significant changes in the restrictions on interest rates could have a substantial effect on our financial situation, results of operations and prospects.

***If our reserves for future policyholder benefits and claims are inadequate, we may be required to increase our reserves, which would adversely affect our results of operations and financial condition.***

We establish and carry reserves to pay future policyholder benefits and claims. Our reserves do not represent an exact calculation of liability, but rather are actuarial or statistical estimates based on models that include many assumptions and projections which are inherently uncertain and involve the exercise of significant judgment, including as to the levels of and/or timing of receipt or payment of premiums, benefits, claims, expenses, interest credits, investment results, retirement, mortality, morbidity and persistency. We cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting our policy liabilities, together with future premiums, will be sufficient for payment of benefits and claims. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and claims, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which would adversely affect our results of operations and financial condition.

***Our profitability may decline if mortality rates, morbidity rates or persistency rates differ significantly from our pricing expectations.***

We set prices for many of our insurance and annuity products based upon expected claims and payment patterns, using assumptions for mortality rates, or likelihood of death, and morbidity rates, or likelihood of sickness, of our policyholders. In addition to the potential effect of natural or man-made disasters, significant changes in mortality or morbidity could emerge gradually over time, due to changes in the natural environment, the health habits of the insured population, treatment patterns for disease or disability, or other factors. Pricing of our insurance and deferred annuity products are also based in part upon expected persistency of these products, which is the probability that a policy or contract will remain in force from one period to the next. Results may also vary based on differences between actual and expected premium deposits and withdrawals for these products. Significant deviations in actual experience from our pricing assumptions could have an adverse effect on the profitability of our products. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy or contract, the adjustments permitted under the terms of the policies or contracts may not be sufficient to maintain profitability. Many of our products do not permit us to increase premiums or adjust other charges and credits or limit those adjustments during the life of the policy or contract.

***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 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 materially 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, or the lack of necessary development and commercialization of performance improvements.

To the extent that higher bandwidth Internet access becomes more widely available, we may be required to make significant changes to the design and content of our online network in order to compete effectively. Failure to effectively adapt to these or any other technological developments could adversely affect our business.

***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. Each such derivatives transaction protects 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 adversely materially affect our future liquidity, our net income and therefore the value of the preferred shares and ADSs. For further information about our market risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk. In the past three years the ratio of our trading securities to our total assets, as measured at December 31 of each year, has been as high as 24.2% and could be greater in the future.

**Risks Relating to the Preferred Shares and ADSs**

***As a holder of ADSs, you will generally not have voting rights at our shareholders meetings.***

In accordance with our bylaws and 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* ), holders of our preferred shares, and thus of our ADSs, are not entitled to vote at our shareholders meetings except in limited circumstances. This means, among other things, that you, as a holder of ADSs, are not entitled to vote on corporate transactions, including any proposed merger or consolidation with other companies.

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



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

***An active or liquid market for our ADSs may not develop further or be sustained.***

Prior to the registration of our ADSs in September 2001, there was not a liquid public market for our ADSs. We cannot predict whether an active, liquid public trading market for our ADSs will develop any further or be sustained. Active, liquid trading markets usually result in lower price volatility and in a more efficient execution of purchase and sale orders of investors. Often, the liquidity of a securities market, many times, is due to the volume of the underlying shares that are publicly held by non-related parties. Although the ADSs holders are entitled to withdraw the preferred shares underlying the ADSs from the depository bank at any time, there is not a public market for our preferred shares in the United States.

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

Holders of our preferred shares and ADSs are not entitled to a fixed or minimum dividend. Pursuant to our bylaws, our preferred shares are entitled to dividends 10.0% higher than those assigned to our common shares. Although under our current bylaws we are generally obligated to pay our shareholders at least 30.0% of our annual net adjusted income, our shareholders, acting at our annual shareholders meeting, have the discretion to suspend this mandatory distribution of dividends if the Board of Directors advises them that the payment of the dividend is not compatible with our financial condition. Neither our bylaws nor Brazilian law specifies the circumstances in which a distribution would not be compatible with our financial condition, and our controlling shareholders have never suspended the mandatory distribution of dividends. However, general Brazilian practice is that a company need not pay dividends if such payment would threaten the existence of the company as a going concern or would harm its normal course of operations.

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

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

Although Brazilian Corporate Law imposes restrictions on insider trading and price manipulation, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions. In addition, self-dealing and the preservation of shareholder interests may not be as regulated, and regulations may not be as enforced, in Brazil as in the United States, which could potentially disadvantage you as a holder of the preferred shares and ADSs. For example, when compared to Delaware general corporation law, Brazilian Corporate Law and practice has less detailed and well-established rules and judicial precedents relating to the review of management decisions against duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties, and sale-of-business transactions. In addition, shareholders in Brazilian companies must hold 5.0% of the outstanding share capital of a corporation to have standing to bring shareholders derivative suits, and shareholders in Brazilian companies ordinarily do not have standing to bring a class action.

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

We are organized under the laws of Brazil, and all of our directors and officers reside outside the United States. In addition, a substantial portion of our assets, and most or all of the assets of our directors and officers are located in Brazil. As a result, it may be difficult for investors to effect service of process within the United States or other jurisdictions outside of Brazil on such persons or to enforce judgments against them, including in any action 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 prevailing market price of the preferred shares and ADSs by diluting the shares' value. If we issue new shares or our existing shareholders sell shares they hold, the market price of the preferred shares and, by extension, of the ADSs, may decrease significantly. Such sales also might make it more difficult for us to sell preferred shares and ADSs in the future at a time and a price that we deem appropriate.

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

You will not be able to exercise the preemptive rights relating to the preferred shares underlying your ADSs unless a registration statement under the United States Securities Act of 1933 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 provisions of 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 the ability to remit foreign currency abroad and Brazilian tax advantages.***

Brazilian law requires that parties obtain registration with the Central Bank in order to be allowed to remit foreign currencies, including U.S. dollars, abroad. The Brazilian custodian for the preferred shares will obtain the necessary registration with the Central Bank for the payment of dividends or other cash distributions relating to the preferred shares or upon the disposition of the preferred shares. If you exchange your ADSs for the underlying preferred shares, however, you may only rely on the custodian's certificate for five business days from the date of exchange. Thereafter, you must obtain your own registration in accordance with Central Bank and the *Comissão de Valores Mobiliários* (the Brazilian Securities Commission), which we call "CVM," rules, in order to obtain and remit U.S. dollars abroad upon the disposition of the preferred shares or 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. Additional Information - Exchange Controls.

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

***The Brazilian government may impose exchange controls and restrictions on remittances abroad which may adversely affect your ability to convert funds in reais into other currencies and to remit other currencies abroad.***

The Brazilian government has been progressively changing the Brazilian exchange regulations as a part of a liberalization program (See Item 4. Information on the Company Regulation and Supervision Bank Regulation Foreign Currency Position). However, it has historically imposed, and continues to impose, restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of Brazilian currency into foreign currencies. The Brazilian government last imposed remittance restrictions for a brief period in 1989 and early 1990. Re-imposition of this type of restriction would hinder or prevent your ability to convert dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, into U.S. dollars or other currencies and to remit those funds abroad. We cannot assure you that the government will not interrupt this liberalization program or take restrictive measures in the future.

***Devaluation of the real would reduce the U.S. dollar value of distributions and dividends on the ADSs.***

A devaluation of the *real* would reduce the value of distributions and dividends on the ADSs as measured in U.S. dollars, and could therefore reduce the market price of the preferred shares and ADSs.

***The relative volatility and illiquidity of the Brazilian securities markets may adversely affect you should you exchange your ADS for preferred shares.***

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major securities markets in the United States and elsewhere, and are not as highly regulated or supervised as some of those other markets. The relatively small market capitalization and illiquidity of the Brazilian equity markets may cause the market price of securities of Brazilian companies, including our ADSs and preferred shares, to fluctuate in both the domestic and international markets, and may substantially limit your ability to sell the preferred shares underlying your ADSs at a price and time at which you wish to do so.

## **Forward-Looking Statements**

This annual report contains forward-looking statements relating to our business that are based on management's current expectations, estimates and projections about future events and financial trends affecting our business. Words such as believe, anticipate, plan, expect, intend, target, estimate, project, predict, forecast, similar expressions are used to identify forward-looking statements. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict and that may be beyond our control. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements.

Factors that could cause actual results to differ materially include, but are not limited to:

- changes in regional, national and international economic and business conditions;
- inflation;
- increases in defaults by borrowers and other loan delinquencies;
- increases in the provision for loan losses;
- deposit attrition;
- customer loss or revenue loss;
- our ability to sustain and improve performance;
- changes in interest rates which may, among other things, adversely affect our margins;
- competition in the banking, financial services, credit card services, insurance, asset management and other related industries;
- the market value of trading securities, mainly Brazilian government securities;
- government regulation and tax matters;
- adverse legal or regulatory disputes or proceedings; and
- credit and other risks of lending and investment activities.

Accordingly, you should not place undue reliance on these forward-looking statements. In any event, these forward-looking statements speak only as of the date they are made. Except as may be required by applicable law, we do not undertake any obligation to update them, whether as a result of new information, future developments or otherwise.

#### **Item 4. Information on the Company.**

##### **HISTORY AND DEVELOPMENT OF THE COMPANY**

We are the largest private-sector bank (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, small to mid-sized companies and major local and international corporations and institutions. We have the most extensive private-sector branch and service network in Brazil, which permits us to reach a diverse client base. Our services and products encompass banking operations such as lending and deposit-taking, credit card issuance, consortiums, insurance, leasing, payment collection and processing, pension plans, asset management and brokerage services.

According to information published by the *Superintendência de Seguros Privados* (the Superintendency of Private Insurance, known as SUSEP ) and by the *Agência Nacional de Saúde Suplementar* (the National Agency of Supplemental Health, known as ANS ), we are the largest insurance, pension plan and *títulos de capitalização* group in Brazil on a consolidated basis in terms of insurance premiums, pension plan contributions and income from certificated savings plans. According to the annual publication of Fundacion Mapfre in Spain, Grupo Bradesco de Seguros e Previdência was the greatest insurance and pension plan group in Latin America in 2006. *Títulos de capitalização*, which we call certificated savings plans, is a type of savings account that is coupled with periodic drawings for prizes.

We are the largest private-sector bank in Brazil in terms of a compound criteria that takes into account revenue, profit, assets and market value, according to The Forbes Global 2000 report published by *Forbes* magazine in March 2008.

In 2007, 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, which we call Bradesco Seguros, together with its subsidiaries, in terms of insurance premiums, shareholder's equity and technical reserves (SUSEP and ANS);

Bradesco Vida e Previdência S.A., Bradesco Seguros subsidiary, which we call Bradesco Vida e Previdência, 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 Seguros subsidiary, which we call Bradesco Capitalização, 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, Bradesco Seguros subsidiary, which we call Bradesco Auto/RE, offers automobile insurance, basic lines and liability products;

Bradesco Saúde S.A., Bradesco Seguros subsidiary, which we call Bradesco Saúde, offers health insurance coverage, including medical and hospital expenses. Bradesco Saúde has one of the largest networks of healthcare service providers and is the leader in the health insurance market (ANS);

Bradesco Leasing S.A. Arrendamento Mercantil, which we call Bradesco Leasing, in terms of the present value of leasing accounts (*Associação Brasileira das Empresas de Leasing* (Brazilian Association of Leasing Companies), known as ABEL );

Bradesco Administradora de Consórcios Ltda., which we call Bradesco Consórcios, in terms of the total number of outstanding consortium shares (Central Bank); and

Banco Finasa S.A., which we call Banco Finasa, in terms of automobile financing loans (Central Bank);

We are also one of the leaders among private-sector financial institutions in third-party resource management and in underwriting debt securities, according to information published by *Associação Nacional de Bancos de Investimento* (the National Association of Investment Banks, known as ANBID ).



For information on other private-sector and public-sector (government-controlled) financial institutions in Brazil, see Regulation and Supervision Principal Financial Institutions.

In 2007, according to information published by the *Secretaria da Receita Federal* (the Federal Revenue Service), we accounted for 19.7% of the total nationwide collections of a tax called *Contribuição Provisória sobre a Movimentação Financeira* (the Provisional Contribution on Financial Transactions, known as CPMF). Since the CPMF was levied on virtually all Brazilian financial transactions, this statistic provides a measure of the percentage of Brazilian financial transactions that we handle.

As of December 31, 2007, we had, on a consolidated basis:

- R\$334.5 billion in total assets;
- R\$133.1 billion in total loans;
- R\$98.3 billion in total deposits;
- R\$33.1 billion in shareholders' equity;
- R\$57.8 billion in insurance claim technical reserves, pension plans, certificated savings plans and pension investment contract operations;
- R\$17.5 billion in foreign trading financing;
- 19.8 million insurance policyholders;
- 18.8 million checking account holders;
- 34.6 million savings accounts;
- 2.3 million of certificated savings plan holders;
- 1,331 of Brazilian and multinational groups of affiliated companies in Brazil as corporate customers;
- a daily average of 13.0 million daily transactions, including 2.2 million in our 3,160 branches and 10.8 million through self-service outlets, mainly Automatic Teller Machines, which we call ATMs, the Internet and *Fone Fácil*;
- a nationwide network consisting of 3,160 branches, 25,974 ATMs and 2,776 special banking service posts and outlets located on the premises of selected corporate clients; and
- a total of five branches and seven subsidiaries located in New York, London, the Cayman Islands, the Bahamas, Japan, Argentina, Luxembourg and Hong Kong.

Although our client base includes individuals of all income levels as well as large, mid-sized and small businesses, the lower to middle income citizens of Brazil have traditionally formed the backbone of our clientele. Since the 1960s, we have been a leader in this retail banking market in Brazil. This segment still has great potential for development and provides us with higher margins than other segments, such as corporate credit operations and securities trading, where we face greater price competition.



Our large banking network allows us to be closer to our customers, which, in turn, permits our managers to have personal and direct knowledge about our customers, economically active regions and other conditions relevant to our business. This knowledge helps us in assessing and limiting credit risks in credit operations, among other risks, as well as in servicing the particular needs of our clients. Approximately 10.0 million transactions are executed through our Bradesco network every day.

We organize our operations into two main areas: (i) banking services; and (ii) insurance services, pension plans and certificated savings plans. See note 25 to our consolidated financial statements in Item 18 for additional segment information. The following diagram provides summary information for our two business areas at and for the year ended December 31, 2007, by segment.

As of December 31, 2007, according to the sources cited in parentheses below, we were:

- the leader among private-sector banks in savings deposits, with 17.4% of all savings accounts in Brazil and R\$32.8 billion on deposit (Central Bank);
- the largest provider of insurance and private pension plans, with R\$15.0 billion in net premiums written and revenues from private pension plans (SUSEP);
- the leader among the largest on-lender banks of BNDES loans for the 5<sup>th</sup> consecutive year (BNDES);
- one of the leaders in Brazilian leasing operations, with R\$8.1 billion outstanding (ABEL);
- one of the leaders in the placement of debt instruments in Brazil, with R\$2.3 billion in fixed income operations during 2007 (ANBID);
- one of the largest private-sector fund and portfolio managers in Brazil, with R\$177.5 billion in total third-party assets under management, representing 14% of the total Brazilian market (ANBID);
- one of the largest credit card issuers in Brazil, with 17.5 million credit cards (Visa, American Express and MasterCard and 9.7 million private label cards) and a credit cards revenue of R\$32.8 billion and R\$4.1 billion in private label cards (Bradesco, Fidelity National Information Services, Inc., which we call Fidelity National, Leader S.A. Administradora de Cartões de Crédito, which we call Leader Card and American Express;

- one of the largest debit card issuers in Brazil, with 43.2 million debit cards issued, and income of R\$16.8 billion from our debit card business (VISA);
- the leader in bank collection services in Brazil, with a market share of 30% (Central Bank);
- the leader in marketing of quotas of consortia in the real estate and automobile sectors with 126,829 quotas and 162,325 quotas respectively (Central Bank);
- one of the leaders in car loan customer financing with a market share of 26.0% (Central Bank); and
- the leader among private-sector banks in benefit payments under the *Instituto Nacional do Seguro Social* (the National Social Security Institute), known as INSS, social security program, having service payments of R\$32.9 billion to more than 4.9 million beneficiaries and pensioners of the INSS, accounting for 19.6% of the total number of INSS beneficiaries.

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

The total amounts per segment shown in the table below may not correspond to the amounts shown on a consolidated basis, as they do not take into account other activities we develop as they are immaterial, and were subject to adjustments, reclassifications and eliminations for inter-company transactions.

	<b>For the Years Ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions)</b>		
<b>Banking:</b>			
<b>Loan operations:</b>			
Housing loans	R\$ 194	R\$ 217	R\$ 323
Agriculture-related loans	563	690	862
Leasing	441	653	908
Other loans <sup>(1)</sup>	15,657	19,417	20,515
<b>Total</b>	<b>R\$ 16,855</b>	<b>R\$ 20,977</b>	<b>R\$ 22,608</b>
<b>Fees and commissions:</b>			
Asset management fees	R\$ 620	R\$ 617	R\$ 743
Collection fees	718	751	859
Credit card fees	562	929	1,273
Fees charged on checking account services	1,563	1,879	2,108
Fees for receipt of taxes	190	237	237
Financial guarantees	109	143	197
Interbank fees	271	290	321
Consortium administration	149	202	256
Other services	489	702	1,000
<b>Total</b>	<b>R\$ 4,671</b>	<b>R\$ 5,750</b>	<b>R\$ 6,994</b>
<b>Insurance and pension plans:<sup>(2)</sup></b>			
<b>Insurance premiums:</b>			
Health	R\$ 3,518	R\$ 3,918	R\$ 4,246
Life and accident	1,787	1,779	1,822
Automobile, property and liability	2,500	2,424	2,775
<b>Total</b>	<b>R\$ 7,805</b>	<b>R\$ 8,121</b>	<b>R\$ 8,843</b>
<b>Pension plan income</b>	<b>R\$ 377</b>	<b>R\$ 791</b>	<b>R\$ 555</b>

- (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 market within Brazil, and less than 10.0% of our revenues come from international operations. For more information on our international operations, see Banking Activity International Banking. For a discussion of our principal capital expenditures from 2005 through 2007, see Item 5. Operating and Financial Review and Prospects Capital Expenditures.

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, 2007 all of which are consolidated in our financial statements in Item 18. With the exception of Banco Bradesco Argentina, which is incorporated in Argentina, all of these material subsidiaries are incorporated in Brazil. For more information regarding the consolidation of our material subsidiaries, see note 1(a) to our consolidated financial statements in Item 18.





## History

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

### *Recent Acquisitions*

On April 11, 2008, Cidade de Deus Participações and Fundação Bradesco, which together hold 64.64% of our voting shares, and which we call our Controlling Shareholders, entered into an agreement with Banco Espírito Santo S.A., which we call BES, to sell common shares representing 1.5% of our voting stock. This transaction was closed on April 11, 2008, upon delivery of R\$685 million.

In March 2008, we, through Banco Bradesco BBI S.A., which we call BBI, entered into an agreement with the shareholders of Ágora CTVM S.A., which we call Ágora Corretora Holdings, to acquire 100% of the total capital stock of Ágora Corretora for approximately R\$830 million. Approval of the transaction by the Central Bank is still pending. Upon receipt of Central Bank approval we will deliver to Ágora Corretora shareholders, as compensation for Ágora Corretora capital stock, shares representing 8.0% of the capital stock of BBI, and will convert Ágora Corretora into BBI's wholly owned subsidiary.

In January 2008, we, through Bradesco Seguros, 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., which we call Mediservice, for R\$84.9 million. Mediservice has been operating for 20 years in Brazil. It has offices located in the cities of São Paulo, Rio de Janeiro and Salvador, approximately 300,000 users, and a network of nearly 30,000 accredited physicians, dentists, laboratories, diagnosis centers, clinics, hospitals and emergency services. This acquisition expands the client portfolio of Grupo Bradesco Seguros e Previdência and reinforces its positioning in the market of health group plan operators. Approval of the transaction by ANS and the *Conselho Administrativo de Defesa Econômica* (Administrative Council for Economic Defense), known as CADE, is still pending.

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

### *Acquisitions in 2006*

In May 2006, we entered into an agreement with Bradespar S.A., which we call Bradespar, to acquire 100% of the total capital stock of Bradesplan Participações S.A., which we call Bradesplan, for R\$308.0 million. Bradesplan is a holding company that holds equity interests of non-financial companies of Bradesco Group's.

In March 2006, we entered into an agreement with the controlling shareholders of American Express Company to acquire 100% of the total capital stock of its Brazilian subsidiaries that operate credit card and related businesses, such as insurance brokerage, business travel, retail foreign exchange services and direct consumer financing operations. According to this agreement, we have the exclusive right to issue credit and debit cards for individuals and corporate clients of American Express Centurion in Brazil during a ten-year period. This transaction closed in June 2006 upon payment in cash of US\$468 million, equivalent to R\$1.0 billion, and receipt of Central Bank approval.

In March 2006, we entered into an agreement with Lojas Colombo S.A. Comércio de Utilidades Domésticas, which we call Lojas Colombo, to acquire 50% of the total capital stock of Josema Administração e Participações S.A., parent company of Credifar S.A., Crédito, Financiamento e Investimento, which we call Credifar. Credifar distributes financial products and services to the clients of Lojas Colombo S.A., the third largest retail chain of electrical and electronic appliances and furniture in Brazil, with 365 stores in the States of Rio Grande do Sul, Santa Catarina, Paraná, São Paulo and Minas Gerais. Lojas Colombo has been acting as a banking correspondent of ours since August 2004, with more than 2 million active clients. This transaction closed in May 2007 upon receipt of Central Bank approval.

### *Acquisitions from 2003 to 2005*

#### *Acquisition of BBV Banco*

In January 2003, we entered into an agreement with Banco Bilbao Vizcaya Argentaria S.A., which we call BBVA, to acquire all of the shares of Banco Bilbao Vizcaya Argentaria Brasil S.A. and its controlled companies, which we call BBV Banco, from BBVA. Our primary goal in making the acquisition was to improve our productivity and competitiveness by incorporating BBV Banco's resources into our own and to develop our business with Spanish entities investing in Brazil.

The Central Bank approved the transaction in May 2003, and BBV Banco became our wholly owned subsidiary in June 2003 when our shareholders and BBVA's board of directors approved the exchange of BBV Banco's shares for our newly issued shares. As of May 31, 2003, BBV Banco had total assets of R\$10.3 billion, net equity of R\$2.4 billion, 439 branches and 76 banking posts.

In accordance with the terms of the agreement with BBVA, in June 2003, we made one-time cash payment of R\$1,864 million to BBVA in return for 49.0% of the common shares and 99.99% of the preferred shares of BBV Banco. In addition, in exchange for the remaining 51.0% of BBV Banco's common shares and 0.01% of its preferred shares, we issued to BBVA common and preferred shares equal to 4.4% of our share capital and valued at R\$630.0 million according to our audited financial statements. Since June 2003 we have included BBV Banco's results in our financial statements.

In September 2003, all of BBV Banco's branches, assets and liabilities were transferred to Banco Bradesco at book value, and in October 2003, we changed BBV Banco's name to Banco Alvorada S.A., which we call Banco Alvorada.

After our acquisition of BBV Banco, BBVA increased its percentage ownership of our shares through purchases of our shares on the Bovespa. As of December 31, 2007, BBVA held 5.0% of our common shares and 2.5% of our total capital stock. For more information on BBVA, see Item 7. Major Shareholders and Related Party Transactions Major Shareholders BBVA.

In connection with our purchase of BBV Banco in 2003, our controlling shareholders Cidade de Deus Participações and Fundação Bradesco, which together hold 64.64% of our voting shares and which we call our Controlling Shareholders, entered into a shareholders' agreement, which we call the Shareholders' Agreement, with our

shareholder BBVA. Under the terms of the Shareholders Agreement, BBVA has the right to appoint one member of our board of directors so long as BBVA owns at least 3.9% of our voting capital. However, BBVA will not lose this right if its shareholding falls below this percentage threshold due to an increase in our capital stock in which our shareholders, including BBVA, are not given preemptive rights.

In addition, according to the Shareholders Agreement, our Controlling Shareholders have rights of first refusal on the acquisition of any of our common shares from BBVA, and BBVA has a put option against our Controlling Shareholders that might be exercised in full or in part on our common shares representing 5.0% of our voting capital until 2010.

Should BBVA exercise its put option, the price to be paid by our Controlling Shareholders will be based on the average market price of our common shares in the Bolsa de Valores de São Paulo S.A., which we call Bovespa, in the twenty trading sessions immediately preceding BBVA's notification of the put option exercise.

In connection with the purchase of BBV Banco we established a center of operations, known as the Euro Desk, which is headed by an officer appointed by BBVA and dedicated to recognizing opportunities to provide banking services and to strengthening our relationship with the Spanish community in Brazil, as well as a team of customer service personnel dedicated to serving Spanish clients with business in Brazil and Brazilians with interests in Spain or other Latin American countries. Under the Shareholders Agreement, so long as BBVA owns at least 3.94% of our voting capital, we must continue to operate the Euro Desk and a dedicated team of personnel.

At March 4, 2008, BBVA exercised in full a put option of its remaining stock, and our Controlling Shareholders purchased the BBVA shares on April 11, 2008, upon delivery on April 16, 2008 of R\$2.3 billion to BBVA. The Shareholders Agreement is no longer in effect since April 11, 2008.

#### *Acquisition of minority interests in Bradesco Seguros*

In March 2005, we acquired the minority equity interest held by third parties in the capital stock of Bradesco Seguros through the exchange of the Bradesco Seguros shares held by third parties for our shares. Upon the completion of this transaction, Bradesco Seguros became our wholly owned subsidiary and the minority shareholders of Bradesco Seguros became holders of 363,271 preferred shares of our capital stock. The total aggregate amount of this transaction was R\$12 million.

#### *Acquisition of Banco Morada credit portfolio*

In April 2005, we, through our subsidiary Finasa Promotora de Vendas Ltda., which we call Finasa Promotora, acquired the personal loans and consumer credit distribution network of Banco Morada, one of the main suppliers of individual loans in the State of Rio de Janeiro for a total amount of R\$80.0 million. This transaction included the transfer to Finasa of thirty-three commercial branches, fifteen of which were in the State of Rio de Janeiro, eight in the State of São Paulo and ten in other Brazilian States, as well as, a database including over 1.1 million customers.

#### *Acquisition of Leader Card*

In July 2005, Banco Bradesco acquired 50.0% of the total capital stock of Leader Card, the company responsible for the agency and management of the private label credit card of União de Lojas Leader, which we call Leader Magazine, for a total amount of R\$47.5 million. Leader Magazine is a retail chain with its operations focused on the States of Rio de Janeiro and Espírito Santo. The private label credit card of Leader Magazine is one of the five largest private label credit cards in Brazil, with over 3.5 million holders, 300,000 of which with the Visa flag. In 2007, Leader Magazine expanded its operations to the States of Minas Gerais, Pernambuco, Sergipe and Alagoas, and currently has 38 stores.

*Acquisition of BEC*

In December 2005, we made a winning bid for the acquisition of the controlling interest of Banco do Estado do Ceará, which we call BEC, and its subsidiary BEC DTVM Ltda. in an auction process carried out at Bovespa. The transaction was concluded in January 2006 and involved the purchase of 82,459,053 BEC's common shares with no par value, representing 89.4% of the voting capital and 89.2% of the total capital stock of BEC, for a total aggregate amount of R\$700.0 million. In May 2006, we conducted a tender offer to acquire the outstanding shares of BEC, after the conclusion of which we became the holders of 99.49% of the total capital stock of BEC. We have called a shareholders' meeting of BEC for June 30, 2006 to redeem the shares not sold to us in the tender offer process. In November, 2006, Alvorada Cartões, Crédito, Financiamento e Investimentos S.A. merged BEC and succeeded it in all its rights and obligations.

*Other Acquisitions*

In November 2003 we entered into an agreement with the controlling shareholders of Banco Zogbi S.A., which we call Zogbi and together with its controlled companies, Zogbi Institutions, to acquire all of its capital stock and all the capital stock of its controlled companies for a total aggregate amount of R\$650.0 million. Zogbi Institutions has been engaged for more than forty years in the financing sector, including the areas of consumer and personal credit, cards and vehicle loans. Zogbi Institutions had, as of September 2003, total assets of R\$833.0 million, credit operations of R\$520.0 million and shareholder's equity of R\$335.0 million. In October 2004, Zogbi was dissolved as a consequence of its merger into Banco Finasa and all of its assets and liabilities were transferred to Banco Finasa at book value. In June 2005, the merger of Zogbi into Banco Finasa was approved by the Central Bank.

In February 2004, we acquired control of Banco do Estado do Maranhão S.A. BEM, which we call BEM, through a privatization auction held by the Federal Government. As of December 31, 2003, BEM had 76 branches, 125 corporate site branches and its assets totaled R\$766 million. The transaction involved the purchase of 89.96% of BEM's capital stock at the total aggregate amount of R\$78.0 million. In July 2004, BEM became our wholly owned subsidiary upon the acquisition by us of the minority participation interest held by third parties in BEM for a total aggregate amount of R\$8.6 million. In October 2004, the branches, assets and liabilities of BEM were transferred to Bradesco at book value.

Except for the acquisition in 2003 of BBV Banco, currently Banco Alvorada, none of our acquisitions since January 1998 included a significant subsidiary in accordance with US GAAP.

*Banco Postal*

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

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

Delivery of services started in March 2002, when we opened the first branch in the State of Minas Gerais. As of December 31, 2007 we had 5,821 open branches in over 5,032 Brazilian municipalities, which processed on average more than 36 million monthly transactions.

Approximately 1,700 out of 5,821 branches were set up in new markets, which brought services, either directly or indirectly, to millions of people for whom financial services were previously either inaccessible or difficult to obtain.

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

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

In addition to Postal Bank services performed at correspondent offices, we have also opened outlets located on the premises of selected corporate clients, including retail networks, supermarkets, drug stores and bakeries, to provide our clients with greater access to banking correspondent services. These outlet companies process bills and bank collection invoices for our clients at their offices, as well as offering withdrawals from checking and savings accounts and pension payments.

The banking services at our correspondent offices are provided by employees of the Postal Service and, in the case of our other outlets, by their respective employees. However, we retain control of over all decisions with respect to the opening of bank accounts for, and granting credit to, our customers at these locations.

#### ***Other Strategic Alliances***

In November 2004, we entered into a partnership with Bank of Tokyo Mitsubishi UFJ Brasil S.A. to provide banking services to its Brazilian clients working in Japan.

In November 2004, we entered into an exclusive operational agreement with Casas Bahia, the leading Brazilian retailer. The operational agreement is valid for three years, and has a potential trading volume of R\$1.0 billion per year to finance Casas Bahia's new consumer credit program, called *Crédito Direto ao Consumidor* (CDC). In November 2005, we began to issue and administer the private label credit card of Casas Bahia. Since that time, we

have issued more than 4 million private label, Casas Bahia credit cards (all of which carry the Visa label.).

In February 2005, we reduced our shareholding ownership in Companhia Siderúrgica Belgo-Mineira (currently Arcelor) by selling 315,000,000 of the common shares that we held in the company. We retained a 3.44% indirect interest in Belgo-Mineira capital stock with voting rights and 1.89% of its total capital stock. In June 2007, we sold the remaining capital stock that we held in Belgo-Mineira.

In March 2005, we and Comercial Pereira de Alimentos Ltda., which we call Rede Comper, a supermarket chain that has its operations located in Midwest and South regions of Brazil, entered into an agreement to regulate the issuance of our private label credit cards, with or without flags for use outside the commercial establishment, and other financial and insurance products and services of ours.

In June 2005, we and Eletrozema, a department store that has its operations located in the State of Pará, as well as in the states of Southeast and Midwest Brazil, entered into an agreement to finance the purchases of Eletrozema's customers. This transaction and the funding to be granted to Eletrozema's customers are secured by a letter of guarantee.

In July 2005, we and Ponte Irmãos e Cia. Ltda., which we call Ponte Irmãos, a retail chain that has 80 stores located in the states of the North, Northeast and Midwest of Brazil, entered into an agreement to finance the purchases made by Ponte Irmãos's customers. This transaction and the funding to be granted to Ponte Irmãos's customers are secured by a letter of guarantee.

In August 2005, we and Dismar Distribuidora Maringá de Eletrodomésticos Ltda., which we call Dismar, entered into an agreement to finance the purchases of Dismar's customers. Dismar is a store chain which has, among others, wholesale retail stores and electronic stores, with operations in the State of Paraná and several other Brazilian states.

In December 2005, we and Banco Espírito Santo S.A. entered into an agreement to provide banking services to its Brazilian clients living in Portugal.

We, Deib Otoch S.A., which we call Lojas Esplanada, and Express Comercial S.A., which we call Express, entered into an agreement for the administration of Lojas Esplanada's and Express' private label credit cards, enabling its holders to finance their purchases, as well as for the marketing to the 2.3 million holders of these cards certain information regarding our products and services. Lojas Esplanada and Express are one of the biggest retail chains located in the states of the northeast of Brazil.

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

In May 2006, we and GBarbosa Comercial Ltda., which we call Gbarbosa, the fourth largest supermarket retailer in Brazil, entered into an agreement for the issuance and administration of its private label credit card called Credi Hiper, and the provision of financial services and products to Gbarbosa's clients. We currently have more than 1 million cards issued.





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

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

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

In October 2007, we entered into a partnership agreement with Banco de Chile, which we call Banco de Chile, to jointly develop investment products, and offer new business opportunities and synergy gains through BRAM Bradesco Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários, our asset management company, and Banchile Administradora General de Fondos S.A., Banco de Chile's asset management company.

In November 2007, our brokerage house in London, Bradesco Securities UK, Ltd., Bradesco Securities UK, Ltd., which we call Bradesco Securities UK, started up its operations. Bradesco Securities UK acts as an intermediary in transactions involving Brazilian fixed and variable bonds between Brazilian companies and European and global institutional investors, and is mainly focused on the intermediation in purchases and sales of shares at NYSE, NASDAQ and BOVESPA environments, the distribution of research reports and prospectuses and offering memoranda, presentations to European and global investors and other investment banking activities.

### ***Insurance and Other Operations***

We acquired control of Bradesco Seguros, previously Atlântica Companhia Nacional de Seguros, in 1983. Between 1983 and 2004, Bradesco Seguros acquired interest in ten other entities and currently maintains six subsidiaries to comply with regulatory requirements. These acquisitions have enabled Bradesco Seguros to develop into one of the leading insurers in Brazil.

In March 2005, Bradesco Seguros became our wholly owned subsidiary upon our acquisition of all the shares held by the minority shareholders of the company, for a total aggregate amount of R\$12.0 million.

### **Contact Information**

We are a *sociedade anônima* organized under the laws of Brazil. Our head offices are located at Cidade de Deus, Vila Yara, 06029-900, Osasco, SP, Brazil, and our telephone number at our head office is (55-11) 3684-5376. Our agent for service of process in the United States is CT Corporation, located at 111 Eighth Avenue, 13<sup>th</sup> Floor, New York, New York 10011.

## Business Strategy

We believe that the expansion of the Brazilian economy, coupled with a favorable macroeconomic scenario, and a significant increase in the purchasing power of certain income segments of the Brazilian population, mainly low- and medium-income population, and in private investments will lead to a sustained expansion of demand for financial services and insurance in the upcoming years.

Our main objective is to remain focused on the domestic market and, taking advantage of our market position as the largest private bank in Brazil, to expand our profitability, maximize our shareholders' value and generate 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 (*i.e.* by offering our clients a complete portfolio of financial products); and
- being the first bank to each of our clients (*i.e.* by being their first option for meeting their financial needs).

We are increasingly segmenting our products and services as we allocate our resources and talents to provide our clients with products and services that are tailored to meet their needs. We believe that our concern with our clients' financial profile and our respect for their individuality results in a broader satisfaction and loyalty. The segmentation of our financial services has also allowed us to better absorb and take greater advantage of the integration of institutions we have acquired over the past years.

We have the largest and, we believe, the best network of distribution channels among Brazilian private banks. This network includes our branches, banking posts and outlets, ATMs, Postal Bank services and other third parties channels. The growth of these channels was spurred mainly by our union with large retailers as our banking correspondents. We also have more than 55,000 physical banking posts and outlets. We have a well-distributed and extensive branch network, which optimizes our clients' access to our products and services, and allows us to fully compete in the retail banking market. We intend to continue expanding and refining our branch network and to provide more and better mass products and services to our clients, in order to meet a growing demand for credit and insurance in the Brazilian market.

We are also focused on expanding our businesses as a wholesale bank in all its aspects, especially our corporate and our 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 last year, we have been paying particular attention to our investment bank segment operated by BBI. We will continue to maintain, and hire professionals for, our highly qualified investment banking team, and we plan to make full use of our solid relationship with our corporate clients and high-income individuals to develop our investment banking activities.

We also intend to grow in business segments on which we were less focused, such as securities brokerage services. We intend to take advantage of the significant growth in the Brazilian securities market over the past years and our recent acquisition of Brazil's largest brokerage company, Ágora Corretora, in order to become one of the leaders in the brokerage market.



We believe that our insurance segment has a high potential of growth, due to the low participation of the Brazilian insurance industry in its GDP. Increase in the average income of the Brazilian population has led to millions of new policyholders. We intend to capture new customers, and consolidate our leadership in different insurance lines.

We are also structuring ourselves to increase our scale and operational efficiency gains by segmenting our line of insurance products through the creation of specialized insurance companies in each specific insurance field. This approach allows us to avoid crossing revenues or expenses among each insurance segment, as we maintain complete control over the performance of each line of products. We believe that we can benefit from this structure in maximizing insurance product sales, which essentially have a high margin contribution, creating 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 requires highly capable, well-trained and dedicated personnel with strict labor standards and ethics standards at work. Qualification, promotion and the creation of a culture of solidarity at work are also keys to improving the business, creating a cooperative and friendly environment where our employees can develop long-lasting careers. We were elected by the *Guia Você S/A Exame* publication, in 2007, as one of the best companies to work for in Brazil.

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

The key elements of our business strategy are to:

- expand through organic growth;
- improve our successful business model that combines our position as a large banking institution with our position as the largest insurance group in Latin America, which we call the *Bank-Insurance Model*, in order to increasingly foster our profitability and consolidate our leadership in the insurance sector;
- increase revenues, profitability and shareholder value by strengthening our loan and financing operations, our core business, and expanding products and services;
- maintain our commitment to technological innovation;
- build profitability and shareholder return through a continued improvement of the efficiency index;
- focus on risk management in order to always assure acceptable risk levels in our operations; and
- expand through strategic alliances and selective acquisitions when advantageous.

***Expand through organic growth in core business areas***

The Brazilian economy has been growing on a sustained basis over the past five years and has produced strategic opportunities for growth in the financial and insurance industries, mainly due to increases in business volume of segments in which we are particularly well positioned. We plan to continue to take advantage of this growth to increase our revenue, build profitability and maximize shareholder value by:

- capitalizing on the opportunity in the Brazilian market to capture new customers, mainly from the low- and middle-income brackets, whose financial and credit needs have not yet been served, while maintaining and strengthening our position in the competition for the small group of clients in upper income brackets;
- expanding our financial services distribution channels by creatively developing new mass products and utilizing third-party channels, such as, for example, in the expansion of offers for credit card, financial products and services, and insurance in large retail stores by means of partnerships with retail chains, the Postal Bank and other third parties;
- taking advantage of our existing distribution channels, including our traditional branch network and other means of distribution to identify demand for new products and expanding demand for traditional products, such as long-term financing and particularly real estate credit, which are in renewed demand due to the stability of the Brazilian economy and interest rates;
- using our client base to offer our products and services more widely and to increase the average number of products used per checking account from 4.8 products as of December 2007, to an average of 5.0 products per checking account by December 2008;
- using our branch-based systems aimed at assessing and monitoring our clients' use of our products so as to channel them to the proper selling, delivery and trading platforms; and
- developing products tailored to profiles and needs of both our existing and potential segment of clients.

***Build on the Bank-Insurance Model to maintain profitability and consolidate leadership in the insurance sector.***

Our goal is to have our customers look to us first for all of their banking, insurance and pension needs. We believe that we are in a good position to capitalize on the synergies among banking, insurance, pension and other financial activities. These products are offered throughout Brazil through our banking distribution network, Internet distribution services and new and creative distribution channels. We also have specific distribution channels for the offering of these products that rely on our own platform of more than 15,000 brokers and dealers for other property and casualty insurance products and 8,000 brokers and dealers for life and pension products. We continuously assist and encourage our brokers and dealers to improve services to our clients.

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

managing our insurance portfolio and reserves;

aggressively marketing our products; and

maintaining acceptable levels of risk in our operations through a strategy of:

prioritizing insurance underwriting opportunities according to the risk spread, which is the difference between the expected income under an insurance contract and the actuarially determined amount of claims likely to be paid under that same contract;

entering into hedging transactions, so as to avoid mismatches between the actual rate of inflation and provisions for interest rate and inflation adjustments in long-term contracts; and

entering into reinsurance agreements with well-known reinsurers, and taking advantage of the new reality of the Brazilian reinsurance market.

***Increase banking revenues, profitability and shareholder value by strengthening our loan operations and expanding our new products and services.***

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

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

***Maintain our commitment to technological innovation***

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

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





We are amongst the Brazilian companies that most invest in research and development in the field of banking. With the goals of further improving the Bradesco Organization's IT environment to prepare it for the decades to come and of increasing public perception of our technological resources and best practices, we have invested in a major strategic program titled IT Improvements, which touches upon five macro-areas of the IT chain (processes, applications, operational environments, technologies and infrastructure).

We believe that technology offers unparalleled opportunities to reach our customers in a cost-efficient manner. We are committed to being at the forefront of the bank automation process by creating opportunities for the Brazilian public to reach us through the Internet and wireless networks, including mobile telecommunication networks. We expect to continue to increase the number of clients and transactions handled over the Internet and wireless networks through techniques, such as:

- expanding our mobile banking service, which we call Bradesco Mobile Banking, which allows customers to conduct their banking business over the Internet with compatible cellular handsets; and
- providing Pocket Internet Banking for hand-held devices and personal digital assistants or PDAs, including cellular phones that allow our clients to check their savings and checking account information, review recent credit card transactions, make payments, transfer funds and obtain information relating to our services.

#### ***Build profitability and shareholder return through the improvement of our efficiency index***

We intend to improve on our levels of efficiency by:

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

#### ***Maintain acceptable risk levels in our operations***

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

The existence of the integrated risk management and capital allocation committee, a statutory-level committee, guarantees the uniqueness of our risk management process. The committee's assignment is to advise the board of directors in the adoption of institutional policies, operational guidelines and the establishment of limits for exposure to risks within our consolidated financial statements.



In addition, we have three executive committees charged with topics related to credit risk, market and liquidity risk and operational risk, and which, amongst other responsibilities, are charged with suggesting limits of tolerance to their respective risks and the design of risk mitigation plans for submission to the integrated risk management and capital allocation committee.

Finally, we have an independent department dedicated exclusively to global risk management and internal control, which we call the risk management and compliance department, or DGRC, and which implements and continuously accompanies the directives and processes formulated by our higher-level committees.

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

### ***Enter into strategic alliances and selective acquisitions***

We understand that in the coming years, most of Brazilian financial institutions will rely on organic growth. We also believe that growth opportunities will be restricted to the acquisition of smaller institutions. However, there are still some financial institutions in newer segments, such as consumer financing, credit cards and investment banking that could possibly be acquired. Therefore, we evaluate potential strategic alliances and consolidation opportunities, including proposed privatizations and acquisitions, as well as other methods that offer potential opportunities either to increase our market share or to improve our efficiency and results. In addition to focusing on value and asset quality, we consider the potential operating synergies, opportunities for cross-selling, acquisition of know-how and other advantages of a potential alliance or acquisitions.

### **Banking Activity**

We offer a range of banking products and services, including:

- deposit-taking operations, such as checking accounts, savings accounts and time deposits;
- lending operations, including consumer lending, housing loans, industrial and agricultural loans and leasing;
- credit and debit card services;
- payment processing and collection;
- capital markets services, including underwriting and financial advisory services as well as brokerage and trading activities;
- international banking; and
- asset management services.

Our diverse client base includes individuals and small, mid-sized and large companies in Brazil. Historically we have cultivated a stronger presence among the broadest segment of the Brazilian market, consisting primarily of middle- and low-income individuals. Since 1999, we have built our corporate department, which serves our corporate clients who have annual revenues of R\$350 million or more, and a private banking department, which serves individual clients who have minimum net assets of R\$1 million. In 2002, we created *Bradesco Empresas* ( Bradesco Companies ) which is responsible for corporate clients that have an annual income of between R\$15 and R\$350 million, with the goal of expanding our business in the middle corporate market sector. In May 2003, we launched Bradesco Prime, a new division of Bradesco that offers services to individual clients who either have a monthly income of at least R\$4,000 or have R\$50,000 available for immediate investment. Bradesco Varejo ( Bradesco Retail ) is our division responsible for the corporate clients that have an annual income lower than R\$15.0 million and the individual clients that have a monthly income lower than R\$4,000.

The following diagram shows the breakdown of our banking activities as of December 31, 2007:

The following table sets forth selected financial data for our banking segment for the periods indicated. The total amounts per segment shown in the table below may not correspond to the amounts shown on a consolidated basis, as they do not take into account other activities we develop as they are immaterial, and were subject to adjustments, reclassifications and eliminations for inter-company transactions.

	<b>Year ended December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions)</b>		
<b>Income statement data:</b>			
Net interest income <sup>(1)</sup>	R\$ 12,511	R\$ 14,750	R\$ 17,188
Provision for loan losses	(1,823)	(3,770)	(4,617)
Non-interest income <sup>(1)</sup>	8,161	9,482	12,403
Non-interest expense	(13,021)	(15,289)	(18,270)
Income before taxes and minority interest <sup>(1)</sup>	5,828	5,173	6,704
Taxes on income	(1,570)	(1,348)	(1,877)
Income before minority interest <sup>(1)</sup>	4,258	3,825	4,827
Minority interest	(2)	1	(28)
<b>Net Income</b>	<b>R\$ 4,256</b>	<b>R\$ 3,826</b>	<b>R\$ 4,799</b>
<b>Balance sheet data:</b>			
Total assets	R\$ 165,072	R\$ 206,870	R\$ 275,400
<b>Selected results of operations data:</b>			
<b>Interest income:</b>			
Interest on loans	R\$ 16,855	R\$ 20,977	R\$ 22,608
Interest on securities	3,548	2,225	2,445
Interest on federal funds sold and securities purchased under agreements to resell	2,018	2,177	3,202
Interbank deposits	311	358	441
Compulsory deposits with the Central Bank	2,160	1,998	1,207
Others	60	59	37
<b>Interest expense:</b>			
Interest on deposits	(6,944)	(6,230)	(5,560)
Interest on federal funds purchased and securities sold under agreements to repurchase	(3,862)	(3,936)	(5,553)
Interest on short-term borrowing and on long- term debt	(1,635)	(2,878)	(1,639)
Net Interest Income	12,511	14,750	17,188
Fee and commission income	R\$ 4,671	R\$ 6,750	R\$ 6,994

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

***Deposit-taking Activities***

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

- checking accounts, which do not bear interest;

- investment deposit accounts which permit financial transactions to be made without CPMF charges;
- traditional savings accounts, which currently earn the Brazilian reference rate, the *taxa referencial*, known as the TR, plus 6.17% in annual interest;
- time deposits, which are represented by *certificados de depósito bancário* (Bank Deposit Certificates, or CDBs ), and earn interest at a fixed or floating rate; and
- interbank deposits exclusively from financial institutions, which are represented by *certificados de depósito interbancário* (Interbank Deposit Certificates, or CDIs ), and which earn the interbank deposit rate.

At December 31, 2007, we had 18.8 million checking account holders, 17.8 million of which were individual account holders and 0.9 million of which were corporate account holders. At the same date, we had 34.6 million savings account holders. As of December 31, 2007, our deposits (excluding deposits from financial institutions) totaled R\$98.0 billion and we had a 17.4% share of the Brazilian savings deposit market, according to the Central Bank.

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

	2005		December 31, 2006		2007	
	(R\$ in millions, except %)					
<b>Deposits from Customers:</b>						
Demand deposits	R\$ 16,223	21.5%	R\$ 21,081	25.1%	R\$ 29,423	29.9%
<i>Reais</i>	16,026	21.2	20,763	24.7	29,222	29.7
Foreign currency	197	0.3	318	0.4	201	0.2
Savings deposits	26,201	34.7	27,613	32.9	32,813	33.4
<i>Reais</i>	26,201	34.7	27,613	32.9	32,813	33.4
Term deposits/certificates of deposit	32,837	43.6	34,941	41.6	35,733	36.3
<i>Reais</i>	30,434	40.4	31,810	37.9	33,658	34.2
Foreign currency	2,403	3.2	3,131	3.7	2,075	2.1
<b>Total deposits from customers</b>	<b>75,261</b>	<b>99.8</b>	<b>83,635</b>	<b>99.6</b>	<b>97,969</b>	<b>99.6</b>
Deposits from financial institutions	146	0.2	290	0.4	372	0.4
<b>Total</b>	<b>R\$ 75,407</b>	<b>100.0%</b>	<b>R\$ 83,925</b>	<b>100.0%</b>	<b>R\$ 98,341</b>	<b>100.0%</b>



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

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

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

### ***Credit Operations***

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

	<b>December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions)</b>		
<b>Loans outstanding by product type:</b>			
Consumer credit operations	R\$ 26,137	R\$ 29,302	R\$ 40,672
Real estate financing	1,355	1,845	3,205
Loans from <i>Banco Nacional de Desenvolvimento Econômico e Social</i> ( BNDES )	8,240	9,694	12,824
Other local corporate loans	21,072	23,699	31,556
Agricultural credit	6,369	7,399	9,032
Leasing	2,491	3,842	8,097
Credit Cards	1,830	2,652	2,330
Import and export financings	11,167	14,399	17,521
Other foreign loans	1,900	1,546	2,529
Other public sector loans	49	62	94
<b>Total</b>	<b>80,610</b>	<b>94,440</b>	<b>127,860</b>
Non-performing loans	2,701	4,284	5,277
<b>Total</b>	<b>R\$ 83,311</b>	<b>R\$ 98,724</b>	<b>R\$ 133,137</b>

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

	<b>December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
<b>Borrower size:</b>			
Largest borrower	1.1%	1.2%	0.7%
10 largest borrowers	7.0	6.1	5.5
20 largest borrowers	10.5	9.5	9.0
50 largest borrowers	16.8	15.8	15.6
100 largest borrowers	22.0%	21.0%	20.6%

**Consumer Credit Operations**

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

- short-term loans, extended by our branches to holders of our checking accounts and, within certain limits, through our ATM network. These short-term loans have an average maturity of three months and an average interest rate of 5.29% per month as of December 31, 2007;
- automobile financing loans, which have an average maturity of fourteen months and an average interest rate of 1.61% per month as of December 31, 2007; and
- overdraft loans on checking accounts, which are, on average, repaid in one month and have interest rates varying from 4.38% to 7.89% per month as of December 31, 2007.

We also provide revolving credit facilities and traditional term loans. At December 31, 2007, we had outstanding advances, overdrafts, automobile financings, consumer loans and revolving credit loans in an aggregate amount of R\$40.7 billion, representing 30.5% of our credit portfolio as of that date. On the basis of loans outstanding at that date, we had a 16.96% share of the Brazilian consumer loan market, according to information published by the Central Bank.

Banco Finasa, our financing subsidiary, provides consumers with financing for the purchase of light transportation vehicles, other goods and services, leasing and personal loans. Banco Finasa runs its sale and promotional activities through its wholly owned subsidiary, Finasa Promotora de Vendas. As of December 31, 2007, Finasa Promotora operated 375 branches throughout Brazil and had 5,502 employees, 83% of whom were focused on sales promotion.

### ***Real Estate Financing***

At December 31, 2007, we had 34,395 outstanding real estate loans and had financed 30.9% of the residential units constructed by the civil construction sector during 2007, according to information published by the Central Bank. On December 31, 2007, the aggregate outstanding amount of our real estate loans amounted to R\$3.2 billion, representing 2.4% of our loan portfolio.

Our real estate loans are granted by the *Sistema Financeiro Habitacional*, which we call the SFH, or the *Carteira Hipotecária Habitacional*, which we call the CHH. Loans from SFH or CHH are made at annual interest rates that vary between 8% to 14% plus TR, in case of variable installments, or between 12.5% and 15%, in case of fixed installments.

Residential loans of SFH and CHH have stated maturities of five to twenty-five years.

Our construction loans granted to individuals matures up to 18 months from the completion of the construction and a repayment period lasting up to 25 years. Payments are made on a floating rate basis of TR plus an annual interest rate of 11.5% for the SFH loans.

We also extend financing to corporate plans under the SFH. These loans are for construction purposes and typically have a maturity of up to 24 months from the completion of the construction and repayment begins within two years after the approval of the construction. We make these loans on a floating-rate basis of TR plus an annual interest rate of 12% during the construction stage for SFH loans, and TR plus an annual interest rate of 15% for CHH loans.

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



### ***On-lending of BNDES Loans***

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) *Banco Nacional de Desenvolvimento Econômico e Social*, which we call BNDES, which is a Brazilian development bank wholly owned by the federal government, or (2) *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 on-lending transactions before BNDES and Finame, it is always secured.

According to BNDES, we have been the largest on-lender bank of BNDES loans for five consecutive years (2003-2007). In 2007, we disbursed R\$7.1 billion, 40.9% of which was loaned to micro-, small- and medium-sized companies. Our on-lending portfolio was R\$12.8 billion on December 31, 2007, representing 9.6% of our credit portfolio at that date.

### ***Other Corporate Lending***

We provide traditional loans for the ongoing needs of our corporate clients. We had R\$31.6 billion of outstanding corporate loans, accounting for approximately 23.7% of our credit portfolio at December 31, 2007. We offer a range of loans to our Brazilian corporate clients, including:

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

These lending products generally bear an interest rate of between 1.30% and 6.24% per month.

### ***Agricultural Loans***

We extend loans to the agricultural sector by financing demand deposits, BNDES on-lendings and our own resources, in accordance with Central Bank regulations. At December 31, 2007, we had R\$9.0 billion in outstanding agricultural loans, representing 6.8% of our credit portfolio. In accordance with Central Bank regulations, we extend loans using funds from our compulsory deposits at a fixed rate. The annual fixed rate was 6.75% at December 31, 2007. The maturity of these loans generally matches agricultural cycles and the principal becomes due at the time a crop is sold, except BNDES agricultural on-lendings, which are valid for up to a five-year term and require repayments on a semi-annual or annual basis. As security for such loans, we generally obtain a mortgage on the land

where the agricultural activities being financed are conducted.

Current Central Bank regulations require us to use at least 25% of our checking account deposits to provide loans to the agricultural sector. If we do not meet the 25% threshold, we must deposit the unused amount in a non-interest-bearing account with the Central Bank.

### ***Micro Credit***

We extend micro credit to low-income individuals and small companies, in accordance with Central Bank regulations requiring that banks direct 2% of their cash deposits to such loans. We began extending such micro credits in August 2003. At December 31, 2007, we had 50,715 micro credit loans outstanding, totaling R\$22.6 million and representing 0.02% of our credit portfolio.

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

### ***Leasing Operations***

According to *ABEL Associação Brasileira das Empresas de Leasing*, as of December 31, 2007, the value of our outstanding leases was one of the largest among private leasing operations in Brazil, as measured by the discounted present value of our leasing portfolio. In addition, the aggregate discounted present value of the leasing portfolios of leasing companies in Brazil on December 31, 2007 was R\$63.8 billion, of which we had a market share of 12.9% .

On December 31, 2007, we held 229,494 outstanding leases with an aggregate value of R\$8.1 billion, representing 6.1% of our credit portfolio. The size of our leasing portfolio was R\$3.9 billion (approximately 111,100 contracts) at December 31, 2006 and R\$2.5 billion (approximately 54,600 contracts) on December 31, 2005.

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), and our leasing operations primarily involve the leasing of cars, trucks, material handlers, aircraft and heavy machinery. On December 31, 2007, 80.4% of our outstanding leases were automobile leases, as compared to 86.6% for the Brazilian leasing market as a whole.

As of December 31, 2007, we conducted our leasing operations through our primary leasing subsidiary, Bradesco Leasing and also through Banco Finasa.

We obtain funding for our leasing operations primarily through the issuance of debentures and notes in the domestic market. At December 31, 2007, Bradesco Leasing had R\$31.9 billion of unsecured short-term debentures outstanding in the domestic market. These debentures will mature in 2025 and bear monthly interests at the CDI.



### ***Terms of Leasing Agreements***

Financial leases represent a source of medium- and long-term financing for Brazilian customers. Under Brazilian law, the minimum term of financial leasing contracts is 24 months for transactions with respect to goods with an average life of five years or less, and 36 months for transactions with respect to goods with an average life greater than five years. There is no legally imposed maximum term for leasing contracts. At December 31, 2007 the remaining average maturity of contracts in our lease portfolio was 42 months.

We generally require both a 20.0% down payment and maintenance by the lessee of full insurance on the leased asset and repossess the leased asset if a lessee is in default.

### ***Credit Cards***

We issued Brazil's first credit cards in 1968, and as of December 31, 2007, we were one of Brazil's largest independent credit card issuers, with 17.5 million credit cards and 9.7 million private label cards issued. We offer Visa, American Express, MasterCard and Private Label credit cards to our clients. As of December 31, 2007, our credit cards were accepted in over 170 countries.

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

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

We earn revenues from our credit card operations through:

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

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

- credit cards for low-income customers, restricted for use in Brazil;
- credit cards accepted nationwide and internationally;

- credit cards directed toward high-net-worth customers, such as Gold , Platinum and Infinite Visa, American Express and MasterCard. The highlights are the benefits of the Fidelity Programs, among which the Membership Rewards;
- cards that combine the features of credit and debit card in a single piece. Holders of these cards can use them to carry out traditional banking transactions as well as to purchase goods;
- for greater security, we are issuing chip-embedded credit cards for the whole client base, which allows holders to use passwords instead of signatures;
- corporate credit cards accepted nationwide and internationally;
- co-branded credit cards, which we offer through partnerships we have with traditional companies, such as airlines, retail stores , newspapers, magazines, automobile companies and others;
- affinity credit cards, which we offer through civil associations, such as sport clubs and non- governmental organizations;
- CredMais credit cards for employees of our payroll processing clients, which have more attractive revolving credit fees, and CredMais INSS credit cards for pensioners and other beneficiaries of INSS with lower financing interest rates;
- Private label credit cards, which exclusively target retail clients in efforts to leverage the loyalty of our business and individual clients, and which may or may not have a flag for use outside the commercial establishment.
- GiftCard, which is a prepaid card sold as a gift to individuals;
- SMS Bradesco Message Service, which allows the credit card holder to receive a text message in their mobile phone informing them that a transaction with its respective credit card has been made;
- CPB Bradesco Ticket Card, a virtual card focused on the management and control of plane ticket expenses for corporations;
- Bradesco Transportation Card, aimed at transportation companies, shipping companies, risk management companies and truck drivers, with multiple functions of prepaid and debit in account;
- Blue Credit Cards, a credit card with a modern shape, offering special benefits for higher- income American Express clients;
- FixCard , with a reduced fee that enables the card user to plan his/her monthly expenditure payment; and
- Payment of invoice in up to 12 fixed installments, with specific charges per type of card.

As of December 31, 2007, we had more than 43 partners with whom we offered co-branded, affinity and private label/hybrid credit cards. These relationships have allowed us to integrate our relationships with our clients, thereby offering our credit card customers banking products, such as financing and insurance services.



Bradesco has had a long-term interest in environmental matters. In 1993, we launched the SOS Mata Atlântica card, which allocates a portion of its revenues to environmental causes.

In 2007, we entered into an agreement with the State of Amazonas to donate R\$70 million to *Fundação Amazonas Sustentável* (Sustainable Amazonas Foundation) within five years. A portion of this project will be funded through the allocation of some of the revenues generated by our social-purpose credit card operations.

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

	Year 2005	Year 2006	Year 2007
	(millions)		
<b>Card Base:</b>			
Credit	8.6	13.0	17.6
Private Label	1.6	4.9	9.7
Debit	37.4	40.1	43.2
<b>Total</b>	<b>47.6</b>	<b>58.0</b>	<b>70.5</b>
<b>Revenue (R\$):</b>			
Credit	13,802.7	23,233.2	32,774.6
Private Label	220.7	1,243.5	4,122.2
Debit	12,248.7	14,243.1	16,786.6
<b>Total</b>	<b>26,272.1</b>	<b>38,719.8</b>	<b>53,683.4</b>
<b>Number of Transactions:</b>			
Credit	217.2	293.8	393.7
Private Label	3.3	15.9	53.2
Debit	274.5	309.5	351.6
<b>Total</b>	<b>495.0</b>	<b>619.2</b>	<b>798.5</b>

### *Debit Cards*

Customers who hold Bradesco Visa Electron debit cards can use them to make purchases at establishments and obtain advances at the BDN network in Brazil and the Visa Plus network worldwide. The amount paid is withdrawn from the cardholder's Bradesco account, eliminating the inconvenience and bureaucracy of a check. We charge affiliated establishments a commission fee of 1.6% on each Visa Electron transaction. The total income from debit cards was R\$16.8 billion in 2007, a 17.9% increase from 2006 that was the result of an increase in the client base and the preference for this type of payment.

### *Prepaid cards*

In 2007, together with other card issuers and Visa International, we actively participated in the distribution of Visa Vale cards, accounting for 43.6% of all sales in the benefits-vouchers sector in 2007.

## ***Receivables, Payment, Human Resource and Management Solutions***

### ***Receiving and Payment Solutions***

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

These electronic solutions include:

- collection and payment services;
- provision of on-line resource management;
- the electronic payment of taxes, social contributions, and related interests and penalties; and
- the payment of utilities bills.

In addition to these electronic solutions, we offer tailor-made services to facilitate our clients' business development. These services contribute to the productivity of our other businesses.

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

### ***Charging and Other Receivables***

In 2007, we processed 1.1 billion receivables through our online collection system, checks custody service, deposits at cashiers and credit order via our teleprocessing system, which represented a 15.6% growth as compared to the receivables we processed in 2006.

### ***Collections***

In 2007, we processed payments of 358.3 million taxes, utilities charges, social contributions and utilities bills, which represented a 15.7% growth as compared to similar payments we processed in 2006.

### ***Check-Custody Services***

In 2007, our post-dated check-custody service totaled R\$4.2 billion, which represented a 15.1% growth as compared to 2006. Post-dated checks are a means of term payment frequently used in Brazil, particularly in the retail and wholesale sectors. Under this system, clients pay their goods and services with future dated bank checks, which the seller deposits on an agreed upon later date, effectively extending the time in which payment must be made.

### ***Suppliers and Taxes Payment***

We offer our corporate clients electronic payment services, which allow them to make financial payments and transfers to their suppliers and creditors, including payment of taxes. In 2007, we processed over 170.4 million online financial payments and transfers, which represented an increase of 18.3% as compared to 2006.



***Productive Chain Solutions***

We have been positioned to take advantage of a growing corporate trend whereby companies that operate at different stages of the same production chain decide to combine efforts in order to improve their results. We operate in different stages of the production chain, offering solutions, products, services and partnerships that meet the needs of each involved party, such as suppliers, distributors and clients.

***Public Authority Solutions***

Our public authority department identifies business opportunities and provides tailor-made services to several entities at each of the Executive, Legislative and Judiciary Branches, independent governmental Agencies, public foundations, public and mixed corporations, the armed forces and ancillary forces of the armed forces. We also take advantage of our website ([www.bradescopoderpublico.com.br](http://www.bradescopoderpublico.com.br)) to obtain new clients, strengthen our relationship with our existing clients and consolidate our position with public authorities.

***Administrative Services and Human Resource Solutions***

We offer our corporate clients several electronic solutions for management of human resources and administrative services, including: payroll processing, employee checking accounts, salary card for employees who do not have accounts at Bradesco and also the company card, for the payment of business trips and other company-related expenses. Once employees receive their salaries through this system, they may take advantage of special credit lines, special conditions for rates, fees, products and services and a broad ATM network.

***Capital Markets and Investment Banking Services***

Bradesco BBI S.A., which we call BBI is the company responsible for the development of operations in the fixed and variable income markets, structured operations, mergers and acquisitions, project finance and treasury.

**Variable Income**

In 2007, we acted as joint bookrunners in several public equity offerings, including:

- Marfrig Frigoríficos and Comércio de Alimentos S.A., in an offering worth R\$1.0 billion;
- Multiplan Empreendimentos Imobiliários S.A., in an offering worth R\$924.5 million;
- Banco Panamericano S.A., in an offering worth R\$700.4 million; and
- Drogasil S.A., in an offering worth R\$392.7 million.

In addition to acting as joint bookrunners, we also acted as lead managers in several equity offerings, including:

- BM&F, in an offering worth R\$6.0 billion; and
- Helbor Empreendimentos S.A., in an offering worth R\$251.8 million.

In 2007, according to ANBID, we ranked:





- eighth in Placement of Securities, with a total amount of R\$1.9 billion in variable income transactions, and
- eighth in originations of transactions, with a total amount of R\$1.8 billion in transactions involving variable income securities.

### **Fixed Income**

In the public offerings of fixed income securities, BBI acted as lead manager in a number of transactions, including

- Eletropaulo Metropolitana Eletricidade de S. Paulo S.A., in the public offering of debentures worth R\$200.0 million; and
- Ultrapar Participações S.A., in the public offering of first and second series debentures worth R\$675.0 million and R\$214.0 million, respectively.

In 2007, according to ANBID, we ranked:

- second in placement of securities, with a total amount of R\$2.2 billion in fixed income transactions; and
- second in the originations of transactions, with a total amount of R\$2.3 billion in transactions involving fixed income securities.

### **Structured operations**

BBI structures credit risk transactions mainly by means of special purpose entity (SPE) securitizations, shared risk loan assignments, *Fundo de Investimento em Direitos Creditórios* (Investment Funds in Credit Rights), which we call FIDCs, *Certificados de Recebíveis Imobiliários* (Real Estate Receivables Certificates), or CRIs, and medium- and long-term financing based on receivables and/or guarantees.

In 2007, according to ANBID, we ranked third in the origination of FIDC senior quotas under the form of closed-end condominium.

### **Mergers and Acquisitions**

In 2007, we acquired BMC and sold a part of our equity interests in Serasa S.A. We also advised B5 S.A. in the acquisition of Companhia Açucareira Vale do Rosário, Brascan Shopping Centers in the acquisition of Plaza Shopping Trust SPCO Ltda., Louis Dreyfus Commodities Bioenergia S.A. in the acquisition of sugar and ethanol business of Grupo Tavares de Mello, CPM S.A. in its merger into Braxis Tecnologia da Informação S.A. and Odebrecht Investimentos em Infra-estrutura Ltda. in the acquisition of Ecosama Empresa Concessionária de Saneamento de Mauá S.A.

### **Project Finance**

In 2007, BBI acted as an advisor and financial structurer in important projects for companies within a variety of economic segments. Among others, BBI participated in the following projects:

- BBI acted as advisor and financial structurer of Foz do Chapecó, a hydroelectric power plant, with a capacity of 855 MW that required a total financing of R\$1.6 billion;
- BBI acted as advisor and financial structurer of PCH Terra Santa, with a capacity of 27.4 MW, and of PCH Pampeana, with a capacity of 28 MW, both small-sized hydroelectric power plants, that required financings in the amount of R\$98.8 million and R\$88.5 million, respectively; and
- BBI acted as co-participant in the *Consórcio Madeira Energia*, a consortium headed by Odebrecht and Furnas, in its winning bid for the Santo Antônio hydroelectric power plant, with installed capacity of 3,150 MW.

## Treasury

In 2007, BBI took part in a number of treasury transactions, including a transaction in which BBI acted as market maker of BNDES shares. Currently, BBI is negotiating with other issuers in order to act as market maker for their outstanding shares. We expect these transactions will improve the liquidity of the Brazilian fixed income secondary market.

BBI's treasury has mainly operated in price index derivative transactions and domestic and international fixed income secondary markets.

In December 2006 we began carrying out treasury transactions in the private banking segment, mainly promissory notes transactions.

## Brokerage and Trading Services

Through our wholly owned subsidiary Bradesco S.A. Corretora de Títulos e Valores Mobiliários, which we refer to as Bradesco Corretora, we trade futures, options and corporate and Brazilian government securities on behalf of our customers. The clients of Bradesco Corretora include individuals with many assets, large companies and institutional investors. Bradesco Corretora's clients include high net worth individuals, large corporations and institutional investors. Bradesco Corretora also offers investment analysis services, which provides market performance reports, portfolio advice and stock guides.

During 2007, Bradesco Corretora traded more than R\$55.3 billion on Bovespa and, according to Bovespa, was ranked thirteenth in Brazil in terms of total trading volume.

In addition, during 2007, Bradesco Corretora traded approximately 3.8 million futures, swaps, options and other contracts, with a total value of R\$269.4 billion, on the *Bolsa de Mercadorias e Futuros* (the Brazilian Mercantile and Futures Market, which we call the BM&F). According to the BM&F, in 2007, Bradesco Corretora was ranked 27<sup>th</sup> in the Brazilian market, in terms of the number of options, futures and swaps contracts executed. In 2006, Bradesco Corretora traded 2.6 million futures, swaps, options and other contracts, with a total amount of R\$207.9 billion on BM&F and, according to BM&F, was ranked 27<sup>th</sup> in the Brazilian market.

Bradesco Corretora has thirty-six brokers covering retail investors and assisting our branch managers, ten brokers dedicated to Brazilian and foreign institutional investors and nine brokers dedicated to the BM&F. Bradesco Corretora has eleven traders on BM&F's floor and four floor assistants. Our branch managers are charged with the task of marketing the services that Bradesco Corretora offers.



Bradesco Corretora offers its clients the ability to trade securities via the Internet through its ShopInvest service. In 2007, trading through ShopInvest totaled R\$14.2 billion, corresponding, according to Bovespa, to 7.8% of all transactions carried out through the Internet on Bovespa and ranking Bradesco Corretora as the 2<sup>nd</sup> largest Internet trader in the Brazilian market. In 2006, negotiations through ShopInvest totaled R\$4.3 billion, corresponding, according to Bovespa, to 3.0% of all the transactions carried out through the Internet on Bovespa, ranking Bradesco Corretora as the sixth largest Internet trader in the Brazilian market.

We also offer our clients the Direct Treasury Program, which allows individual clients to invest in Federal Public Securities through the Internet by registering with Bradesco Corretora through our website, [www.bradesco.com.br](http://www.bradesco.com.br).

Bradesco Corretora also offers its services as a representative of non-resident investors in transactions carried out in the financial and capital markets, in accordance with the terms of CMN Resolution No. 2,689 which we refer to as Resolution 2,689. For more information regarding Resolution 2,689 see Item 10. Additional Information Exchange Controls.

### ***Share, Custody and Controlling Services***

Through our infrastructure and specially trained personnel, we offer our clients several services, such as custody of securities, controllership, receivable funds, DR-depository receipt, BDR-Brazilian depository receipt, bookkeeping for shares, debentures and quotas of investments funds. These services have received a total of ten ISO 9001:2000 certifications and 3 GoodPriv@cy certifications.

As of December 31, 2007:

#### **Book-entry assets**

- our system for registered shares had 208 companies, with a total of 2.7 million shareholders;
- our system for registered debentures had 72 companies with a total market value of R\$82.6 billion;
- our system for registered quotas had 80 investment funds with a market value of R\$5.8 billion; and
- we administered three BDR registered programs, with a market value of R\$661.3 million.

#### **Custody and Controlling Services**

- our custodial services clients (funds, portfolios, receivables, DR and mutual funds) had total assets in custody of R\$428.0 billion;
- we act as custodian for twelve DR registered programs, with a market value of R\$106.0 billion; and
- R\$365.7 billion is the total net worth of the 1,096 investment funds and portfolios that used our controllership services.

### ***Investment Banking Activities***

In February 2006, we incorporated Banco Bradesco BBI S.A., which we call Bradesco BBI, to be our investment bank and operate in the capital market, merger and acquisition, project financing, structured operations and treasury areas. Bradesco BBI provides services regarding origination, structuring of business, asset management and distribution, financial flow of funds and inventory of clients. In addition, Bradesco BBI manages the operations of Bradesco Corretora and Bradesco Securities Inc.

Our investment management areas (private banking and asset management) are separated from the investment bank activities.

### ***International Banking***

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

- in New York City, our branch and Bradesco Securities Inc., our subsidiary brokerage firm, which we call Bradesco Securities U.S.;
- in London, Bradesco Securities U.K., our subsidiary, which we call Bradesco U.K.;
- in Cayman Islands, two branches of Bradesco and one BMC branch as well as our subsidiary, Cidade Capital Markets Ltd., which we called Cidade Capital Markets;
- in the Bahamas, a branch of Bradesco;
- in Argentina, Banco Bradesco Argentina S.A., our subsidiary, which we call Bradesco Argentina;
- in Luxembourg, Banco Bradesco Luxembourg S.A., our subsidiary, which we call Bradesco Luxembourg;
- in Japan, Bradesco Services Co. Ltd., our subsidiary, which we call Bradesco Services Japan; and
- in Hong Kong, Bradesco Trade Services Ltd.

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

***Revenues from Brazilian and Foreign Operations***

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

	<b>December 31,</b>					
	<b>2005</b>		<b>2006</b>		<b>2007</b>	
	<b>(R\$ in millions)</b>	<b>(%)</b>	<b>(R\$ in millions)</b>	<b>(%)</b>	<b>(R\$ in millions)</b>	<b>(%)</b>
Brazilian operations	R\$ 47,825	98.7%	R\$ 53,388	98.6%	R\$ 59,506	98.5%
Overseas operations	641	1.3	736	1.4	884	1.5
<b>Total</b>	<b>R\$ 48,466</b>	<b>100.0%</b>	<b>R\$ 54,124</b>	<b>100.0%</b>	<b>R\$ 60,390</b>	<b>100.0%</b>

***Foreign Branches and Subsidiaries***

Our foreign branches and subsidiaries are principally engaged in financing Brazilian companies seeking external trade financing. Bradesco Luxemburg also provides services to the private banking segment. With the exception of Bradesco Services Japan, our branches also take deposits in foreign currency from corporate and individual clients and extend credit to Brazilian and non-Brazilian clients. The total assets of the foreign branches, excluding transactions between related parties, were R\$15.4 billion as of December 31, 2007, and were substantially denominated in currencies other than *reais*.

In October 2007, we indirectly acquired the Grand Cayman branch of Banco Mercantil de Crédito, as a result of our acquisition of its parent company in Brazil, BMC. On December 31, 2007, Banco Mercantil de Crédito's Grand Cayman branch had R\$13.4 million in assets.

Our foreign branches periodically issue debt securities. In addition to short-term financing obtained from international financial institutions for foreign trade financing, our foreign branches, together with our head office in Brazil, raised US\$1.3 billion in 2007 and US\$378.7 million during 2006, through medium-term and long-term private placements. The low demand for working capital loans in foreign currency prevented Bradesco from accessing the international capital markets through public placements in 2006. The access to the international capital markets, through the issuance of debt securities, diversifies our sources of foreign currency denominated funding. In most Latin American companies, our access to funding through such issuances and our ability to diversify our sources of foreign currency denominated funding are, and will continue to be, subject to the domestic and international market conditions and international lender's perception of emerging market risks.

**Bradesco Argentina.** With a view to expanding our operations in Latin America, in December 1999, we established our subsidiary in Argentina, Bradesco Argentina, the general purpose of which is to extend financing, largely to Brazilian companies established in Argentina and, to a lesser extent, to Argentinean companies doing business with Brazil. In order to start its operations, we capitalized Bradesco Argentina with R\$54.0 million from March 1998 to February 1999, and on May 29, 2007, we carried out an additional capitalization of R\$27.2 million. At December 31, 2007, Bradesco Argentina recorded R\$63.5 million as total assets.

Bradesco Luxemburgo. In April 2002, we acquired the total issued and outstanding shares 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 being Banco Bradesco Luxembourg was the surviving entity. On December 31, 2007, the total assets of this subsidiary were R\$942.4 million.



Bradesco Services Japan. In October 2001, we incorporated Bradesco Services Japan to provide specialized services to the Brazilian community in Japan, including remittances to Brazil and advice regarding investments within Brazil. At December 31, 2007, its total assets were R\$0.8 million.

Bradesco Trade Services. A non-financial institution and a subsidiary of our branch in the Cayman Islands, which we formed on January 23, 2007, in Hong Kong, jointly 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.

- Bradesco Securities U.S. focus is on facilitating the purchase and sale of shares, primarily in the form of ADRs. The company is also authorized to deal with bonds, commercial paper and deposit certificates, among other securities, and to provide investment advisory services. Currently, we have more than ninety ADR programs for Brazilian companies that trade on the New York Stock Exchange. On December 31, 2007, Bradesco Securities U.S. had assets of R\$40.0 million.
- Bradesco Securities U.K. s focus is the intermediation of variable and fixed income operations of Brazilian companies for global institutional investors. The authorization for operation was granted to Bradesco Securities U.K. on May 16, 2008. On this date, its equity amounted to R\$7.8 million.

Cidade Capital Markets. In February 2002, Bradesco, through BCN, acquired Cidade Capital Markets in Grand Cayman, as part of our acquisition of its parent company Banco Cidade. At December 31, 2007, Cidade Capital Markets had R\$64.3 million in assets.

### ***Banking Operations in the United States***

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

### ***Foreign Trade Financing***

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

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

Other types of financings for exports include, among others, the pre-payment of exports, BNDES-EXIM on-lending, advance discounts, exports credit notes and exports credit certificates.

Our foreign trade portfolio is funded primarily by credit lines with banking correspondents. We maintain relationships with various North American, European, Asian and Latin American financing institutions for this purpose, relying on our network of approximately 1,000 banking correspondents abroad, 98 of which granted funding facilities at the end of 2007.

At December 31, 2007, the balance of our export financing transactions was R\$15.3 billion and the balance of our import financing transactions was R\$2.2 billion. The volume of our foreign exchange contracts for exports reached US\$39.2 billion, an 18.4% increase over 2006. During 2007, the volume of our foreign exchange contracts for imports reached US\$17.3 billion, a 29.1% increase over 2006. In 2007, based on information made available by the Central Bank, we had a 20.5% market share in the Brazilian export market, and a 16.1% market share in the Brazilian import market.

The following table sets forth the composition of our foreign trade portfolio at December 31, 2007:

	<b>December 31, 2007</b>
<b>Export Financing</b>	<b>(R\$ in millions)</b>
Advances on Exchange Contracts (ACCs)	R\$ 5,332
Advances on Export Contracts (ACEs)	1,507
Pre-payment of exports	5,362
On-lending of funds via BNDES/EXIM	2,407
Other	734
<b>Total Export Financing</b>	<b>15,342</b>
<b>Import Financing</b>	
Foreign-exchange-denominated import financings	1,100
Withdrawal discounted from import	1,079
<b>Total Import Financing</b>	<b>2,179</b>
<b>Total Foreign Trade Portfolio</b>	<b>R\$ 17,521</b>

#### ***Other Foreign Exchange Products***

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

- purchasing and selling of travelers checks and foreign currencies;
- cross border money transfers;

- exports advanced receipt;
- bills of clients domiciled abroad in domestic currency;
- international transfer of reais;

- collecting import and export receivables;
- cashing checks that are denominated in foreign currency; and
- structuring transactions in foreign currency by means of our units abroad.

### ***Private Banking Services***

Bradesco Private Banking makes available for its high net worth individual clients liquid assets in excess of R\$1.0 million for investments, an exclusive range of products and services, including assistance in asset allocation and tax succeeding advice.

### ***Asset Management***

We manage third-party assets by means of:

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

At December 31, 2007, we had R\$177.5 billion of assets under management (representing 14% of Brazilian market share), R\$152.3 billion of which were managed by Bradesco Asset Management and R\$25.2 billion of which were in third party funds related to the management, custodial and controlling services of BEM Distribuidora de Títulos e Valores Mobiliários Ltda., which we call BEM DTVM.

At December 31, 2007, we offered 666 funds and 121 portfolios to over 3.3 million investors. We also offer a range of fixed asset, floating rate, money market and other funds. Currently we do not offer investments in highly leveraged funds.

The following tables set forth the distribution of assets among our funds under management, the number of customers and the number of funds and customer portfolios as of the dates indicated:

**Distribution of Assets<sup>(1)</sup>****December 31,****2005                      2006                      2007****(R\$ in millions)**

## Mutual Funds:

Fixed income	104,183	130,609	143,214
Variable income	3,357	5,228	14,169
Third party share funds	5,103	4,068	6,580

<b>Total</b>	<b>112,643</b>	<b>139,905</b>	<b>163,963</b>
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## Managed Customer Portfolios

Fixed income	6,340	4,265	4,952
Variable income	1,822	2,673	7,645
Third party share funds	377	265	926

<b>Total</b>	<b>8,539</b>	<b>7,203</b>	<b>13,523</b>
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<b>Overall Total</b>	<b>121,182</b>	<b>147,108</b>	<b>177,486</b>
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(1) Calculated in accordance with the criteria used for ANBID Third Party Asset Management Global Banking

**As of December 31,****2005****2006****2007**

	<b>Quantity</b>	<b>Number of Quota holders</b>	<b>Quantity</b>	<b>Number of Quota holders</b>	<b>Quantity</b>	<b>Number of Quota holders</b>
Mutual Funds	516	3,392,016	563	3,333,002	666	3,312,565
Portfolio	110	390	104	449	121	540
<b>Overall Total</b>	<b>626</b>	<b>3,392,406</b>	<b>667</b>	<b>3,333,451</b>	<b>787</b>	<b>3,313,105</b>

We market our asset management products through our network of branches, our telephone banking services and our Internet-based investment site ShopInvest. We are continuously working to improve the composition of our

investments, through intense commercial analysis, as well as diversification of our funds in order to better serve our clients.

***Consortia***

In Brazil, persons or entities that wish to acquire certain goods can form a group, known as a consortium, in which the members pool their resources to assist each other with the purchase of certain consumer goods. The purpose of a consortium is to acquire goods, and Brazilian law forbids the formation of consortia 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. On December 31, 2007, Bradesco Consórcios registered total sales of over 334,129 quotas, with a total billed amount of approximately R\$10.8 billion and a net profit income of R\$141.4 million. Bradesco Consórcios acts as the administrator for the consortia, which are formed to purchase real estates, automobiles, trucks, tractors and agricultural equipments.

**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, 2007:

The following table sets forth selected financial data for our insurance, pension plans and certificated savings plans segment for the periods indicated. The total amounts per segment shown in the table may not correspond to the amounts shown on a consolidated basis, as they do not take into account other activities we develop as they are immaterial, and were subject to adjustments, reclassifications and eliminations for inter-company transactions.

**As of and for the year ended December 31,**

	<b>2005</b>	<b>2006</b>	<b>2007</b>
		<b>(R\$ in millions)</b>	
<b>Income statement data:</b>			
Net interest income <sup>(1)</sup>	R\$ 5,938	R\$ 6,476	R\$ 6,577
Non-interest income <sup>(1)</sup>	9,374	10,307	11,292
Non-interest expense	(12,428)	(13,407)	(13,949)
Income before taxes and minority interest <sup>(1)</sup>	2,884	3,376	3,920
Tax on income	(858)	(918)	(1,287)
Income before minority interest <sup>(1)</sup>	2,026	2,458	2,633
Minority interest	(9)	(16)	(19)
<b>Net Income<sup>(1)</sup></b>	<b>R\$ 2,017</b>	<b>R\$ 2,442</b>	<b>R\$ 2,614</b>
<b>Balance sheet data:</b>			
Total assets	R\$ 49,670	R\$ 61,208	R\$ 73,028

**Selected results of operations data**

Insurance premiums:			
Premiums of life insurance and personal accidents	1,787	1,779	1,822
Health insurance premiums	3,518	3,918	4,246
Automobile, property and casualty insurance premiums	2,500	2,424	2,775
<b>Total</b>	<b>R\$ 7,805</b>	<b>R\$ 8,121</b>	<b>R\$ 8,843</b>
Pension plan income	377	791	555
Interest income from insurance, pension plans, certificated savings plans and pension investment contracts	5,938	6,476	6,577
Changes in technical provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(3,939)	(4,199)	(4,981)
Insurance claims	(5,501)	(6,124)	(6,012)
Pension plan operating expenses	R\$ (505)	R\$ (560)	R\$ (478)

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

***Insurance***

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 was the largest insurer group in Brazil in 2007 based on total revenues and technical provisions, according to information published by SUSEP and ANS in December 2007. Grupo Bradesco de Seguros e Previdência provides a wide range of insurance products, both on an individual basis and to corporate clients. Its products include health, life, accident, automobile and property and casualty insurance. According to the annual publication of Fundacion Mapfre in Spain, Grupo Bradesco de Seguros e Previdência was the greatest insurance and pension plan group in Latin America in 2006.

***Health Insurance***

Health and dental care insurance insures policyholders for medical and odontological expenses. We offer our health and dental care insurance through our subsidiary Bradesco Saúde. At December 31, 2007, Bradesco Saúde had 2.9 million health and dental policyholders, including holders of corporate insurance plans and individual/family plans. Approximately 18,000 companies in Brazil have health insurance policies underwritten by Bradesco Saúde, including 38 of the country's 100 largest companies.

Bradesco Saúde currently has one of the largest health insurance networks. As of December 31, 2007, it included approximately 9,100 laboratories, 10,000 specialized clinics, 14,400 physicians, 3,000 hospitals, 1,400 dental clinics and 5,700 dentists located throughout the country.

***Personal Insurance***

Bradesco Seguros offers life, personal accident and occasional events insurance products through our subsidiary Bradesco Vida e Previdência.

***Automobiles, Property and Liability***



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

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

In 2007, Bradesco Auto/RE had 1.2 million insured automobiles and 907 million basic lines policies and tickets. Bradesco Auto/RE is one of the main insurers in Brazil.

### ***Sales of Insurance Products***

We sell our insurance products through exclusive brokers in our branch network, as well as through non-exclusive brokers throughout Brazil. Bradesco Seguros pays the brokers' fees on a commission basis. At December 31, 2007, 26,951 brokers offered our insurance policies to the public. We also offer certain automobile, health, property and casualty insurance products directly through our website.

### ***Pricing***

The pricing of individual health insurance in Brazil is based on medical and hospital costs and the history of individual claims. These factors, in conjunction with the number of insured individuals and their geographical regions, also guide the pricing for group health insurance. All insurance pricing calculations are based on actuarial studies.

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

The price determination of automobile insurance is influenced by the frequency and severity level of an individual's claims, and takes into consideration many factors, such as place of use of the vehicle and its specific characteristics. In accordance with market practice, as of April 2004, we consider the client profile in the price determination of an automobile insurance policy.

The profitability of personal automobile insurance partially depends on the identification and correction of disparity between premium levels and the expected claim costs. The premiums charged for the cover of damages to vehicles are pegged to the value of the insured automobile and, consequently, the premium levels partially reflect the sales volume of new automobiles.

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

### ***Reinsurance***

Brazilian regulations set retention limits on the amount of risks insurance companies may underwrite. In accordance with such regulations, Grupo Bradesco de Seguros e Previdência reinsures with the IRB all the risks it underwrites for which the insured amounts exceed the retention limits. In addition, Grupo Bradesco de Seguros e Previdência also reinsures all risks for which reinsurance is recommended by technical-actuarial decisions, in order to

minimize the risks of our portfolio.

In 2007, Grupo Bradesco de Seguros e Previdência reinsured approximately R\$367 million in insurance risks with the IRB. Although the reinsurance companies are liable for any risks they reinsure, the insurance companies remain primarily responsible as the direct insurers on all reinsured risks and not only on the amounts reinsured by them.

On January 15, 2007, the Brazilian Congress enacted the Supplementary Law no. 126, which extinguished the monopoly of IRB by opening the reinsurance market to competition in Brazil. The effectiveness of such law depends on regulation by CNSP over the requirements to be met by reinsurance companies for receiving reinsurance assignments originated in the country.

On July 17, 2007, CNSP authorized Brazilian insurance companies to contract with foreign reinsurance companies either by themselves or brokers, and individuals or legal entities to contract with foreign insurance companies.

On the same date, CNSP established new rules applicable to reinsurance, retrocession and intermediation activities, such as minimum capital required for Brazilian reinsurance companies to operate in the Brazilian market, requirements for additional capital in accordance with underwriting risks, rules and procedures regarding technical provisions and retention limits for Brazilian reinsurance companies and reinsurance brokerage.

The CNSP authorized IRB to keep providing reinsurance and retrocession services. However, IRB is required to comply with the new regulations applied to Brazilian reinsurance companies by October 2008.

### ***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 the *Federação Nacional de Previdência Privada e Vida* (the National Association of Private Pension Plans), known as Fenaprevi, and SUSEP.

Bradesco Vida e Previdência offers and manages a range of individual and group pension plans. Our largest individual plans in terms of contributions are VGBL, PGBL and *Fundos de Aposentadoria Individual*, which we call FAPI. VGBLs and PGBLs are plans exempted from withholding taxes on income generated by the fund portfolio. For income tax purposes, FAPI and PGBL allow the participants to deduct their taxable income by the amount of their pension plans contributions, up to a limit of 12% of their overall gross income. Participants in these types of funds are taxed upon redemption of their shares, or reception of benefits.

In December 2007, the pension funds managed by Bradesco Vida e Previdência accounted for 41.9% of VGBL, 26.1% of PGBL and 30.0% of traditional pension plans in Brazil, according to Fenaprevi.

In December 2007, Bradesco Vida e Previdência accounted for 37.9% of the supplementary pension plan market and VGBL market in terms of contributions, according to SUSEP. As of December 31, 2007, Bradesco Vida e Previdência accounted for 41.0% of all supplementary pension plan assets under management according to Fenaprevi.

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

Our revenues from pension plan management have risen by an average of 20.8% over the past five years, in large part due to increased sales of our products through our branch network.

We manage pension plans and VGBL covering more than 1.9 million participants, 73.2% of whom are members of individual plans, and the remainder of whom are individual members of corporate plans. Corporate plans account for 27.4% 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 by up to 12.0% of the participant's complete taxable income. According to applicable law, the redemption and the benefits realized are subject to a withholding tax. Companies in Brazil can establish VGBL and PGBL plans for the benefit of their employees. As of December 31, 2007, Bradesco Vida e Previdência managed R\$24,514 million in VGBL and R\$9,417 million in PGBL plans. Bradesco Vida e Previdência also managed R\$17,916 million in supplementary pension plans.

We are using VGBLs and PGBLs to replace a number of guaranteed-return plans, as guaranteed-return plans pose more risk to us. Guaranteed-return plans guarantee participants a minimum return during the period they make their contributions. The amount of return corresponds to the amount invested at a rate of TR plus a spread of up to 6% per year. To minimize market fluctuations, we hedge our risk arising from these guaranteed-return plans with investments in Brazilian government treasury notes. Conversely, VGBLs and PGBLs do not have such a guarantee.

In accordance with US GAAP, we consider VGBLs, PGBLs and FAPIs to be pension investment contracts.

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

Bradesco Vida e Previdência earns revenues primarily from:

- pension plans contributions and PGBL, premiums of life insurance, personal accidents and VGBL; and
- revenues from management fees which are charged from the participants in accordance with mathematic provisions.

### **Certificated Savings Plans**

Bradesco Capitalização offers our clients certificated savings plans with the option of making either one contribution or monthly payments. Each savings plan varies in accordance with value (from R\$7.00 to R\$10,000), form of payment, contribution term and periodicity of drawings of cash premiums of up to R\$2 million. Clients are granted interest at a rate of TR plus 0.5% per month over the value of the mathematical provision. The certificated savings plans are redeemable by the holder at the end of a grace period that is usually 12 months. As of December 31, 2007, we had more than 4.5 million traditional certificated savings plans and more than 9.8 million assignment of raffle right certificated savings plans. Given that the purpose of assignment of raffle right certificated savings plans is

to add value to the product of the partner company or even to provide an incentive for the non-delinquency of its clients, the bonds have reduced effectiveness term and grace period and low unit value of commercialization. As of December 31, 2007, Bradesco Capitalização had issued more than 14.3 million of certificated savings plans, which are held by more than 2.3 million clients.

Bradesco Capitalização was the first certificated savings plan company in the country to receive the ISO 9002 Certification. In 2007, it maintained its quality management system NBR ISO 9001:2000 Certification with respect to our certificated savings plans management. This certification, granted by Fundação Vanzolini, attests to the quality of internal processes of Bradesco Capitalização and reinforces the quality of our certificated saving plans. Standard & Poor's increased Bradesco Capitalização's rating from brAA+/Positive to brAAA/Stable in May 2007. It is currently the only company in the certificated savings plans segment with such a rating. We believe Bradesco Capitalização's results are mostly driven by the solid financial condition and equity protection standards that Bradesco Capitalização ensures its clients.

### **Treasury Activities**

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

### **Distribution Channels**

We have the largest private-sector banking network in Brazil. In 2007 we opened 152 new branches. Our branch network is complemented by alternative distribution channels such as special banking service posts on the premises of selected companies, ATMs, telephone banking services and Internet banking. In introducing new distribution systems, we have focused on enhancing our security as well as increasing efficiency.

In addition, in order to foster stronger ties with our corporate clients, in 2007, we established an additional 234 banking service posts on the premises of selected corporate clients and 91 banking service posts in 2006, reaching a total of 2,776 banking service posts as of December 31, 2007. We offer the same products and services at these special posts as we offer in our branches.

For information on our international branches as of December 31, 2007, see Item 4. Information on the Company History and Development of the Company Banking Activity International Banking.

We also offer banking services in 5,821 Brazilian post offices and through our banking correspondent offices. For further information about this distribution channel, see History Acquisitions in 2003 and 2005 Other Acquisitions.

### ***Specialized Distribution of Products and Services***

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

***Bradesco Retail***

Bradesco Retail provides banking services to the population at large, mainly assisting individuals with monthly incomes of up to R\$4,000, and companies with annual revenues of up to R\$15.0 million, comprising more than 18 million clients carrying out millions of daily transactions at our 2,800 branches and 2,600 other service locations. We reward our biggest clients in this segment by providing them with personalized services.

***Bradesco Corporate***

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

Bradesco Corporate is ISO 9001:2000 certified for all its corporate structure, and provides exclusive customer service specialists for our corporate customers.

***Bradesco Companies***

Bradesco Companies was implemented with the aim of attending to the needs of companies with revenues of R\$30 million to R\$350 million/year, through its 68 exclusive branches in the main Brazilian capital cities.

Bradesco Companies strives to offer excellent business management with respect to loans, financings, investments, foreign commerce, derivatives, cash management and structured transactions, seeking both the satisfaction of our clients and good results for the Organization.

The Bradesco Companies team has 39 chief managers and 343 relationship managers who take part in ANBID's Certification Program, and 211 assistant managers. Bradesco Companies' team assists an average of thirty-four economic groups representing 24,771 companies in various industries.

Bradesco Companies manages assets in the amount of R\$47.2 billion, among loan operations, guarantees, deposits, funds and charging.

In an ongoing pursuit of quality, Bradesco Companies received from Fundação Carlos Alberto Vanzolini the NBR ISO 9001:2000 certification, attesting to our commitment to a continuous improvement process and clients' satisfaction.

***Bradesco Private Banking***

Bradesco Private Banking, certified by ISO 9001:2000 as well as by GoodPriv@cy (Data Protection 2002 Edition) granted by International Quality Network, was created in 2000 to manage our relationship with high net worth individuals. Bradesco Private Banking seeks the most appropriate financial solution for each client by providing a tailor-made solution for each client that focuses on asset allocation assessment, fiscal, tax and estate planning.



***Bradesco Prime***

Bradesco Prime operates in the high-income client segment and was created to provide services to individuals with monthly incomes of at least R\$4,000 or investments worth at least R\$50,000. Its mission is to be the primary bank of such clients focusing on a high-quality relationship with the clients, as well as on providing appropriate solutions to their needs, with well-prepared teams, adding value to shareholders and employees, within the Bank's ethical and professional standards. Bradesco Prime's services are based on the following assumptions:

- personalized services as a result of a close relationship between our clients and our managers who manage a small number of portfolios and are constantly working on their qualifications in order to provide high standards of financial advisory service;
- large range of products and services, such as Bradesco Prime Loyalty Program, that offers increasing benefits to the clients and promotes the relationship between the clients and Bradesco through the offer of such benefits;
- exclusive branches specifically designed to provide comfort and privacy; and
- relationship channels such as an exclusive internet banking portal ([www.bradescoprime.com.br](http://www.bradescoprime.com.br)), which allows our clients to chat with our financial advisors in real time, an exclusive call center for our clients, and the use of Bradesco's branches, ATM machines and *Banco 24 Horas* throughout Brazil.

Throughout the years, by investing in technology, in the improvement of the relationship with clients and in the qualification of its professionals, Bradesco Prime has achieved an outstanding position in the Brazilian market of banking services to high-income clients and has been consolidated as the largest banking service provider to high-income clients in terms of network, with 228 branches, that are strategically positioned to provide service for more than 389,000 clients.

Since 2005, Bradesco Prime has been certified by Fundação Carlos Alberto Vanzolini with NBR ISO 9001:2000 certification. This certification underscores our commitment to ongoing improvement and the pursuit of clients 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 processing and collection services, our private banking services and our asset management products. We market our leasing services through channels operated by our branch network, as well as directly through our wholly owned subsidiary Bradesco Leasing and Banco Finasa. Bradesco Corretora and Bradesco Consórcios also market brokerage, trading and consortium services through our branches. Bradesco Vida e Previdência sells its products through 8,005 independent agents nationwide, most of whom are based in our facilities. These agents' compensation is commission based.

We sell our insurance products and pension plans through our website, through exclusive brokers based in our network of bank branches, and through non-exclusive brokers throughout Brazil, all of whom are compensated on a commission basis. At December 31, 2007, 26,951 brokers offered our insurance policies to the public. Our certificated savings plans are offered through our branches, the Internet, customer services, ATM machines and external

distribution channels.

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

	2005	2006	2007
	(% of total sales, per product)		
<b>Insurance products</b>			
Sales through the branches	34.9%	35.6%	37.7%
Sales outside the branches	65.1	64.4	62.3
<b>Pension plans products</b>			
Sales through the branches	83.1	84.5	83.6
Sales outside the branches	16.9	15.5	16.4
<b>Leasing products</b>			
Sales through the branches	78.1	65.7	19.7
Sales outside the branches	21.9	34.3	80.3
<b>Certificated savings plans</b>			
Sales through the branches	90.0	91.0	92.3
Sales outside the branches	10.0%	9.0%	7.7%

### *Data processing*

We have two data processing centers, one in Osasco, which incorporates our production processes, and one in Alphaville (Barueri), which incorporates our contingency processes. They are both located in the State of São Paulo, and are jointly equipped with 20 large-scale computers and 1,449 medium scale computers. All of our branches and ATMs have telecommunications services capable of exchanging data with any one of the two processing centers.

Our information technology center in Alphaville may replace our data processing center in Osasco at any time.

### *Other service channels*

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

### *ATM*

Bradesco's Self-Service Network has 25,974 ATMs located throughout Brazil and provides fast and practical access for a diverse range of products and services. Holders of debit cards in checking or savings accounts can also carry out withdrawals, issuance of statements and balances at any one of the 3,939 ATMs of Banco24Horas.

In 2007, we recorded an average of over 5.4 million on-line and real time transactions per day; we set up 6,626 new ATM machines and replaced 3,747 machines.

### *Internet Services*

Bradesco is focused on providing innovative Internet services for its customers. Bradesco Dia&Noite manages an Internet portal with 49 websites, of which 36 are institutional and 13 are transactional.

Bradesco Net Empresa caters exclusively to our corporate customers and allows them to have greater security in their banking transactions, through the digital certificate with electronic signature and the Bradesco Safety Key System. Companies that register for this service are able to optimize their businesses' financial management, while having the ability to carry out 751 types of operations, among which are movements in checking and savings accounts, payments, charging and transference of files.

Bradesco ShopInvest website provides our clients with several online options including: conducting transactions on the Bovespa, receiving online quotations, calculation simulations, acquisition of certificated savings plans, private pension plans and the provision of additional information on the financial markets.

With detailed information about the lines offered, the Loans and Financings website ShopCredit makes available to individual and corporate clients the Bank's complete portfolio. It still allows the use of calculation simulators for the operations of Personal Loans, CDC, Leasing, Real Estate Loans, Rural Loans, and Finame, among others.

With the Bradesco Celular channel (access via cell phone), the Client may interact with the Bank through Mobile Technology and carry out the payment of bills, transferrals between accounts, the payment of cell phone charges, and queries about balances, insurance information, Certificated Savings Plans, Financial Market Indexes and Quotations, and the profitability of Investment Funds.

Through the website of Banco Bradesco Cartões S.A., which we call Bradesco Cartões, the clients of Bradesco cards may make queries and requests and access several online products and services such as rotating loans and requests;

CidadeTRAN is Bradesco's website catering exclusively for forwarding agents and driving schools, offering payment and financing solutions for all the fees and taxes related to vehicles and the *Carteira Nacional de Habilitação* (the National Drivers License), or the CNH, of the State of São Paulo.

In addition to the website that hosts all its products, www.bradesco.com.br, the Bank also maintains specific websites to assist the clients of the Bradesco Prime, Private, Companies and Corporate segments.

This year, we recorded 1,295.7 million banking transactions through our Internet banking services, as follows:

- Internet Banking 8.6 million registered users and 318.6 million transactions carried out;
- ShopInvest 1.2 million registered users and 5.0 million transactions, which amounted to R\$17.2 billion;
- ShopCredit 21.7 million transactions were recorded;
- Net Empresa 460,709 approved companies, resulting in 54.9 million transactions carried out, and WebTA (Web File Transmission) a further 850.6 million transactions/operations carried out;
- Bradesco Cartões 36.8 million transactions carried out; and
- CidadeTRAN 8.0 million transactions/operations carried out.

### ***Telephone Service***

Fone Fácil Bradesco provides telephone services 7 days a week with convenience, agility and security. By means of an electronic and personalized service, the Client obtains information, carries out transactions and acquires products and services related to their checking and savings accounts, credit cards and other products available on this channel. In 2007, we responded to 296.2 million calls, which generated over 367.0 million transactions valued at R\$9.9 billion.

### **Capital Expenditures**

For a discussion of our capital expenditures during the last three years, see Item 5. Operating and Financial Review and Prospects—Capital Expenditures.

### **Market Risk**

Market risk is related to the possibility of the loss of income from fluctuating prices and rates caused by mismatched maturities, currencies and indicators of the institution's asset and liability portfolios.

We measure and manage market risks through methodologies and models, which are consistent with local and international market realities, ensuring that our strategic decisions are implemented quickly and reliably.

We have conservative market risk exposure policies. The value at risk, or VaR, limits are defined by the treasury executive committee and validated by the board of executive officers, and compliance is monitored daily by an area, which is independent from portfolio management. The VaR methodology has an accuracy level of 97.5% and a time frame of one day. Volatilities and correlations used by the models are calculated based on statistical methods and are adjusted, when necessary, at facts not yet captured by the data used in the models. The methodology applied, as well as the existing statistic methods, are validated on a daily basis by the use of backtesting techniques. Also, a sensibility analysis is daily made for the key risk factors of the positions, and the likely impacts on the portfolios in scenarios of stress are estimated.

Market risk reports are made available on a daily basis to the portfolio management areas, to the ones in charge of monitoring and controlling the risk limits, and to the senior management. These reports are presented to the treasury executive committee on a weekly basis, and to the board of directors on a quarterly basis.

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

### ***Credit Risk Management***

Credit risk deals with the potential risk that a counterparty to a loan or other financial operation may not wish or be able to comply with their contractual obligations.

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

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

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

- to evaluate and recommend risk measurement strategies, policies, norms, and methodologies to the integrated risks management and capital allocation committee;
- to follow up on and assess the credit risk and the actions taken to mitigate risks;
- to follow up on and assess the alternatives to mitigate credit concentration risks, warning for those which might cause unexpected and unacceptable losses for the Bradesco Organization;
- to follow up on the implementation of credit risk corporate management methodologies, models and tools;
- to assess the sufficiency of the allowance for doubtful accounts, for the coverage of losses on credit operations;
- to follow up on the credit market moves and development, analyzing the implications, risks and opportunities for the Bradesco Organization; and
- to regularly report to the chief executive officer and to the interegrated risk management and capital allocation committee its activities and make the recommendations it deems important.

Among the key activities of credit risk management, we point out:

- back testing and gauging of models used to assess credit portfolio risks;
- active participation in the process of improving client risk rating models, taking into consideration the particular characteristics of the business and product segments in which the Bank operates;
- concentration analysis per economic groups, activity, regions, etc;
- follow-up on major risks, such as, periodic monitoring of the major events of default, through individual analysis, based on client s balance evolution and recovery estimates;
- follow-up on the provisioning against the expected and unexpected losses;
- continuously revising and restructuring our internal processes, including roles and responsibilities capacity building, review of organizational structures and information technology demands; and
- participation in the credit risk assessment, during the creation or revision of products and services.

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

We seek to implement processes in line with the requirements of the Basel II IRB Advanced approach.

### ***Operational Risk Management***

The Bradesco Organization defines operational risk as the risk of loss resulting from internal processes, human error, inadequate or faulty systems and external events that may or may not result in the interruption of a business. Operational risk management is based on the preparation and implementation of methodologies and tools to standardize the format of the collection and treatment of background data on losses.

We are in the process of evaluating a new corporate platform for operational risk management. This new corporate system, called operational risk and internal control, or ROCI, system has the advantage of integrating, in a single database, the ROCI information, and will meet the requirements provided for by Section 404 of the Sarbanes-Oxley Act. This new online framework will improve the Bradesco Organization's operational risk management by bettering the processes of capturing, identifying, measuring, monitoring and reporting activities in a unified platform, allowing for the internal controls area to provide necessary qualitative support to the analyses made by the operational risk area.

Operational risk management, carried out in a centralized manner, reaches all of the Organization's activities, including those of Grupo Bradesco de Seguros e Previdência. This strategy has made it possible to obtain synergies through an equitable distribution of resources, with the compliance with the Basel II and Solvency II concepts, together with the Bradesco Organization's policies, which follow the CMN Resolution 3,380, with respect to the consolidated financial statements.

For purposes of operational risk management and the respective capital allocation, the recommendations of the New Basel Capital Accord - Basel II, and concepts required by the Central Bank in its impact studies carried out in 2005 and 2006, include the following approaches:

- Basic (BIA - Basic Indicator Approach): Application of one single percentage over the gross result of the previous 36 months;
- Standardized (STA - Standardized Approach): Application of different percentages over the gross result of the previous 36 months, separated by business lines;
- Alternative (ASA - Alternative Standardized Approach): Application of a fixed percentage (M factor) over the credit assets average (Business Lines: Retail and Commercial Bank), and of different percentages over the gross result, separated by the other Business Lines;
- Added Alternative (ASA 2): oriented by the Central Bank of Brazil, differs from the ASA - Alternative Standardized Approach in terms of separation of business lines;
- Advanced (AMA - Advanced Measurement Approach): Focus on losses resulting from operational risk events, by means of building proprietary models for purposes of capital management and allocation.



For the advanced approach (AMA), which is the Bradesco Organization's goal, we use the loss distribution approach, or LDA, which consists of estimating the distribution of severity (value of loss) and frequency (number of events) for each business line and loss event.

We are currently analyzing the viability of participating in the loss database global consortium for financial institutions, called operational risk data exchange association, or ORX, for the use of the information available, so as to support our scenario analysis calculations and comparisons of our positioning against large global players with regard to loss events.

In conformity with CMN Resolution no. 3,380, the Organization maintains, updates, and improves a comprehensive plan, which sets forth strategic, tactical and operating actions. This plan includes the business Units and activities with the greatest risk potential, mitigating likely impacts and inoperability of services to clients. It is based on policies, methodologies and corporate tools, which ensure standardization and effective management of documented actions and scenarios, thus preventing likely interruptions from causing losses to clients and to the bank.

### ***Management of Internal Controls and Compliance***

Based on a policy defined and approved by the board of directors, we keep all components of the internal controls system up-to-date, so as to mitigate potential losses generated by our risk exposure and to strengthen our existing corporate governance policies. We have also adopted additional methodologies and criteria for identification, classification, evaluation and monitoring of risks and their controls. Our dedicated staff and our investments in technology and training and recycling courses for our personnel have allowed us to create internal controls and compliance management that is effective and consistent with international standards in order to comply with foreign and Brazilian legal requirements.

Our internal control area is one of the units of the risk management and compliance department and is responsible for the preparation and disclosure of technical instructions, criteria and procedures related to internal controls and compliance. It reports directly to our chief executive officer and provides periodic status reports to the internal controls and compliance and audit committees, and the board of directors.

Some of the key aspects of our risk management and compliance efforts are:

- implementation of an internal controls system structure based on methodology of the committee of sponsoring organizations, which we call COSO, and on the framework of the control objectives for information and related technology, or Cobit, regarding information technology environments, as well as adherence to the 13th Internal Control Principles defined by the Basel Committee. This structure reinforces the ongoing improvement in the identification process of deficiencies, and assessment of our internal controls to mitigate risks, including the preparation of accounting and financial statements in accordance with Section 404 of the Sarbanes-Oxley Act;
- the compliance agents are responsible for the execution of identification activities, classification, evaluation and monitoring of risks and controls, as well as for the execution of tests of adherence, preparation and implementation of plans of action, in accordance with the standards established by the Internal Controls Area of the Risk Management and Compliance Department.
- implementation of the Brazilian Payment System, or SPB, management guarantees the efficiency of the system, which transmits electronic message among our banks and other participating institutions. In addition, we have a SPB systemic business continuity plan, developed to ensure that system failures are kept to a minimum; this plan is continuously tested, and evidence reports are generated, which are published in our

corporate intranet. For the manual-entry message systems, an internal access policy was created, which anticipates half-yearly meetings for the users who are licensed in our management s systems.

- the online cash transfers, or TED, validation system is designed to reduce operational risks generated by the unauthorized transfer of funds from the Bradesco Group, providing a greater level of security and reliability in transactions;
- We maintain specific policies, processes and systems so as to prevent and combat the utilization of our structure, products and services for money laundering and terrorist financing purposes. We train our employees in ways, such as brochures, e-learning and classroom courses. A multi-departmental permanent committee evaluates the pertinence of reporting suspicious transactions to regulatory agencies;
- Strategic guidelines and follow-up on the effective adherence to the program for the prevention and combat of these types of illicit acts are under the responsibility of the executive committee on prevention and combat of money laundering and terrorist financing, which meets at least on a quarterly basis to assess the status of the works and the need to adopt new measures so as to align this program to the best international practices and to the rules of the regulatory agencies.
- Measures to prevent and combat money laundering in conformity with best corporate governance practices and which are based on the policies know your client and know your employee . Training and awareness programs are provided to all employees. We are also constantly improving the technology to monitor financial movement in order to help identify transactions which could be, directly or indirectly, related to crimes preceding money laundering, defined in Law no. 9,613/98; and
- Information security management, based on the corporate policy on information security, and on a set of rules, controls and procedures, aims at protecting client information, consubstantiating in the document entitled Privacy Guidelines , and our information assets, addressing the aspects of secrecy, integrity, and information availability. These activities are complemented by awareness and training actions, targeted at all of the Bradesco Organization s employees.

### *Credit*

Our credit policy is focused on:

- ensuring the safety, quality, liquidity and diversification levels in the allocation of assets;
- searching for flexibility and profitability in our business; and
- minimizing the risks inherent to credit operations.

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

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

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

- is rated less than acceptable under our internal credit risk classification system;
- does not have an updated record;
- whose personal data reveals any material credit restrictions; or
- who is in default on any of his or her existing credit obligations.

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

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

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

### ***Consumer Credit Operations***

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

**Total Risk Amount**

	<b>Loan with no real guarantee</b>	<b>Loan with real guarantee</b>
--	--	-------------------------------------

**(R\$ in thousand)****Decision-making authority:**

Manager of very small branch <sup>(1)</sup>	R\$0 to 5	R\$0 to 10
Manager of small branch <sup>(2)</sup>	0 to 10	0 to 20
Manager of average branch <sup>(3)</sup>	0 to 15	0 to 30
Manager of large branch <sup>(4)</sup>	R\$0 to 20	R\$0 to 50

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

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

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

If the branch manager is not authorized to approve the requested loan, the decision is submitted to our credit department and, if necessary, to higher levels of authority. 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**

	<b>Minimum</b>	<b>Maximum</b>
--	----------------	----------------

**(R\$ in thousand)****Decision-making authority:**

Credit department	R\$51	R\$8,000
Credit director	8,001	10,000
Executive credit committee (Daily Meeting)	10,001	R\$35,000
Executive credit committee (Plenary Meeting)	Over R\$35,000	-

**Corporate Credit Operations**

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

loans, depending on the amount and the type of credit support offered:

**Total Risk Amount**

	<b>Loans with no real guarantees</b>	<b>Loan with real guarantees</b>
--	--	--------------------------------------

**(R\$ in thousand)****Decision-making authority:**

Manager of very small branch <sup>(1)</sup>	R\$0 to 10	R\$0 to 60
Manager of small branch <sup>(2)</sup>	0 to 20	0 to 120
Manager of average branch <sup>(3)</sup>	0 to 30	0 to 240
Manager of large branch <sup>(4)</sup>	0 to 50	0 to 400
Manager of Bradesco Company branch <sup>(5)</sup>	R\$0 to 100	R\$0 to 400

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

If the branch manager is not authorized to approve the requested loan, the decision is submitted to our credit department and, if necessary, to higher levels of authority.

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

**Total Risk Amount**

	<b>Minimum</b>	<b>Maximum</b>
--	----------------	----------------

**(R\$ in thousand)****Decision-making authority:**

Credit department	R\$401	R\$8,000
Credit director	8,001	10,000
Executive credit committee (Daily Meeting)	10,001	35,000
Executive credit committee (Plenary Meeting)	Over R\$35,000	-

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

- In the individual retail, prime and private segments we consider the individual's reputation and credit worthiness, the professional category/activity, the monthly income, the assets (personal and real property, eventual burdens and stakes in companies), the bank indebtedness and the history of their relationship with the Bradesco Organization, paying attention, in the loan operations, to terms and current fees and to the guarantees involved.

- In the corporate retail segment, in addition to the points above, we take into account the fact whether the company activities get mixed with its owners, and, if so, we also consider the period of activity and the monthly revenues.
- In the companies and corporate segments, the management ability, the company/group's positioning in the market, the size, the economic-financial evolution, the cash-generating ability, and the business perspectives, our analysis always encompassing the proponent, its parent company/subsidiaries, and the industry in which it is inserted.



**Data Processing Systems**

We have two data processing centers, one that deals with our production processes, located in Osasco, and one that deals with our contingency processes, located in Alphaville (Barueri). Both locations are in the state of São Paulo, and they are jointly equipped with 20 large-scale computers and 1,449 medium-scale computers.

To ensure the continuity of our operations, both centers have sufficient energy capacity to operate independently for seventy-two hours. In addition, if we have sufficient access to fuels, we have the capacity to provide ourselves with electricity indefinitely.

We have recently concluded the construction of our new information technology center (CTI) in Osasco, a state-of-the-art and high-technology building, designed to host computers and the entire support infrastructure of our operations.

This new center has already started its activities, which we expect will be improved during 2008, due to a reallocation plan that is in progress, and includes the transfer of infrastructure and production from our data processing center in Osasco to our new information technology center.

**Funding****Deposit-taking Activities**

Our principal source of funding is deposits from Brazilian individuals and businesses. At December 31, 2007, our total deposits were R\$98.3 billion, representing 32.7% of our total liabilities.

We provide the following types of deposit accounts:

- checking accounts;
- deposit accounts for investments;
- savings accounts;
- time deposits;
- interbank deposits from financial institutions; and
- savings integrated to the investments account.

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

	<b>December 31,</b>			<b>% of total deposits</b>
	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2007</b>
	<b>(R\$ in millions, except %)</b>			
<b>From customers:</b>				
Demand deposits	R\$ 16,223	R\$ 21,081	R\$ 29,423	29.9%

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Savings deposits	26,201	27,613	32,813	33.4
Time deposits	32,837	34,941	35,733	36.3
<b>From financial institutions</b>	146	290	372	0.4
<b>Total</b>	<b>R\$ 75,407</b>	<b>R\$ 83,925</b>	<b>R\$ 98,341</b>	<b>100.0%</b>

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

- *Demand Deposits and deposit accounts for investments:* We are required to deposit 45.0% 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:* 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 6.17%; and
- *Time deposits:* We are required to deposit with the Central Bank, in the form of federal securities, 15.0% of the average balance of our time deposits exceeding R\$30.0 million, less an additional R\$300.0 million. The securities bear interest in accordance with market rates.

In addition, we are required to deposit in the Brazilian Central Bank an additional amount equal to (a) 8.0% of the average balance of our time and demand account deposits during the prior week plus (b) 10.0% of the average balance of our saving account deposits during the prior week, to the extent that the percentages in (a) and (b) are applicable to the balance of our deposits exceeding R\$100.0 million. This additional amount is deposited in an account with the Central Bank that bears interest at the Selic rate.

Present Central Bank regulations require that we:

- allocate a minimum of 25.0% of cash deposits to providing rural credit (if we do not do so, we must deposit the unused amount in a non-interest bearing account with the Central Bank);
- allocate 2.0% of checking deposits received to micro credit transactions; and
- allocate a minimum of 65.0% of the total amount of deposits in savings accounts to finance residential real estate or housing construction. Amounts that can be used to satisfy this requirement include direct residential real estate financings, mortgage notes, charged-off residential real estate or housing construction loans and certain other financings, all as specified in guidance issued by the Central Bank.

Savings deposits in Brazil typically only pay interest on a floating basis of TR plus 6.17% per year, after funds have been left on deposit for at least one calendar month by individuals and non-profit entities, and 90 days by profit-corporations. Earnings in individual savings accounts are free from income tax.

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

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



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

### ***Other Funding Sources***

Our other funding sources include our capital markets operations, import/export operations and on-lending.

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

	<b>December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions)</b>		
<b>Funding Sources:</b>			
Import/export financing	R\$ 4,405	R\$ 4,440	R\$ 6,073
Internal funds on-lending	9,429	11,642	14,087
Leasing obligations	368	430	874
Capital markets:			
Federal funds purchased and securities sold under agreements to repurchase	22,886	42,875	69,015
Euronotes	1,503	1,235	810
Mortgage-backed securities	827	841	867
Subordinated notes	6,719	11,949	15,850
Debentures (non-convertible)	2,625	2,603	2,595
Securitization of credit card receivables	1,776	1,344	2,497
<i>Commercial paper</i>	2,661	1,225	1,915
<i>Foreign currency loans</i>	69	78	1,335
<i>Others</i>	-	44	1
<b>Total</b>	<b>R\$ 53,268</b>	<b>R\$ 78,706</b>	<b>R\$ 115,919</b>

Our capital markets operations act as a funding source for us through our transactions with financial institutions, mutual funds, fixed and variable income investment funds and foreign investment funds. In these transactions we sell public and private bonds and securities with an obligation to repurchase them. These transactions usually have short terms.

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

We conduct on-lending 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 International Bank of Reconstruction and Development, which we call IBRD, and the IDB 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.





## **Property, Plant and Equipment**

As of December 31, 2007, we owned 828 properties and leased 2,640 properties throughout Brazil, and eight properties abroad, all of which we used for the operation of our branches network and performance of our business. We own the building where our headquarters are located in Cidade de Deus, Osasco, São Paulo, State of São Paulo. The majority of our lease property is leased under renewable contracts with terms of an average of 12 years.

## **Seasonality**

We believe that seasonality does not materially affect our business.

## **Competition**

We face significant competition in all of our principal areas of operation, as the Brazilian markets for financial and banking services are highly competitive. On December 31, 2007, there were 133 financial conglomerates providing a full range of commercial banking activities, including consumer finance, investment banking brokerage, leasing, savings, loans and other financial services in Brazil. For further information of the risks related to competition, see Item 3. Key Information Risk Factors Risks Relating to the company and the Brazilian Banking Industry. The increasingly competitive environment in the Brazilian banking and insurance industries may negatively affect our business prospects.

Public-sector banking institutions also play an important role in the banking industry, the largest segment of the financial system, and operate within the same legal and regulatory framework as the private-sector banks. The largest Brazilian financial institution in terms of assets is Banco do Brasil S.A., known as Banco do Brasil, which is government-owned. Banco do Brasil's branch network is more extensive than ours. The private commercial banking sector is dominated, in terms of both total loans and total deposits, by five banks: us, Banco Itaú Holding Financeira S.A., known as Banco Itaú, Banco Real, União de Bancos Brasileiros S.A., known as Unibanco, and Banco Santander, all of which have a strong national presence.

## **Banking**

In the commercial banking sector we compete for individual and corporate customers with other large Brazilian banks. Our primary banking competitors are Banco do Brasil, Banco Itaú, Banco Real, Banco Santander and Unibanco. The Brazilian banking industry has undergone some consolidation in recent years through acquisitions and privatization. For example, in 2003 Banco ABN AMRO Real acquired control of Banco Sudameris, becoming the sixth largest bank in Brazil in terms of assets, according to the Central Bank. In 2006, Banco Itaú purchased the Brazilian operations of BankBoston. This transaction has increased Banco Itaú's client base by 300,000 and its overall assets by R\$22 billion. This transaction has solidified Banco Itaú's position as the second largest private sector bank in Brazil.

The Brazilian banking industry has also been facing increasing competition from foreign banks in recent years. Besides Banco Santander, certain large United States, European and Asian banks, including Citibank, ABN AMRO and Hong Kong and Shanghai Banking Corporation, known as HSBC, are currently operating in Brazil. Other foreign banks could enter the Brazilian market and increase its competitiveness. Foreign banks can also participate in the privatization process.

Commercial banks also face increasing competition from other financial intermediaries that can provide larger companies with access to the capital markets as an alternative to bank loans. Since we are a multiple-service bank, we seek to maintain a competitive position in this respect through our investment bank.





We currently enjoy certain competitive advantages based upon the fact that we are the largest private-sector Brazilian bank and have the largest branch network among our private-sector competitors. However, in the event one of our competitors or a foreign bank were to acquire one or more large Brazilian banks, our competitive advantage could be diminished, and the structure of the Brazilian banking industry could change considerably. Although we believe we are well positioned to compete in this new environment, such competition may adversely affect our position in the Brazilian financial industry.

### ***Credit Cards***

The Brazilian credit card market is highly competitive, with approximately 93.0 million credit cards issued as of December 31, 2007, according to Abecs. Our primary competitors are Banco do Brasil, Banco Itaú, Citibank and Unibanco. Management believes that the primary competitive factors in this area are interest rates, annual fees, card distribution network and the relative benefits the cards offer.

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

### ***Leasing***

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

### ***Asset Management***

The Brazilian asset management industry has grown significantly in recent years. In 2007, investment funds grew 22%, as compared to the previous year, surpassing the historical record of R\$1 trillion in assets, mainly due to:

- a significant amount of funds drawn by the multimarket and equity funds as a result of the search for diversification by investors;
- the growth of the FIDC industry with R\$29 billion in assets; and
- the development of the *Fundo de Investimentos em Participações* (equity funds) industry with R\$29 billion in assets by the end of 2007.

There has been an improvement in the regulations governing investment funds as a result of CVM Instruction 450, whose purpose is to increase transparency and information released to the investors, mainly with respect to dividends, protected principal and multimanager funds. Our main competitors are Banco do Brasil, Banco Itaú, Caixa Econômica Federal and HSBC.

## ***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 25.8% market share, faces increased competition from a number of Brazilian and multinational corporations in all of its insurance operations.

As of December 31, 2007, our primary competitors were Itaú Seguros S.A, Sul América Cia. Nacional Seguros, Unibanco AIG Seguros S.A., Porto Seguro Cia. de Seguros Gerais, Banco do Brasil, Mapfre Seguradora S.A. and Tokio Marine Brasil Seguradora S.A., which we call Tokio Marine, which represent in the aggregate approximately 46.7% of the total premiums generated in the market, pursuant to information from SUSEP. Although national companies underwrite the majority of the insurance business, we also face competition from local and regional companies primarily in the health insurance segment where they are able to operate at a lower cost or specialize in providing coverage to particular risk groups.

Competition in the Brazilian insurance industry has changed dramatically in the past few years as foreign companies have begun to form joint ventures with Brazilian insurance companies that have expertise in the Brazilian market. For example, in 2002, the Dutch bank ING acquired an interest in one of the companies of the Sul América Group. The AIG group has been operating in the Brazilian insurance sector since 1996 through a joint venture with Unibanco. Hartford operates in Brazil through a joint venture with the Icatu Group. AXA, AGF, ACE, Generali, Tokio Marine and other international insurers offer insurance products in Brazil through their own local facilities.

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

### ***Pension Plan Sector***

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

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

Bradesco Vida e Previdência is currently the leader of the pension plan market, accounting for 41.0% of total assets under management in the sector as of December 2007, according to Fenaprevi.

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



### ***Certificated Savings Plans***

The certificated savings plan market has been competitive since 1994 when exchange rates became more stable and inflation was reduced. As of December 31, 2007, Bradesco Capitalização was second in the industry ranking with 19.9% of the market on technical revenues and 20.9% in technical provisions, according to SUSEP.

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

## **REGULATION AND SUPERVISION**

### **Principal Financial Institutions**

As of December 31, 2007, 15 financial conglomerates composed of public sector commercial and multiple-service banks controlled by federal and state governments and 118 financial conglomerates composed of commercial and multiple-service banks owned by the private sector operated in Brazil. For purposes of Brazilian regulations, insurance companies, private pension plans and certificated savings plan providers are not considered financial institutions.

### ***Public Sector Financial Institutions***

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

The primary government-controlled banks include:

- *Banco do Brasil*, a federal government-controlled bank which provides a full range of banking products to the public and private sectors. Banco do Brasil is the largest multiple-service bank in Brazil and the primary financial agent of the federal government;
- *BNDES*, a development bank wholly owned by the federal government, which grants medium- and long-term financing to the Brazilian private sector. BNDES activities include managing the federal government's privatization program; and
- *Caixa Econômica Federal*, a multiple-service bank wholly owned by the federal government, which acts as the principal agent of the government-regulated system for providing housing financing. Caixa Econômica Federal is ranked first among Brazilian banks in terms of savings accounts and housing financing.

## Private Sector Financial Institutions

As of December 31, 2007, the Brazilian financial private sector included:

- 118 financial conglomerates composed of commercial, investment and multiple-service banks, and that provide a full range of commercial banking, investment banking (including securities underwriting and trading), consumer financing and other services including fund management and real estate finance; and
- 51 consumer credit companies, 132 securities dealerships, 153 brokerage companies, 38 leasing companies, 7,778 investment funds and mutual funds and 18 savings associations and real estate credit companies.

## Principal Regulatory Agencies

The basic institutional framework of the Brazilian financial system was established in 1964 by Law No. 4,595, known as the Banking Reform Law. The Banking Reform Law created the Central Bank and the CMN.

### *The CMN*

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

- regulating credit operations engaged in by Brazilian financial institutions;
- regulating the issuance of Brazilian currency;
- supervising Brazil's reserves of gold and foreign exchange;
- determining Brazilian saving, foreign exchange and investment policies; and
- regulating the Brazilian capital markets.

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

### *The Central Bank*

The Central Bank is responsible for:

- implementing the currency and credit policies established by the CMN;
- regulating and supervising public and private sector Brazilian financial institutions;

- controlling and monitoring the flow of foreign currency to and from Brazil; and
- overseeing the Brazilian financial markets.

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

The Central Bank supervises financial institutions by:

- setting minimum capital requirements, compulsory reserve requirements and operational limits;
- having the power to authorize corporate documents, capital increases and the establishment or transfer of principal places of business or branches (in Brazil or abroad);
- having the power to authorize shareholder changes of control of financial institutions;
- requiring the submission of annual and semi annual 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.

### *The CVM*

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

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

### **Bank Regulations**

#### *Principal Limitations and Restrictions on Activities of Financial Institutions*

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

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

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

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

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

may not extend credits to or render guarantees for:

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



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

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

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

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

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

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

### ***Capital Adequacy and Leverage***

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

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

- requires minimum capital of 11.0% of risk-weighted assets;
- does not permit contingency reserves to be considered as capital;
- imposes a deduction from capital corresponding to fixed assets held in excess over limits imposed by the Central Bank;
- requires an additional amount of capital with respect to off-balance sheet interest rate and foreign currency swap transactions as well as with respect to certain credit transactions utilizing third party resources;
- allows financial institutions for determination of their adjusted net worth to deduct from its net worth costs, including taxes, incurred in connection with swap transactions put in place to hedge long positions associated with investments outside Brazil; and
- assigns different risk weights to certain assets and credit conversion amounts, including a risk weighting of 300.0% on tax credits relating to income and social contribution taxes.

For further discussion see Item 5. Operating and Financial Review and Prospects Capital Compliance.

Financial institutions are also required to maintain their net worth at a certain level. The adjusted net worth of a financial institution is represented by the sum of its Tier I and Tier II capital and is used in determining its operational limits. 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 their adjusted net worth.

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

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

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

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

### ***Reserve Requirements***

The Central Bank imposes compulsory reserve and related requirements upon Brazilian financial institutions from time to time. The Central Bank uses reserve requirements as a mechanism to control the liquidity of the Brazilian financial system. Historically, the reserves imposed on demand deposits, savings deposits and time deposits have accounted for substantially all amounts required to be deposited with the Central Bank. For a summary of the current compulsory reserve requirements applicable for demand deposits, savings deposits, and time deposits, see [History and Development of the Company Banking Activity Deposit-taking Activities](#).

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

In the past, the Central Bank has imposed certain compulsory deposit requirements on other types of financial transactions, which are no longer in effect. However, 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 over interbank deposits of leasing companies. Our leasing company invests most of its cash available for immediate investment in interbank deposit accounts with us. This new Central Bank requirement would have an adverse impact on the cost of our deposit-taking activities. For more information on Central Bank restrictions see [Item 3. Key Information Risk Factors Risks Relating to Bradesco and the Brazilian Banking Industry](#).

### ***Asset Composition Requirements***

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

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

### ***Repurchase Transactions***

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

### ***On-lending 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 on-lendings take the form of loans denominated in reais but indexed to the U.S. dollar. The terms of the on-lending transaction must mirror the terms of the original transaction. The interest rate charged on the underlying foreign loan must also conform to international market practices. In addition to the original cost of the transaction, the

financial institution may only charge an on-lending commission.

### ***Foreign Currency Position***

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

Until March 14, 2005, the Brazilian foreign exchange market was divided into two segments, the commercial rate exchange market ( Commercial Market ) and the floating rate exchange market ( Floating Market ). The Commercial Market was reserved primarily for foreign trade transactions and transactions that generally require registration with the Central Bank. The Floating Market applied to all transactions to which the Commercial Market did not apply. Only banks, brokers, dealers and the Central Bank had access to the Commercial Market, whereas the Floating Market was open to all institutions authorized by the Central Bank.

In March 2005 the Central Bank enacted new regulations that introduced significant changes in the foreign currency exchange regime. These rules were announced by the Central Bank as part of a liberalization program intended to enhance market efficiency and to allow more transparency of the flows of foreign currency into and out of Brazil.

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

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

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

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

**Interest Rates**

As promulgated in 1988, the Brazilian Constitution established a 12.0% per year ceiling on loan interest rates, including bank loan interest rates. This ceiling was not enforced, however, because the Brazilian Congress did not adopt the necessary implementing legislation. In May 2003, said article was revoked pursuant to a constitutional amendment.

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

- the conditions of the debtor and the guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, delay in payments, contingencies and credit limits; and
- the conditions of the transaction, such as its nature and purpose, the type, the level of liquidity, the sufficiency of the collateral and the total amount of the credit.

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

<b>Rating</b>	<b>Our Classification</b>	<b>Our Concept</b>
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 a credit support or downgraded if in default.

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

<b>Rating</b>	<b>Our Classification</b>
E	Deficient
F	Bad
G	Critical
H	Uncollectible

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

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

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

<b>Number of Days Past Due <sup>(1)</sup></b>	<b>Maximum Classification</b>
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) The period should be counted in double in the case of loans with maturity in excess of 36 months.

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

<b>Classification of Loan</b>	<b>Minimum Provision (%)</b>
AA	-
A	0.5
B	1.0
C	3.0
D	10.0
E	30.0
F	50.0
G	70.0
H <sup>(1)</sup>	100.0

(1) Banks must write off any loan six months after their 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 delay in payments criteria described above.

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





- a breakdown of lending activities and the nature of the borrowers;
- maturities of their loans;
- amounts of rolled-over, written-off and recovered loans;
- loan portfolio diversification in accordance with the loan classification; and
- overdue loans.

### ***Brazilian Clearing System***

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

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

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

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

- maintain and document criteria for measuring liquidity risks and mechanisms for managing them;
- analyze economic and financial data to evaluate the impact of different market scenarios on the institution's liquidity and cash flow;
- prepare reports to enable the institution to monitor liquidity risks;
- identify and evaluate mechanisms for unwinding positions that could threaten the institution economically or financially and for obtaining the resources necessary to carry out such unwinds;
- adopt system controls and test them periodically;
- promptly provide to the institution's management available information and analysis regarding any liquidity risk identified, including any conclusions or remedies adopted; and



- develop contingency plans for handling liquidity crisis situations.

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

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

### **Dissolution of Financial Institutions**

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

#### ***Intervention***

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

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

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

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

#### ***Administrative Liquidation***

The Central Bank will liquidate a financial institution if:

- the institution's economic or financial situation is at risk, particularly when the institution ceases to meet its obligations as they fall due, or upon the occurrence of an event that could indicate a state of bankruptcy;
- management commits a material violation of banking laws, regulations or rulings;



- the institution suffers a loss which subjects its unsecured creditors to severe risk; or
- if, upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within 90 days, or if initiated, the Central Bank determines that the pace of the liquidation may harm the institution's creditors.

As a consequence of administrative liquidation:

- lawsuits asserting claims over the assets of the institution are suspended;
- the institution's obligations are accelerated;
- the institution may not comply with any liquidated damage clause contained in unilateral contracts;
- interest does not accrue against the institution until its liabilities are paid in full; and
- the statute of limitations with respect to the institution's obligations is tolled.

### ***Temporary Special Administration Regime***

The temporary special administration regime, known as RAET, is a less severe form of Central Bank intervention in financial institutions, which allows institutions to continue to operate normally. RAET may be ordered in the case of an institution which:

- enters into recurrent operations which are against economic or financial policies set forth in federal law;
- faces a shortage of assets;
- fails to comply with the compulsory reserves rules;
- has reckless or fraudulent management; or
- has operations or circumstances, which call for an intervention.

### ***Repayment of Creditors in Liquidation***

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

The FGC is a deposit insurance system that guarantees a certain maximum amount of deposit and certain credit instruments held by a customer against a financial institution (or against member financial institutions of the same financial group). The liability of the participating institutions is limited to the amount of their contributions to the FGC, with the exception that in limited circumstances if FGC payments are insufficient to cover insured losses, the participating institutions may be asked for extraordinary contributions and advances. The payment of unsecured credit and customer deposits not payable under the FGC is subject to the prior payment of all secured credits and other

credits to which specific laws may grant special privileges.

In September 2006, CMN increased the maximum amount of the guarantee provided by the FGC from R\$20,000 to R\$60,000. In addition, it reduced the ordinary monthly related-FGC contribution from 0.025% to 0.0125% over the balance of banking accounts that are covered by FGC insurance.

### **Internal Compliance Procedures**

All financial institutions must have in place internal policies and procedures to control:

- their activities;
- their financial, operational and management information systems; and
- their compliance with all applicable regulations.

The board of executive officers of the financial institution is responsible for implementing an effective structure of internal controls by defining responsibilities and control procedures and establishing corresponding goals and procedures at all levels of the institution. The board of executive officers is also responsible for verifying compliance with all internal procedures.

We revised our by-laws in December 2003 to include a provision for an internal control and compliance committee, formed by three to six members appointed by our Board of Directors.

### **Restrictions on Foreign Banks and Foreign Investment**

The Brazilian constitution prohibits foreign financial institutions from establishing new branches in Brazil, except when duly authorized by the Brazilian government. A foreign bank duly authorized to operate in Brazil through a branch or a subsidiary is subject to the same rules, regulations and requirements that are applicable to any other Brazilian financial institution.

The Brazilian constitution permits foreign individuals or companies to invest in the voting shares of Brazilian financial institutions only if they have specific authorization from the Brazilian government. However, foreign investors without specific authorization may acquire publicly traded non-voting shares of Brazilian financial institutions or depositary receipts offered abroad representing non-voting shares.

### **Anti-Money Laundering Regulations and Banking Secrecy**

Under Brazilian anti-money laundering law, financial institutions must:

- (a) keep up-to-date records regarding their customers;
- (b) maintain internal controls and records;
- (c) record transactions involving Brazilian and foreign currency, securities, metals or any other asset which may be converted into money;
- (d) 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;





(e) keep records of all check transactions; and

(f) 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. The records referred to in (c), (d) and (e) must be kept for at least five years, unless an investigation by CVM into the financial institution is in progress, in which case such five-year obligation may be extended.

Brazilian regulations list a number of potential money-laundering transactions, such as: (i) transactions involving amounts that are incompatible with the professional, shareholders' equity and/or earnings condition of the involved parties; (ii) operations evidencing default on behalf of third parties; (iii) transactions intended to create loss or gain with no economic grounds; (iv) transactions involving parties domiciled in jurisdictions that do not cooperate with the Brazilian financial activity control agencies; (v) transactions paid in cash; (vi) transactions the complexity and risk level of which are inconsistent with the client's technical qualification; (vii) transactions involving non-resident parties, trustees and companies, private banking clients and politically exposed people.

The CVM directed special attention to politically exposed people in January 2008. The CVM Instruction 463 of January 8, 2008 refers to individuals politically exposed who hold or held prominent public positions in Brazil or abroad for the past five years, their relatives and representatives, heads of state and government, politicians occupying high positions, government employees occupying high positions, magistrates or high-level military officials, and leaders of governmental companies or political parties, among others. Financial institutions are required to adopt certain mechanisms in order to (i) identify the final beneficiaries of each transaction, (ii) identify whether these politically exposed persons are involved, (iii) monitor financial business transactions involving politically exposed persons; and (iv) devote special attention to people from countries with which Brazil maintains a high number of business and financial transactions, common borders or ethnic, linguistic or political relations.

In addition, this CVM regulation also contains special provisions to control and prevent the flow of funds derived from or financing terrorism activities.

Financial institutions must maintain the secrecy of their banking operations and services provided to their customers. Certain exceptions apply to this obligation, however, such as: the sharing of information on credit history, criminal activity and violation of bank regulations or disclosure of information authorized by interested parties. Bank secrecy may also be breached by court order when necessary for the investigation of any illegal act.

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

### **Change of Independent Accounting Firm**

All financial institutions must:

- be audited by an independent accounting firm; and
- replace their independent accounting firm responsible for auditing their financial statements for Brazilian regulatory purposes at least every five consecutive fiscal years. An accounting firm that issues an opinion on the financial statements and thereafter is replaced pursuant to this rule may be rehired three fiscal years after its prior service. The CMN has suspended the mandatory requirement to replace the independent accounting

firm until December 2008.

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Each independent accounting firm must immediately communicate to the Central Bank any event that may materially adversely affect the relevant financial institution's status.

In March 2002, an amendment to the Brazilian Corporate Law gave the members of our Board of Directors veto rights over the appointment or removal of our independent accounting firm. For more information regarding appointment of directors see Item 10. Additional Information Memorandum and Articles of Incorporation Organization Voting Rights.

### **Brazilian Auditing Requirements**

Because we are a financial institution registered with the domestic stock exchanges, we are obligated to have our financial statements audited every six months in accordance with generally accepted accounting principles 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 an independent accounting firm's non-auditing services whenever such services represent more than 5.0% of the external auditors' compensation.

Additionally, the independent auditors must also declare to the audited company's management that their providing these services does not affect the independence and objectivity that is necessary to external auditing services.

In May 2003, the CMN enacted new regulations on auditing matters applicable to all Brazilian financial institutions, which were revised in November 2003, January and May 2004 and December 2005. Under these regulations, we are required to appoint a member of our management to be responsible for the follow-up and supervision of compliance with the accounting and auditing requirements set forth in the legislation.

Pursuant to this regulation, financial institutions which have an adjusted net worth in excess of R\$1.0 billion, manage third party assets of at least R\$1.0 billion or have an aggregate amount of third party assets in excess of R\$5.0 billion are also required to create an audit committee made up of independent members. The number of members, the appointment and removal criteria, the term of office and the responsibilities of the audit committee must be set forth in the institutions' bylaws. Our audit committee has been fully operational since July 1, 2004. The audit committee is responsible for recommending to management which independent accounting firm to hire, reviewing the financial statements, including the notes thereto, and the auditors' opinion prior to public release, evaluating the effectiveness of the auditing services provided and internal compliance procedures, assessing management's compliance with the recommendations made by the independent accounting firm, among other things. Our by-laws were revised in December 2003 to establish the audit committee. In May 2004, our Board of Directors approved its members' internal regulations and appointed its first composition. In October 2006, CMN enacted stricter requirements to be followed by the members of the Board of Directors. See Item 16D. Exemptions from Listing Standards for Audit Committees.

Effective July 1, 2004, we are required to publish a report of the audit committee along with our semi-annual financial statements. Our audit committee's first report was related to our financial statements of the second semester of 2004.

## Changes to Accounting Practices

In July 2007, CVM and BACEN established new rules regarding accounting practices of publicly-held companies and financial institutions. As of 2010, we will be required to prepare and present our consolidated financial statements, in accordance with the international accounting standard, pursuant to rules issued by the International Accounting Standards Board, or IASB. This will result in a change in our accounting practices, since our financial statements are currently prepared and disclosed in accordance with the generally accepted accounting principles in Brazil.

In December, 2007, the Brazilian Congress enacted Law No. 11,638 of December 28, 2007, which we call “Law No. 11,638,” that changed certain accounting practices established by Brazilian corporate law. Pursuant to Law No. 11,638, that publicly-held companies must adopt certain IASB rules as of January 1, 2008. Law No. 11,638 was further regulated by CVM by CVM Rule No. 469 of May 2, 2008. The main provisions of Law No. 11,638 include:

- (i) the obligation to prepare cash flow and aggregate value statements;
- (ii) the outstanding amounts of the revaluation reserves shall be maintained until their actual realization or otherwise be reversed until the end of 2008;
- (iii) permanent assets shall be divided into investments, fixed assets, intangible assets and deferred assets;
- (iv) shareholders’ equity shall be divided into capital stock, capital reserves, equity evaluation adjustments, profit reserve, treasury stock and accumulated losses;
- (v) mergers, acquisitions and spin-offs between non-related parties that result in transfer of control, the assets and liabilities of the target company shall be evaluated at their fair value;
- (vi) introduction of the new concept of “adjustment to present value” for the long-term assets and liabilities transactions and short-term material transactions;
- (vii) investments in related companies shall be recorded at the equity method of accounting; and
- (viii) changing the treatment of tax incentives, which will be recorded directly in the income statement and may be excluded from the calculation base of minimum mandatory dividends and transferred to profit reserves reserve of tax incentives.

## Asset Management Regulation

Asset management is regulated by the CMN and the CVM.

In August 2004, the CVM issued the rule 409/2004 consolidating all previous regulations applicable to fixed income assets funds and variable income mutual funds. Prior to this ruling, fixed income assets funds were regulated by the Central Bank, and variable income mutual funds were regulated by the CVM.

CVM Rule 409/2004 became effective on November 22, 2004. Since then, all new funds created are subject to its rules, while previously existing funds had until January 31, 2005 to enter into compliance with the new regulation.

Pursuant to the provisions of the new CVM rule, our investment funds must keep their assets invested in securities and operational assets that are available in the financial and capital markets.

These securities, operational assets and all other assets that comprise the fund's portfolio (except for interest in investment funds or in Mercosur), must be registered directly with specific custody deposit accounts, opened in the name of the fund. Such accounts must be held within registration and clearance systems authorized by the Central Bank, or within certain custody institutions authorized by the CVM.

In addition to the limitations provided in each financial investment funds' charter, financial investment funds are not permitted to have:

- more than 10.0% of their net worth invested in securities of a single issuer, if that issuer is (1) a publicly-held non-financial institution, or (2) a federal, state, or municipal entity or (3) another investment fund, except for equity investment funds;
- more than 20.0% of their net worth invested in securities issued by a financial institution (including the fund manager);
- more than 5.0% of their net worth invested in securities issued by an individual or non-governmental entity that is not a publicly-held company or financial institution authorized to operate by the Central Bank; and
- in the case of fixed income assets investment funds and the money market, more than 10.0% of their net worth invested in a real estate investment fund, a receivables investment fund and an investment fund that invests in other receivables investment funds.

Funds addressed to qualified investors that require a minimum investment of R\$1 million per investor are not subject to limitations regarding concentration of their investments in a single issuer or diversification of invested assets, as long as it is set forth in their organizational corporate documents and the specific parameters to each type of fund below are followed.

In addition, CVM allows funds to keep financial assets traded abroad in their portfolio in accordance with the following criteria:

- no limitation for foreign debt funds or funds addressed to qualified investors;
- no more than 20% of their net worth for multimarket fund; and
- no more than 10% of their net worth for the remaining funds.

There are no limits when the issuer is the Federal Government. For these limits effects, we consider as the same issuer, its parent company, the companies directly or indirectly controlled thereby, its affiliated companies and shared control companies.

According to its equity breakdown, the investment funds and the investment funds in quotas are classified as follows:

- **Short term Funds** These funds invest exclusively in public, federal or private bonds, which are pegged to Selic (or another interest rate) or to a price index and have a maximum maturity of 375 days and an average portfolio period of less than 60 days. Short term funds may use derivatives only to hedge their portfolios and can enter into transactions in connection with public federal bonds;
- **Reference Funds** These funds have (1) at least 80.0% of their net worth invested solely or together in (a) bonds issued by the Brazilian National Treasure and/or the Brazilian Central Bank or (b) fixed income securities of issuers having low credit risk; (2) have at least 95.0% of their portfolio composed of financial assets that directly or indirectly follow the variation of the performance indicator (benchmark) chosen; and (3) may only use derivatives in connection with transactions that attempt to hedge cash positions, up to their limit. Additionally, the name of the fund shall identify its development index based on the financial assets structure of its portfolio.
- **Fixed Income Funds** These funds have at least 80.0% of their assets portfolios directly related, or synthesized through derivatives of fixed income assets;
- **Share Funds** These funds have at least 67.0% of their portfolio invested in shares listed and traded on either over the counter markets or stock exchanges;
- **Exchange Funds** These funds have at least 80.0% of their portfolio invested in derivatives or other funds comprised of derivatives, which hedge foreign currency prices;
- **Foreign Debt Funds** These funds have at least 80.0% of their net worth invested in Brazilian foreign debt bonds, and the remaining 20.0% in other loan securities transacted in the international market; and
- **Money market** It must have an investment policy that involves several risk factors, without the commitment of concentration in any particular factor or in factors different from the other classes provided for in the classifications of the funds above.

## 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 firms must be chartered by the Central Bank, and are the only institutions in Brazil authorized to trade on Brazil's stock exchanges and mercantile and futures exchanges. Both brokers and dealers may act as underwriters in the public placement of securities and engage in the brokerage of foreign currency in any exchange market.

Brokers must observe rules of conduct established by the stock exchanges and the BM&F and previously approved by the CVM. They must also select a director responsible for the observance of such rules.

Broker and dealer firms may not:

- with limited exceptions, execute operations that may be qualified as the granting of loans to their clients, including the assignment of rights;
- collect commissions from their constituents related to transactions of securities during the primary distribution;
- acquire assets, including real estate properties, which are not for their own utilization; or
- obtain loans from financial institutions, except for (i) loans for the acquisition of goods for use in connection with the firm's corporate purpose or (ii) loans the amount of which do not exceed two times the firm's net worth.

Broker and dealer firms' employees, managers, partners, controlling and controlled entities may negotiate securities for their own accounts only through the relevant broker and dealer firm.

## Regulation of Internet and Electronic Commerce

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

There are currently several bills dealing with Internet and electronic commerce regulation in the Brazilian congress. The proposed legislation, if enacted, would recognize the legal effect, validity and enforceability of information in the form of electronic messages, allowing parties to enter into an agreement, make an offer or accept one through electronic messages.

CVM approved new regulations limiting Internet brokerage activities, which may be carried out only by registered companies. Brokers' web pages must contain detailed information about their systems, fees, security and order processing. They must also contain information about how the market functions generally and the risks involved with each type of investment offered.

Brokers that carry out transactions over the Internet must guarantee the security and operability of their systems, which must be audited at least on a half-year basis.

## Regulation of Operations in Other Jurisdictions

We have branches and subsidiaries in several other jurisdictions, such as New York, Buenos Aires, Tokyo, the Cayman Islands, the Bahamas and Luxembourg. The Central Bank exercises global consolidated supervision over Brazilian financial institutions' branches, subsidiaries and corporate holdings abroad and the prior approval of the Central Bank is necessary to establish any new branch, subsidiary or representative office. In most cases, we had to obtain governmental approvals from local central banks and monetary authorities in such jurisdictions before commencing business. In all cases, we are subject to supervision by local authorities.

## Taxation

### *CPMF*

Until December 31, 2007, the CPMF levied at a tax rate of 0.38% of any checking account entry related to funds kept in Brazil. Since January 1, 2008, CPMF is no longer due.

In June, 2008 the Brazilian House of Representatives approved a bill establishing a new tax, the *Contribuição Social para a Saúde*, Social Contribution for Health, known as CSS, which is similar to CPMF but subject to a rate of 0.1%. This bill still depends on approval from the Brazilian Senate to come into effect. We cannot anticipate whether this bill will be approved by the Brazilian Senate. In any case, CSS will not be charged before January 1, 2009.

### *Tax on Financial Transactions*

The *Imposto Sobre Operações Financeiras*, known as IOF, is a tax on foreign exchange, securities, credit and insurance transactions. The Minister of Finance sets the tax rates of the IOF, subject to a 25.0% ceiling set forth by law. Financial institutions are required to withhold amounts due as IOF from any transaction that takes place at their facilities, even though the IOF taxpayer is the person or legal entity engaged in the financial transaction that triggers the IOF charge.

In January 2008, the Brazilian Government increased IOF rates on certain transactions with the purpose of offsetting collection losses from the extinguishment of CPMF.

IOF may be imposed on a variety of transactions, including the conversion of Brazilian currency into any foreign currency for payment of dividends and repatriation of investments in our ADSs. The IOF rate on such transactions is generally 0.38%; however, it is 0% on exchange transactions between Brazilian and foreign banks and foreign exchange transactions regarding floating income investments of foreign investors in the Brazilian capital markets, namely in stocks exchanges, and future and commodities exchanges.

Presently, the foreign currency exchange transactions subject to IOF and respective rates are the following:

- a 5.38% rate applies to conversions into Brazilian currency of foreign loans with a term of less than 90 days;
- a 2.38% rate applies to foreign exchange transactions for the acquisition of goods with credit cards;



- a 1.5% rate applies to foreign exchange transactions for investments in the Brazilian financial market;
- a 0.38% rate applies to foreign currency exchange transactions for import of services or the export of goods and services; and
- a 0.38% rate applies to other foreign currency exchange transactions.

The IOF may also be levied on issuances of bonds or securities, including transactions carried out on Brazilian stock, futures or commodities exchanges. The IOF rate with respect to preferred shares and ADSs is currently 0%. The Minister of Finance, however, has the legal authority to increase the rate to a maximum of 1.5% per day of the amount of the taxed transaction, during the period the investor holds the securities, but only to the extent of the gain realized on the transaction and only from the date of its increase or creation.

The IOF is levied on all types of loan transactions, including overdraft loans, at a daily rate of 0.0041% in case of loans raised by legal entities, or at a daily rate of 0.0082% in case of loans raised by individuals, of the amount of principal. In those loan transactions in which the principal amount is not determined prior to the transaction, in addition to the principal, the IOF tax is also levied on interest and other charges at the same rate. In any case, the IOF tax is subject to a maximum rate of 1.5% during one year.

In addition, credit operations are subject to IOF at an additional rate of 0.38% since January 2008.

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

- 0%, in the case of reinsurance or mandatory insurance underlying housing financing granted by an agent of the housing financial system, credit-related export transactions, international transportation of goods, rural insurance or premiums designated to fund life insurance plans containing life coverage; or
- 0% of premiums paid, in case of life insurance and similar policies, for personal and labor accidents, including mandatory insurance for property damage caused by automobiles or ships, including periods during which they are being loaded;
- 2.38% of premiums paid, in the case of private health insurance; and
- 7.38% of premiums paid, in the case of other segments of insurance.

IOF is also assessed on gains realized in transactions with terms of less than 30 days consisting of the sale, assignment, repurchase or renewal of fixed-income investments or the redemption of shares of financial investment funds, variable income funds or investment pools. For more information on financial investment funds and variable income funds see Regulation and Supervision Asset Management Regulation. The maximum rate of IOF payable in such cases is 1.0% per day and decreases with the length of the transaction, reaching zero for transactions with maturities of at least 30 days, except that the rate for the following types of transactions is currently 0%:

- transactions carried out by financial institution and other institutions chartered by the Central Bank as principals;
- transactions carried out by mutual funds or investment pools themselves;

- transactions carried out in the equity markets, including those performed in stock, futures and commodities exchanges and similar entities; and
- redemptions of shares in equity funds.

### ***Income Tax and Social Contribution on Profits***

Federal taxes that are levied on a company's income include two components, an income tax known as IRPJ and a social contribution tax on net profits, which is known as the Social Contribution Tax. The IRPJ is levied at a rate of 15.0% increased by an additional income tax at a rate of 10.0%. Considering the above, the IRPJ is assessed at a combined rate of 25.0% of adjusted net income. The Social Contribution Tax is usually assessed at a rate of 9.0% of adjusted net income. However, since May 1, 2008, financial institutions, like us, are taxed at a rate of 15.0%.

For further information on our income tax expense, see note 16 to our consolidated financial statements in Item 18.

Companies are taxed based on their worldwide income rather than on income produced solely in Brazil. As a result, profits, capital gains and other income obtained abroad by Brazilian entities are computed in the determination of their profits. The Brazilian entity is allowed to deduct income tax paid abroad based on the same income (1) according to the terms and conditions of any existing income tax treaty; or (2) up to the amount of Brazilian income taxes imposed on such income since there is reciprocal treatment between Brazil and the country where the profit or gain is obtained, such as the United States of America. Profits realized by the end of each year by an offshore entity which is a branch, controlled or affiliated to a Brazilian entity are regarded as available to the Brazilian entity and, as a consequence, are subject to the payment of income tax in Brazil.

The profits or dividends generated and paid by Brazilian entities since January 1, 1996 are not subject to withholding income tax, nor to corporate income tax or individual income tax on the person receiving the dividend either in Brazil or abroad. However, as the payment of dividends is not tax deductible for the corporation distributing them, there is an alternative regime for shareholder compensation called interest on shareholders' capital, which allows corporations to deduct interest paid to shareholders from net profits for tax purposes. This deduction is limited to the product of (a) the variation *pro rata die* of the long-term interest rate disclosed by the Brazilian government, known as TJLP; times (b) the corporation's net worth calculated in accordance with generally accepted accounting principles in Brazil, and may not exceed the greater of:

- 50.0% of net income (before taking such distribution and any deductions for income taxes into account) for the year in respect of which the payment is made, as measured in accordance with generally accepted accounting principles in Brazil; or
- 50.0% of retained earnings for the year prior to the year in respect of which the payment is made, as measured in accordance with generally accepted accounting principles in Brazil.

Distributions of interest on shareholders' equity to holders of preferred shares, including payments to the depositary bank in respect of preferred shares underlying ADSs, are subject to a Brazilian withholding tax at a rate of 15.0%, except for payments to people who are exempt from tax in Brazil or to people situated in tax havens. In the latter case, payments are subject to income tax at a rate of 25.0%. For more information on the taxation of interest on shareholders' capital see Item 10. Additional Information Taxation Brazilian Tax Considerations Distributions of Interest on Shareholders' Capital.

Accumulated net operating losses of Brazilian companies can be offset with future taxable income during any year up to 30.0% of annual taxable income.

Gains realized by Brazilian holders in exchange or similar markets on any disposition of preferred shares in Brazil are generally taxed at the following rates:

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

Gains earned in all transactions carried out on stock, goods, futures and similar markets, except for day-trades (which remain subject to the withholding tax mentioned above), are subject to a withholding income tax of 0.005% as follows:

- With respect to the futures market, the sum of the daily adjustments, if positive, refined by the closing balance, before or upon its term;
- With respect to the options market, the result, if positive, of the sum of the paid and received premiums for the same day;
- With respect to term contracts, which provide for delivery of assets on a set date, the difference, if positive, between the price on the delivery date and the cash price on the closing date;
- With respect to term contracts having solely a financial component, the amount of the closing as specified by the contract; and
- With respect to the spot market, the amount of the sale of shares, gold or other securities traded on that market.

This taxation system was created in order to make it easier for the Brazilian Internal Revenue Service to verify transactions made in the financial and capital markets. Withholding income taxes may be (i) deducted from the income tax levied on net monthly profits; (ii) offset with income tax due in the following months; (iii) offset with the income tax annual declaration of adjustment (if there is any withheld tax accounted for in the balance); or (iv) offset with outstanding withholding income tax due over capital gains from the sale of shares.

Gains realized on any disposition of preferred shares in Brazil by non-Brazilian holders who reside in a jurisdiction that under Brazilian law is deemed to be a tax haven (any country that (i) does not impose income tax, (ii) that imposes income tax at a rate of less than 20.0% or (iii) a country whose corporate law establishes confidentiality regarding the shareholders of corporate entities) are subject to the same rates applicable to Brazilian holders, as described above.

Gains realized on the disposition of preferred shares in Brazil by non-Brazilian holders who are not resident in a tax haven are exempted from Brazilian tax if:

- the proceeds obtained from the disposition of shares are remitted outside Brazil within five business days of the cancellation of the ADSs, which were represented by the shares sold; or
- the foreign investment in the preferred shares is registered in the Central Bank under Resolution 2,689.



Otherwise, the same treatment applicable to Brazilian residents will apply.

Income tax rate is zero over payment, credit, delivery or remittance of profits from transactions involving Brazilian public bonds acquired as of February 16, 2006, except for bonds subject to resale, in accordance with the rules and conditions established by the CMN. This zero-tax rate is not applicable when the beneficiary is resident or domiciled in a tax haven. This zero-tax rate is also applicable to income of non-residents that invest in quotas of investment funds exclusively for non-resident investors, which funds portfolio is composed by, at least, 98% of public securities. Brazilian tax laws sets forth that remuneration is any amounts from remuneration of invested capital, including the remuneration resulting from variable income securities, such as interest, premiums, commissions, goodwill, negative goodwill, discount and profit sharing, as well as positive results from investments funds and investment clubs.

The income tax rate is also zero, under certain conditions, on income from investments in investment funds in equity interests, investment funds in quotas of investment funds in equity interests and investment funds in emerging markets, when such income is paid, credited, delivered or remitted to individual or collective beneficiaries resident or domiciled abroad (except for tax havens), whose investments in Brazil are in compliance with the regulations and conditions established by CMN. In addition, investments will be only subject to this zero-income tax rate in case these investment funds comply with diversification limits and investment rules comprised in CVM regulation, and their portfolio must be comprised of, at least, 67% of shares of joint-stock companies, debentures convertible into shares and subscription bonus.

The income of Brazilian residents from redemption, sale or amortization of quotas of investments in investment funds in equity interests, investment funds in quotas of investment funds in equity interests and investment funds in emerging markets, including the income resulting from the settlement of the fund, is subject to an income tax rate of 15% on the positive difference between the redemption or sale value and the acquisition cost. Gains from the sale of quotas are treated (1) as net gain, when obtained by individuals in operations carried out on the stock exchange, and by companies in operations carried out inside or outside the stock exchange; and (2) according to the rules applicable to capital gains in the sale of properties and rights of any nature, when obtained by individuals in operations carried out outside the stock exchange.

If investment funds do not comply with the diversification limits and investment rules set forth by the CVM, and if their portfolio is not comprised by, at least, 67% of shares of joint-stock companies, debentures convertible into shares and subscription bonus, the income of Brazilian residents will be subject to income tax at rates varying from 15% to 22.5% (depending on the term of the investment) over profit distribution by the funds.

### ***PIS and COFINS***

Two federal taxes are imposed on the gross revenues of corporate entities: the *Programa de Integração Social* contribution (the Contribution for Social Integration), known as PIS, and the *Contribuição para Financiamento de Seguridade Social* (the Contribution for Financing Social Security), known as COFINS.

Nonetheless, many revenues, such as dividends, equity in earnings of unconsolidated companies, revenues from the sale of fixed assets and export revenues paid in foreign currency are not included in the calculation base for PIS and COFINS. However, interest on shareholders' equity is subject to PIS and COFINS.

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

PIS and COFINS underwent significant changes during the last five years. These changes occurred because the Brazilian government decided to implement a non-cumulative collection system in respect of both taxes, allowing taxpayers to determine their calculation basis by discounting credits that originate from certain transactions. In order to offset these discounts, the rates of both PIS and COFINS were substantially increased. Pursuant to the changes made to PIS and COFINS, as of May 2004, both taxes are applicable to goods and services imported from foreign countries by a company located in Brazil.

As of August 2004, PIS and COFINS rates were eliminated for financial income earned by companies subject to the non-cumulative applicability of these taxes. However, taxes on payments of interest on shareholders' capital were not eliminated.

Certain economic activities are expressly excluded from the non-cumulative collection system of both PIS and COFINS. This is the case for financial institutions, which remained subject to the previous legal regime, for both taxes.

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. At February 1, 1999, COFINS was imposed on our gross revenues at a rate of 3.0%. After September 1, 2003, this tax rate was increased to 4.0% for financial institutions. The calculation base for COFINS is the same as that for PIS. Exclusively in 1999, we were authorized by Central Bank to offset up to one-third of amounts we paid as COFINS against the amounts we should pay as social contribution on taxable profit.

### ***Leasing Regulation***

The basic legal framework governing leasing transactions is established by Law No. 6,099 of September 12, 1974, as amended, which we call the Leasing Law, and the regulations issued thereunder by the CMN. The Leasing Law sets forth general guidelines for the incorporation of, and the activities permitted to be performed by, leasing companies. The CMN, in its capacity as regulator of the financial system, provides the details of the provisions set forth in the Leasing Law and supervises and controls the transactions conducted by leasing companies. The laws and regulations issued by the Central Bank with respect to financial institutions in general, such as reporting requirements, capital adequacy and leverage, asset composition limits and treatment of doubtful loans, are also applicable to leasing companies to the extent applicable.

### ***Insurance Regulation***

The main rule that regulates the Brazilian insurance system is the Executive Decree No. 73 of November 21, 1966, as amended. Such Rule has created two regulatory agencies, the National Private Insurance Council, which we call the CNSP, and SUSEP. SUSEP is responsible for implementing and overseeing the CNSP's policies and ensuring compliance with such policies by insurance companies, insurance brokers and insured people. 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 technical reserves in accordance with CNSP criteria. The investments backing up the technical reserves must be diversified and meet certain liquidity, solvency and security criteria. Insurance companies may invest a substantial portion of their assets in securities. As a result, insurance companies are major investors in the Brazilian financial markets and are subject to a series of rules and conditions imposed by the CMN regarding the investment of technical reserves.

Insurance companies are prohibited from:

- acting as financial institutions by extending credit and issuing guarantees;
- trading in securities (subject to exceptions); or
- investing outside of Brazil, without specific permission from the relevant authorities.

Insurance companies must operate within certain retention limits approved by SUSEP pursuant to rules established by the CNSP. The rules take into account the economic and financial situation of the insurance companies, the technical conditions of their respective portfolios and the results of their operations with IRB, a quasi-public corporation controlled by the Brazilian government.

On January 16, 2007, Complementary Law No. 126 created a new policy for reinsurance (whereby underwriters obtain secondary insurance for the risks that they are insuring), retro-assignments and intermediation in Brazil. In practical terms, such law resulted in the end of the IRB monopoly over reinsurance and retro-assignment markets. Furthermore, certain regulatory duties and activities originally attributed to IRB were transferred to CNSP and SUSEP.

Under Complementary Law No. 126, local insurance or reinsurance companies must first offer to assign their risks to local reinsurance companies when contracting reinsurance or retro-assignment under the following risk percentages: (i) 60% in the first three years as of January 16, 2007; and (ii) 40% in the subsequent years. Exercise of the aforementioned right is yet to be defined by the CNSP and SUSEP.

The new law also establishes more severe restrictions on the risk assignment to foreign reinsurance companies and on the contracting of insurance abroad.

The insurance companies must reinsure the amounts exceeding the applicable technical limit on liabilities.

Insurance companies must file unaudited monthly and audited quarterly, semiannual and annual reports with SUSEP.

Insurance companies are exempt from ordinary financial liquidation procedures in case of bankruptcy and instead follow a special procedure administered by SUSEP. Financial liquidation may be either voluntary or compulsory. The Minister of Finance institutes compulsory dissolutions of insurance companies.

There is currently no restriction on foreign investment in insurance companies.

### ***Health Insurance***

Private health insurance and health plans are currently regulated by Law No. 9,656, of July 4, 1998, as amended, which we refer to as the Health Insurance Law, which determines the general provisions applicable to health insurance companies and the general terms and conditions of agreements entered into between health insurance companies and

their customers. The Health Insurance Law establishes, among other things:



- mandatory coverage of certain expenses, such as those arising from preexisting conditions;
- the conditions precedent for admission to a plan;
- the geographical area covered by each insurance policy; and
- the pricing criteria plans may use.

The ANS is responsible for regulating and supervising supplemental health services provided by health insurance companies pursuant to directives set forth by the Conselho de Saúde Suplementar (the Supplemental Health Council).

Until 2002, SUSEP had authority over insurance companies, which were authorized to offer private pension plans on health assistance. Since 2002, pursuant to ANS regulations and supervision, only operators of private health assistance plans may offer such plans. We created Bradesco Saúde in 1999 to fulfill this requirement.

### **Private Pension Plans**

Open pension plans are subject, for purposes of inspection and control, to the authority of the CNSP and the SUSEP, which are under the regulatory authority of the Ministry of Finance. The CMN, CVM and Central Bank may also issue regulations pertinent to private pension plans, particularly with respect to the assets guaranteeing the technical reserves.

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

Open pension plans and insurance companies are allowed to create, trade and operate investment funds with segregated assets since January 1, 2006. Notwithstanding the above, certain provisions of law No. 11,196 of November 21, 2005 will only become effective upon its regulation by SUSEP and CVM. For more information, see Asset Management Regulation .

### **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.

#### **Average Balance Sheet and Interest Rate Data**

The following table presents the average balances of our interest-earning assets and interest-bearing liabilities, other assets and liabilities accounts, the related interest income and expense amounts and the average real yield/rate for each period. We calculated the average balances using the month-end book balances, which include the related allocated interest. These average balances represent our operations.

We show liabilities in two categories: local and foreign currencies. Local currency balances represent liabilities expressed in reais, while foreign currency balances represent liabilities denominated in foreign currencies, primarily the U.S. dollar. We did not break out asset balances into domestic and international currencies as substantially all of our assets are denominated in reais.

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

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

Additionally, fees received from various loan commitments are included in interest income on loans. We do not consider these amounts significant.

**On December 31**  
**2006**

	2005			2006			2007		
	Average balance	Average Interest	Average yield/rate (%)	Average balance	Average Interest	Average yield/rate (%)	Average balance	Average Interest	Average yield/rate (%)
<b>Interest-earning assets <sup>(1)</sup>:</b>				<b>(R\$ in millions, except %)</b>					
	R\$	R\$		R\$	R\$		R\$	R\$	
Loans	69,988	16,855	24.1%	88,044	20,977	23.8%	105,470	22,608	21.4%
Federal funds sold and securities purchased under agreements to resell	12,858	2,018	15.7	13,378	2,177	16.3	33,299	3,429	10.3
Trading assets	37,878	7,251	19.1	41,999	5,705	13.6	52,787	5,677	10.8
Available-for-sale securities <sup>(2)</sup>	9,640	1,364	14.1	15,980	2,490	15.6	21,760	2,843	13.1
Held to maturity securities	4,235	495	11.7	4,122	324	7.9	2,762	279	10.1
Interest-bearing deposits in other banks	9,610	722	7.5	11,945	541	4.5	7,635	429	5.6
Other interest-earning assets:									
Central Bank compulsory deposits	15,151	2,160	14.3	16,251	1,998	12.3	18,858	1,207	6.4
Other assets	811	61	7.5	886	59	6.7	716	37	5.2
<b>Total interest-earning assets</b>	<b>160,171</b>	<b>30,926</b>	<b>19.3</b>	<b>192,605</b>	<b>34,271</b>	<b>17.8</b>	<b>243,287</b>	<b>36,509</b>	<b>15.0</b>
<b>Non-interest-earning assets<sup>(3)</sup>:</b>									
Cash and due from banks	3,515			3,895			5,006		
Central Bank compulsory deposits	4,656			5,298			6,868		
Available-for-sale securities	1,684			2,266			2,472		
Non-performing loans	2,021			3,004			5,576		
	(4,476)			(5,832)			(7,114)		

Allowance for loan losses										
Equity investees and other investments	493			772			518			
Premises and equipment	2,427			2,445			2,710			
Goodwill	297			500			893			
Intangible assets	1,437			1,577			1,594			
Other assets	15,866			21,368			27,646			
<b>Total non-interest-earning assets</b>	<b>27,920</b>			<b>35,293</b>			<b>46,169</b>			
	<b>R\$</b>	<b>R\$</b>		<b>R\$</b>	<b>R\$</b>		<b>R\$</b>	<b>R\$</b>		
<b>Total assets</b>	<b>188,091</b>	<b>30,926</b>	<b>16.4%</b>	<b>227,898</b>	<b>34,271</b>	<b>15.0%</b>	<b>289,456</b>	<b>36,509</b>	<b>12.6%</b>	

## On December 31

	2005			2006			2007		
	Average balance	Interest	Average yield/rate (%)	Average balance	Interest	Average yield/rate (%)	Average balance	Interest	Average yield/rate (%)
<b>Interest-bearing liabilities</b>	<b>(R\$ in millions, except %)</b>								
Deposits from banks:									
Domestic <sup>(3)</sup>	R\$ 116	R\$ 21	18.1%	R\$ 143	R\$ 19	13.3%	R\$ 223	R\$ 33	14.8%
<b>Total</b>	<b>116</b>	<b>21</b>	<b>18.1</b>	<b>143</b>	<b>19</b>	<b>13.3</b>	<b>223</b>	<b>33</b>	<b>14.8</b>
Savings deposits:									
Domestic <sup>(3)</sup>	24,728	2,028	8.2	25,590	1,909	7.5	28,958	2,002	6.9
<b>Total</b>	<b>24,728</b>	<b>2,028</b>	<b>8.2</b>	<b>25,590</b>	<b>1,909</b>	<b>7.5</b>	<b>28,958</b>	<b>2,002</b>	<b>6.9</b>
Time deposits:									
Domestic <sup>(3)</sup>	28,641	4,782	16.7	31,203	4,149	13.3	32,322	3,405	10.5
International <sup>(4)</sup>	2,361	113	4.8	3,258	152	4.7	2,066	119	5.8
<b>Total</b>	<b>31,002</b>	<b>4,895</b>	<b>15.8</b>	<b>34,461</b>	<b>4,301</b>	<b>12.5</b>	<b>34,388</b>	<b>3,524</b>	<b>10.2</b>
Federal funds purchased and securities sold under agreements to repurchase	<b>19,139</b>	<b>3,862</b>	<b>20.2</b>	<b>27,821</b>	<b>3,762</b>	<b>13.5</b>	<b>51,384</b>	<b>5,540</b>	<b>10.8</b>
Borrowings:									
Short-term:									
International <sup>(4)</sup>	7,164	(187)	(2.6)	5,741	54	0.9	6,892	(727)	(10.5)
<b>Total</b>	<b>7,164</b>	<b>(187)</b>	<b>(2.6)</b>	<b>5,741</b>	<b>54</b>	<b>0.9</b>	<b>6,892</b>	<b>(727)</b>	<b>(10.5)</b>
Long-term:									
Domestic <sup>(3)</sup>	13,691	1,916	14.0	20,700	2,649	12.8	26,715	2,677	10.0
International <sup>(4)</sup>	7,073	(94)	(1.3)	6,589	175	2.7	5,590	(311)	(5.6)
<b>Total</b>	<b>20,764</b>	<b>1,822</b>	<b>8.8</b>	<b>27,289</b>	<b>2,824</b>	<b>10.3</b>	<b>32,305</b>	<b>2,366</b>	<b>7.3</b>
<b>Total interest-bearing liabilities</b>	<b>102,913</b>	<b>12,441</b>	<b>12.1</b>	<b>121,045</b>	<b>12,869</b>	<b>10.6</b>	<b>154,150</b>	<b>12,738</b>	<b>8.3</b>

**Non-interest-bearing liabilities:**

Demand deposits:									
Domestic <sup>(3)</sup>	15,042	-	-	17,210	-	-	22,185	-	-
International <sup>(4)</sup>	185	-	-	222	-	-	126	-	-
<b>Total</b>	<b>15,227</b>	-	-	<b>17,432</b>	-	-	<b>22,311</b>	-	-
<b>Other non-interest-bearing liabilities</b>	<b>52,537</b>	-	-	<b>67,989</b>	-	-	<b>85,091</b>	-	-
<b>Total non-interest-bearing liabilities</b>	<b>67,764</b>	-	-	<b>85,421</b>	-	-	<b>107,402</b>	-	-
<b>Total liabilities</b>	<b>170,677</b>	<b>12,441</b>	<b>7.3</b>	<b>206,466</b>	<b>12,869</b>	<b>6.2</b>	<b>261,552</b>	<b>12,738</b>	<b>4.9</b>
<b>Shareholders equity</b>	<b>17,357</b>	-	-	<b>21,323</b>	-	-	<b>27,731</b>	-	-
<b>Minority interest on consolidated subsidiaries</b>	<b>57</b>	-	-	<b>109</b>	-	-	<b>173</b>	-	-
<b>Total liabilities and shareholders equity</b>	<b>188,091</b>	<b>12,441</b>	<b>6.6%</b>	<b>227,898</b>	<b>12,869</b>	<b>5.6%</b>	<b>289,456</b>	<b>12,738</b>	<b>4.4%</b>

(1) Primarily denominated in reais.

(2) Calculated using the historical average amortized cost. If calculated using the carrying value, the average yield/rate amounts would be 12.5% in 2007, 13.1% in 2006 and 10.7% in 2005.

(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.

	<b>December 31</b>					
	<b>2006/2005</b>			<b>2007/2006</b>		
	<b>Increase (decrease) due to changes in:</b>					
	<b>Average volume</b>	<b>Average yield/rate</b>	<b>Net change</b>	<b>Average volume</b>	<b>Average yield/rate</b>	<b>Net change</b>
	<b>(R\$ in millions)</b>					
<b>Interest-earning assets:</b>						
Loans	R\$ 4,304	R\$ (182)	4,122	R\$ 3,875	R\$ (2,244)	1,631
Federal funds sold and securities purchased under agreements to resell under agreements to resell	83	76	159	2,287	(1,035)	1,252
Trading assets	726	(2,272)	(1,546)	1,297	(1,325)	(28)
Available-for-sale securities	976	150	1,126	800	(447)	353
Held to maturity securities	(13)	(158)	(171)	(123)	78	(45)
Interest-bearing deposits in other banks	149	(330)	(181)	(223)	111	(112)
Central Bank compulsory deposits	149	(311)	(162)	282	(1,073)	(791)
Other assets	5	(7)	(2)	(10)	(12)	(22)
<b>Total interest-earning assets</b>	<b>6,379</b>	<b>(3,034)</b>	<b>3,345</b>	<b>8,185</b>	<b>(5,947)</b>	<b>2,238</b>
<b>Interest-bearing liabilities:</b>						
Deposits from banks						
Domestic	4	(6)	(2)	12	2	14
<b>Total</b>	<b>4</b>	<b>(6)</b>	<b>(2)</b>	<b>12</b>	<b>2</b>	<b>14</b>
Savings deposits:						
Domestic	69	(188)	(119)	239	(146)	93
<b>Total</b>	<b>69</b>	<b>(188)</b>	<b>(119)</b>	<b>239</b>	<b>(146)</b>	<b>93</b>

Time deposits:						
Domestic	401	(1,034)	(633)	144	(888)	(744)
International	42	(3)	39	(64)	31	(33)
<b>Total</b>	<b>443</b>	<b>(1,037)</b>	<b>(594)</b>	<b>80</b>	<b>(857)</b>	<b>(777)</b>
Federal funds purchased and securities sold under agreements to repurchase	1,417	(1,517)	(100)	2,665	(887)	1,778
<b>Borrowings:</b>						
Short-term:						
International	31	210	241	9	(790)	(781)
<b>Total</b>	<b>31</b>	<b>210</b>	<b>241</b>	<b>9</b>	<b>(790)</b>	<b>(781)</b>
Long- term:						
Domestic	909	(176)	733	674	(646)	28
International	6	263	269	(23)	(463)	(486)
<b>Total</b>	<b>915</b>	<b>87</b>	<b>1,002</b>	<b>651</b>	<b>(1,109)</b>	<b>(458)</b>
<b>Total interest-bearing liabilities</b>	<b>R\$ 2,879</b>	<b>R\$ (2,451)</b>	<b>R\$ 428</b>	<b>3,656</b>	<b>(3,787)</b>	<b>(131)</b>



**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:

	<b>December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions, except %)</b>		
Average balance of interest-earning assets	R\$ 160,171	R\$ 192,605	R\$243,287
Average balance of interest-bearing liabilities	102,913	121,045	154,150
Net interest income <sup>(1)</sup>	R\$ 18,485	R\$ 21,402	R\$ 23,771
Interest rate on the average balance of interest-earning assets	19.3%	17.8%	15.0%
Interest rate on the average balance of interest-bearing liabilities	12.1	10.6	8.3
Net yield on interest earning asset <sup>(2)</sup>	7.2	7.2	6.7
Net interest margin <sup>(3)</sup>	11.5%	11.1%	9.8%

(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:

	<b>December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions, except % and per share information)</b>		
Net income	R\$ 6,310	R\$ 6,462	R\$ 7,908
Average total assets	188,091	227,898	289,456
Average shareholders equity	R\$ 17,357	R\$ 21,323	R\$ 27,731
Net income as a percentage of average total assets	3.4%	2.8%	2.7%
Net income as a percentage of average shareholders equity	36.4	30.3	28.5
Average shareholders equity as a percentage of average total assets	9.2%	9.4%	9.6%
Dividends payout ratio per class of shares <sup>(1)</sup>	0.30	0.33	0.36

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

**Securities Portfolio**

The table below shows our portfolio of trading assets, available-for-sale securities and held to maturity securities as of the dates indicated. The amounts below exclude our equity investees. For additional information on our equity investees and other investments, see note 9 to our consolidated financial statements included in Item 18. The amounts also exclude our compulsory holdings of Brazilian government securities, as required by the Central Bank. For more information on our compulsory holdings, see note 3 to our consolidated financial statements included in Item 18. 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 for a further description of our treatment of trading assets and available-for-sale securities and held to maturity securities.

	<b>December 31,</b>		
	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions, except %)</b>		
<b>Trading securities:</b>			
Mutual funds	R\$ 21,420	R\$ 28,549	R\$ 36,532
Brazilian government securities	17,142	31,150	16,741
Corporate debt securities	901	1,040	1,846
Brazilian sovereign bonds	521	55	36
Derivative financial instruments	518	584	1,134
Bank debt securities	324	1,263	956
Foreign government securities	122	94	1,901
<b>Total</b>	<b>R\$ 40,948</b>	<b>R\$ 62,735</b>	<b>R\$ 59,146</b>
Trading securities as a percentage of total assets	19.8%	24.2%	17.7%
<b>Available-for-sale securities:</b>			
Brazilian government securities	R\$ 6,146	R\$ 16,712	R\$ 23,190
Brazilian sovereign bonds	4,313	1,549	438
Corporate debt securities	1,744	2,130	1,364
Bank debt securities	309	54	80
Foreign government securities	-	9	-
Marketable equity securities	2,198	3,425	4,581
<b>Total</b>	<b>R\$ 14,710</b>	<b>R\$ 23,879</b>	<b>R\$ 29,653</b>
Available-for-sale securities as a percentage of total assets	7.1%	9.2%	8.9%
<b>Held to maturity securities:</b>			
Brazilian government securities	R\$ 3,137	R\$ 2,188	2,643
Brazilian sovereign bonds <sup>(1)</sup>	909	1,040	288
Financial Institution securities	44	-	-

Foreign government securities	31	37	50
<b>Total</b>	<b>R\$ 4,121</b>	<b>R\$ 3,265</b>	<b>R\$ 2,981</b>
Held to maturity securities as a percentage of total assets	2.0%	1.3%	0.9%

(1) See note 6 to our consolidated financial statements included in Item 18.

**Maturity Distribution**

The following table sets forth the maturity dates and weighted average yield, as of December 31, 2007, of our trading securities, available-for-sale securities and held to maturity securities.

As of December 31, 2007 we held no tax-exempt securities in our portfolio.

**December 31, 2007**

	<b>Due in 1 year or less</b>		<b>Due after 1 year to 5 years</b>		<b>Due after 5 years to 10 years</b>		<b>Due after 10 years</b>		<b>Unspecified Maturity</b>	<b>Total</b>
	<b>Average yield</b>		<b>Average yield</b>		<b>Average yield</b>		<b>Average yield</b>		<b>Average yield</b>	<b>Average yield</b>
<b>(R\$ in millions, except %)</b>										
<b>Trading securities (1):</b>										
Brazilian government securities	<b>5,342</b>	<b>11.6%</b>	<b>10,523</b>	<b>11.9%</b>	<b>876</b>	<b>8.5%</b>				<b>16,741 10.7%</b>
Fixed rate	4,526	11.4	2,832	12.6	2	7.5				7,360 10.5
Floating rate	816	11.7	7,691	11.1	874	9.5				9,381 10.8
Brazilian sovereign bonds			<b>36</b>	<b>5.2%</b>						<b>36 5.2%</b>
Floating rate bills of exchange			36	5.2						36 5.2
Foreign government securities	<b>1,901</b>	<b>5.4%</b>								<b>1,901 5.4%</b>
Floating rate bills of exchange	1,901	5.4								1,901 5.4
Bonds issued by non financial institutions	<b>954</b>	<b>10.3%</b>	<b>282</b>	<b>9.0%</b>	<b>408</b>	<b>10.0%</b>	<b>202</b>	<b>10.0%</b>		<b>1,846 9.8%</b>
Fixed rate										
Floating rate bills of exchange	18	8.7	2	6.5	38	8.4	101	8.6		159
Floating rate	936	11.8	280	11.4	370	11.5	101	11.4		1,687
Financial institutions bonds	<b>867</b>	<b>11.8%</b>	<b>17</b>	<b>11.4%</b>	<b>72</b>	<b>8.6%</b>				<b>956 10.6%</b>
Fixed rate										



Floating rate bills of exchange										
Fixed rate Financial institutions bonds										
		<b>4</b>	<b>8.7%</b>	<b>17</b>	<b>7.9%</b>	<b>59</b>	<b>11.7%</b>		<b>80</b>	<b>10%</b>
Floating rate bills of exchange		4	8.7	17	7.9				21	8.3
Floating rate						59	11.7		59	11.7
Mutual Funds (2)										
Floating rate Marketable equity securities (2)									<b>4,581</b>	<b>4,581</b>
<b>Total available for sale securities</b>	<b>2,446</b>	<b>6,522</b>		<b>6,283</b>		<b>9,821</b>		<b>4,581</b>	<b>29,653</b>	
<b>Total held to maturity securities, at amortized cost</b>										
Brazilian government securities	<b>3</b>	<b>11.8%</b>	<b>102</b>	<b>10.8%</b>	<b>163</b>	<b>7.5%</b>	<b>2,375</b>	<b>6.7%</b>	<b>2,643</b>	<b>9.2%</b>
Floating rate	3	11.8	102	10.8	163	7.5	2,375	6.7	2,643	9.2
Brazilian sovereign bonds			<b>163</b>	<b>11.0%</b>	<b>63</b>	<b>5.1%</b>	<b>62</b>	<b>4.0%</b>	<b>288</b>	<b>6.7%</b>
Floating rate bills of exchange			163	11.0	63	5.1	62	4.0	288	6.7
Foreign government securities							<b>50</b>		<b>50</b>	
Floating rate bills of exchange							50		50	
<b>Total held to maturity securities</b>	<b>3</b>		<b>265</b>		<b>226</b>		<b>2,487</b>		<b>2,981</b>	
<b>Total</b>	<b>12,048</b>		<b>18,224</b>		<b>7,885</b>		<b>12,510</b>		<b>41,113</b>	<b>91,780</b>

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(1) At market value.

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

(\*) The figures above are not adjusted to the exchange rate variation.

The following table shows our securities portfolio by currency as of the dates indicated:

	At fair value		Amortized Cost	
	Trading	Available for sale	Held to maturity securities	Total
<b>December 31, 2007:</b>	(R\$ in millions)			
Indexed to <i>reais</i>	R\$ 56,241	R\$ 28,104	R\$ 2,643	R\$ 86,988
Denominated in foreign currency <sup>(1)</sup>	2,905	1,549	338	4,792
<b>December 31, 2006:</b>				
Indexed to <i>reais</i>	R\$ 60,964	R\$ 21,144	R\$ 2,188	R\$ 84,296
Indexed to foreign currency <sup>(1)</sup>	1,254			1,254
Denominated in foreign currency <sup>(1)</sup>	517	2,735	1,077	4,329
<b>December 31, 2005:</b>				
Indexed to <i>reais</i>	R\$40,293	R\$9,169	R\$3,137	R\$52,599
Denominated in foreign currency <sup>(1)</sup>	655	5,541	984	7,180

(1) Predominantly U.S. dollars.

### 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,					
	2005		2006		2007	
	R\$	% of total compulsory deposits	R\$	% of total compulsory deposits	R\$	% of total compulsory deposits
(R\$ in millions, except %)						
<b>Total deposits:</b>						
Non-interest earning <sup>(1)</sup>	R\$ 5,269	24.3%	R\$ 6,446	27.5%	R\$ 8,919	28.0%
Interest-earning <sup>(2)</sup>	16,417	75.7	17,015	72.5	22,894	72.0
<b>Total</b>	<b>R\$ 21,686</b>	<b>100.0%</b>	<b>R\$ 23,461</b>	<b>100.0%</b>	<b>R\$ 31,813</b>	<b>100.0%</b>



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

**Credit Operations**

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

	<b>December 31,</b>				
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions)</b>				
<b>Type of credit operations</b>					
<b>Commercial</b>					
Industrial and others	R\$21,156	R\$23,343	R\$28,690	R\$32,604	R\$44,380
Import financing	673	1,242	1,100	1,465	2,179
Export financing	8,375	8,181	10,067	12,934	15,342
Leasing	1,364	1,626	2,491	3,842	8,097
Construction	415	449	523	519	1,634
<b>Individuals</b>					
Overdraft	1,134	1,301	1,572	1,263	1,881
Real estate	1,097	921	832	1,326	1,571
Financing <sup>(1)</sup>	10,442	15,305	25,187	28,828	38,791
Credit card	1,373	1,289	1,830	2,652	2,330
Rural credit	4,404	6,034	6,369	7,399	9,032
Foreign currency loans	2,429	1,588	1,900	1,546	2,529
Public Sector	-	15	49	62	94
Non-performing loans	2,144	2,206	2,701	4,284	5,277
Allowance for loan losses	(3,846)	(4,063)	(4,964)	(6,552)	(7,769)
<b>Loans, net</b>	<b>R\$ 51,160</b>	<b>R\$59,437</b>	<b>R\$78,347</b>	<b>R\$92,172</b>	<b>R\$125,368</b>

(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 the financing of imports for corporate customers. We also provide advances to corporate exporters under trade exchange contracts, which are typically short- and medium-term loans.

**Construction** real estate construction financing consists primarily of mortgage loans to construction companies, which generally have medium-term maturities.

**Leasing** leasing contracts consist primarily of leases of equipment and automobiles to both corporate and individual borrowers.

**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 in rural businesses, including farming, production, livestock and reforestation.

**Foreign currency loans** foreign currency loans are on-lending financing raised by Brazilian companies that are indexed to U.S. dollar and are subject to foreign exchange rate variation and accrued interests.

**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 over them.

**Impairment** clients with significant loans whose profile indicates that they may have difficulty making their payments, or that their credit rating has declined, presenting probable losses for us. These loans are classified as impaired and are subject to review in accordance with SFAS 114, Accounting for Impairment of a Loan by a Creditor, as amended by SFAS 118.

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; or
- for collateral dependent loans, the fair value of the underlying collateral.

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

We provision up to 100.0% of the outstanding amount of those loans, which are classified as non performing instead of impaired. We provision these sums up to 180 days before payments under such loans become due depending on the credit rating of the debtor.

Homogeneous loans with small outstanding balances, such as overdraft loans, credit cards, residential mortgages and consumer credit, are considered in the aggregate for the purpose of evaluating the risk of default based on our prior experiences with default, current economic conditions, client profiles and internal risk classification.

### ***Charge-offs***

Loans are charged off when they are between 180 and 360 days overdue, depending on their initial risk classification. Generally, the charge-off takes place after 360 days. However, the charge-off might be postponed for longer-term loans (that will mature after 36 months), until they are up to 540 days overdue.

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

There were no changes made to our loan classification system. For more information on our categorization of loans, see Regulation and Supervision Bank Regulations Treatment of Overdue Debts and Classification of Loan Operations Portfolio.

**Maturities and Interest Rates of Loans**

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

**December 31, 2007**

Type of loan:	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 <sup>(1)</sup>	Total loans, gross	Allowance for Losses in loan operations	
	(R\$ in millions)									
Commercial:										
Industrial and others	R\$8,609	R\$9,625	R\$5,387	R\$5,260	R\$9,647	R\$5,500	R\$1,626	R\$45,654	R\$(2,759)	R\$
Import financing	247	560	917	399	52	4	2	2,181	(10)	
Export financing	1,502	2,245	2,554	3,191	2,612	3,238	18	15,360	(79)	
Construction	9	20	60	187	983	375	20	1,654	(56)	
Leasing	412	699	299	1,699	4,728	245	127	8,209	(171)	
Individuals:										
Overdraft	1,736	-	-	-	-	-	395	2,131	(232)	
Real estate	21	34	51	100	352	1,006	50	1,614	(129)	
Financing <sup>(2)</sup>	3,674	5,070	5,907	8,348	13,716	1,826	2,733	41,274	(3,424)	
Credit cards	-	-	-	-	-	-	3,215	3,215	(686)	
Rural credit	236	584	1,325	2,461	1,841	2,525	250	9,222	(216)	
Foreign currency loans	725	166	459	686	172	11	310	2,529	(7)	
Public Sector	1	2	3	6	25	57	-	94	-	
<b>Total</b>	<b>R\$17,172</b>	<b>R\$19,005</b>	<b>R\$16,962</b>	<b>R\$22,337</b>	<b>R\$34,128</b>	<b>R\$14,787</b>	<b>R\$8,746</b>	<b>R\$133,137</b>	<b>R\$(7,769)</b>	<b>R\$</b>

(1) Primarily composed of non-performing credit cards and loans.

(2) Primarily composed of loans for the acquisition of vehicles and direct consumer financing.

**December 31, 2007**

Due within 30 days or	Due in 31	Due in 91	Due in 181	Due in	Due after 3	No stated	Total loans,
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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, at the dates indicated. We aggregate small balance 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.

	<b>December 31,</b>				
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<b>(R\$ in millions, except %)</b>				
Non-performing loans	R\$ 2,144	R\$ 2,206	R\$ 2,701	R\$ 4,284	R\$5,277
Foreclosed assets, net of reserves	194	229	166	161	195
<b>Total non-performing loans and foreclosed assets</b>	<b>2,338</b>	<b>2,435</b>	<b>2,867</b>	<b>4,445</b>	<b>5,472</b>
Allowance for loan losses	3,846	4,063	4,964	6,552	7,769
<b>Total loans</b>	<b>R\$55,006</b>	<b>R\$63,500</b>	<b>R\$83,311</b>	<b>R\$98,724</b>	<b>R\$133,137</b>
Non-performing loans as a percentage of total loans	3.9%	3.5%	3.2%	4.3%	4.0%
Non-performing loans and foreclosed assets as a percentage of total loans	4.3	3.8	3.4	4.5	4.1
Allowance for loan losses as a percentage of total loans	7.0	6.4	6.0	6.6	5.8
Allowance for loan losses as a percentage of non-performing loans	179.4	184.2	183.8	152.9	147.2
Allowance for loan losses as a percentage of non-performing loans and foreclosed assets	164.5	166.9	173.1	147.4	142.0
Net charge-offs for the period as a percentage of the average balance of loans (including non-performing loans)	3.1%	2.1%	1.3%	2.4%	3.1%

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

**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 in the last three years. We believe that there are no significant cross-border risks on these transactions, since a substantial part of the related credit risk is guaranteed by the parent company in Brazil of each subsidiary. The remainder of our outstanding cross-border transactions mainly includes investments in securities, which represented on average approximately 2.0% of our total assets in the last 3 years.

Additionally, our deposit base is primarily comprised of Brazilian residents and the amount of deposits in our branches outside Brazil is less than 10.0% of our total deposits and is therefore not considered significant.