

BANK BRADESCO
Form 20-F
June 30, 2006

As filed with the Securities and Exchange Commission on June 30, 2006

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, 2005

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:

Title of each class	Name of each exchange on which they are registered
American Depositary Shares, each representing 1 Preferred Share, without par value (ADSs)	New York Stock Exchange
Preferred Shares, without par value (Preferred Shares)	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 or common stock as of December 31, 2005 was:

489,450,004	Common Shares
489,938,838	Preferred Shares

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.

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Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities

Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such

reports) and (2) has been subject to such filing requirements for the past 90 days.

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 Bradesco S.A., a *sociedade anônima* organized under the laws of Brazil and, unless the context otherwise requires, its consolidated subsidiaries. We are a full service financial institution providing, directly or through our subsidiaries, a full range of banking, financial, 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, 2003, 2004 and 2005, 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:

Date	Noon Buying Rate for U.S. dollars	Closing Selling Rate for U.S. dollars
	(R\$ per US\$1.00)	
December 31, 2003	R\$2.8950	R\$2.8892
December 31, 2004	2.6550	2.6544
December 31, 2005	2.3340	2.3407
June 20, 2006	2.2416	2.2506

As a result of recent fluctuations in the *real*/U.S. dollar exchange rate, the closing selling exchange rate at December 31, 2005 may not be indicative of current or future exchange rates. Therefore, you should not read these exchange rate conversions as representations that any such amounts have been or could be converted into U.S. dollars at those or any other exchange rates.

For your convenience, certain amounts have been converted from *reais* to U.S. dollars. These conversions have been calculated using the U.S. dollar selling rate at closing published by the Central Bank. See Item 3. Key Information Exchange Rate Information for more information regarding the exchange rates applicable to the Brazilian currency since 2001.

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, 2001, 2002, 2003, 2004 and 2005. The selected U.S. GAAP financial information 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 auditors 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,					2005 (US\$ in million) (1)
	2001	2002	2003	2004	2005	
	(R\$ in million)					
Data from the Consolidated Statement of Income:						
Net interest income	R\$9,493	R\$13,467	R\$14,999	R\$14,804	R\$18,866	US\$8,201
Provision for loan losses	(1,763)	(2,543)	(2,034)	(1,429)	(1,823)	(792)
Net interest income after provision for loan losses	7,730	10,924	12,965	13,375	17,043	7,409
Fee and commission income	2,866	2,894	3,463	4,310	5,137	2,233
Insurance premiums ⁽²⁾	4,946	5,308	6,149	6,764	7,805	3,393
Pension plan income ⁽²⁾	713	21	64	374	377	164
Equity in the earnings (losses) of unconsolidated companies ⁽³⁾	109	150	60	66	186	81
Other non-interest income ⁽⁴⁾	972	(410)	1,373	2,768	4,051	1,761
Operating expenses ⁽⁵⁾	(6,197)	(7,413)	(8,586)	(8,921)	(9,645)	(4,193)
Insurance claims	(3,251)	(3,614)	(4,333)	(4,822)	(5,501)	(2,391)

Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(1,847)	(2,261)	(3,777)	(4,326)	(3,939)	(1,712)
Pension plan operating expenses	(459)	(370)	(637)	(751)	(505)	(220)
Insurance and pension plan selling expenses	(690)	(669)	(762)	(907)	(1,041)	(453)
Other non-interest expense ⁽⁶⁾	(2,054)	(2,272)	(3,323)	(3,990)	(5,216)	(2,267)
Income before income taxes and minority interest	2,838	2,288	2,656	3,940	8,752	3,805
Income tax	(550)	(161)	(346)	(601)	(2,431)	(1,057)
Change in accounting principle	-	27	-	-	-	-
Minority interest	(18)	(12)	(8)	(12)	(11)	(5)
Net income	R\$2,270	R\$2,142	R\$2,302	R\$3,327	R\$6,310	US\$2,743

Year ended December 31,

	2001		2002		2003		2004		2005	
	(R\$, except numbers of shares)	(US\$)	(R\$, except numbers of shares)	(US\$)	(R\$, except numbers of shares)	(US\$)	(R\$, except numbers of shares)	(US\$)	(R\$, except numbers of shares)	(US\$)
Per Share Data ⁽⁷⁾:										
Net income per share ⁽⁸⁾⁽⁹⁾ :										
Common	R\$2.52	-	R\$2.37	-	R\$2.39	-	R\$3.33	-	R\$6.16	U
Preferred	2.77	-	2.61	-	2.63	-	3.67	-	6.78	
Dividends/ interest on shareholders capital per share ⁽¹⁰⁾ :										
Common	0.94	US\$0.41	1.05	US\$0.32	1.40	US\$0.48	1.32	US\$0.55	1.85	
Preferred	R\$1.04	US\$0.45	R\$1.16	US\$0.35	R\$1.54	US\$0.53	R\$1.47	US\$0.61	R\$2.00	U
Weighted average number of outstanding stocks:										
Common	436,006,758	-	434,679,340	-	461,760,222	-	478,532,230	-	488,590,304	
Preferred	423,482,496	-	425,897,736	-	455,160,972	-	472,163,596	-	486,946,621	

Year ended December 31,

	2001	2002	2003	2004	2005	2005
Consolidated Balance Sheet Data:						
			(R\$ in million)			(US\$ in million) ⁽¹⁾
Assets						
Cash and checking account in banks	R\$1,715,2051	R\$2,725,2379	R\$2,473,5170	R\$2,690,7976	R\$3,447,13,119	US\$1,498,5,703

Investments in interbank deposits						
Investments in purchase and sale commitments	11,896	12,674	26,175	19,435	10,985	4,775
Brazilian Central Bank compulsory deposits	8,232	16,057	16,690	20,209	21,686	9,427
Trading and available-for-sale securities, at fair value	29,872	27,549	43,267	43,197	55,658	24,194
Securities held to maturity	-	4,001	3,265	4,200	4,121	1,791
Loans Allowance for loan losses	44,994 (2,941)	52,324 (3,455)	54,795 (3,846)	63,176 (4,063)	82,689 (4,964)	35,944 (2,158)
Equity Investees and other investments	521	550	295	708	397	173
Premises and equipment, net	2,727	2,993	3,106	2,946	2,721	1,183
Goodwill	-	-	-	262	332	144
Intangible assets, net	783	1,778	1,740	1,568	1,294	562
Other assets	8,445	10,300	13,200	14,775	15,109	6,568
Total assets	108,295	129,875	166,330	177,079	206,594	89,804

Liabilities

Deposits	41,092	56,333	58,027	68,647	75,407	32,779
Federal funds purchased and securities sold under agreements to repurchase	14,037	7,633	27,490	16,532	22,886	9,948
Short-term borrowing	8,320	9,639	7,795	8,272	7,066	3,072
Long-term debt	11,499	13,389	20,093	19,653	23,316	10,135
Other liabilities	23,471	31,826	39,260	48,343	57,612	25,043
Total liabilities	98,419	118,820	152,665	161,447	186,287	80,977

Minority interest in consolidated subsidiaries

	87	203	73	73	88	38
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Shareholders**Equity**

Common shares	(11) 2,638	2,638	3,525	3,525	6,497	2,824
Preferred shares	(12) 2,562	2,562	3,475	3,475	6,503	2,827
Capital stock	5,200	5,200	7,000	7,000	13,000	5,651
Total shareholders equity	9,789	10,852	13,592	15,559	20,219	8,789

Total liabilities and shareholders equity

	108,295	129,875	166,330	177,079	206,594	89,804
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Average assets						
(13)	101,298	123,447	146,872	162,891	188,091	81,761
Average liabilities						
(13)	92,293	113,216	134,625	148,814	170,677	74,191
Average shareholders equity						
(13)	R\$8,861	R\$10,015	R\$12,138	R\$14,012	R\$17,357	US\$7,545

- (1) Amounts stated in U.S. dollars have been translated from Brazilian reais at an exchange rate of R\$2.3005 = US\$1.00, the Central Bank exchange rate on May 31, 2006. We used the exchange rate of May 31, 2006, instead of December 31, 2005, because there has been an appreciation in the real U.S. dollar exchange rate since December 31, 2005. 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) Since 2003, we classify amounts received in relation to certain private retirement plans as income from insurance premiums. Amounts related to such private retirement plans from periods prior to 2003 have been reclassified to facilitate comparison. As a result, income from pension premiums decreased and income from insurance premiums increased by R\$330.0 million for the period ending December 31, 2001 and by R\$327.0 million for the period ending December 31, 2002. These reclassifications do not affect non-interest income, net income, or shareholders equity. The private retirement plans offer holders a guaranteed payment of benefits upon death.

- (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 stock 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 Sao 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; and (c) a split of our capital stock on November 11, 2005, in which we issued one new share for each existing share.
- (8) For purposes of calculating earnings per stock 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 net income per share does not differ from our net income 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) Common shares outstanding, no par value: 489,450,004 authorized and issued at December 31, 2005; 238,351,329 authorized and issued at December 31, 2004; and 79,836,526 authorized and issued at December 31, 2003. Data from 2001 to 2005 reflects (a) the reverse split of our shares at a 10,000:1 share ratio, on March 2004; (b) a split of our capital stock on December, 2004, in which we issued two new shares for each existing shares; and (c) a split of our capital stock on November, 2005, in which we issued one new share for each existing share.
- (12) Preferred shares outstanding, no par value: 489,938,838 authorized and issued at December 31, 2005; 236,081,796 authorized and issued at December 31, 2004; and 78,693,936 authorized and issued at December 31, 2003 Data from 2001 to 2005 reflect (a) the reverse split of our shares at a 10,000:1 share ratio, on March 2004; (b) a split of our capital stock on December, 2004, in which we issued two new shares for each existing shares; and (c) a split of our capital stock on November, 2005, in which we issued one new share for each existing share.
- (13) 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

Since January 1999, in response to increased pressure on Brazil's foreign currency reserves, the Central Bank has allowed the *real* to float freely although it has intervened occasionally to control unstable movements in foreign exchange rates.

During 2001 and 2002, the *real* continued its trend of declining against the U.S. dollar, but during 2003, 2004 and 2005 it appreciated 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:

Period	Noon Buying Rate for U.S. dollars R\$ per US\$1.00			
	Period-End	Average ⁽¹⁾	High	Low
	2001	R\$2.3120	R\$2.3220	R\$2.7880
2002	3.5400	2.9420	3.9450	2.2650
2003	2.8950	3.0954	3.6640	2.8270
2004	2.6550	2.9131	3.2085	2.6510
2005	2.3340	R\$2.4352	2.7755	2.1695
December	2.3340	-	2.3755	2.1695
2006				
January	2.2094	-	2.3320	2.2045
February	2.1180	-	2.2250	2.1160
March	2.1720	-	2.2233	2.1030
April	2.0900	-	2.1485	2.0900
May	R\$2.3007	-	R\$2.3580	R\$2.0549

(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 20, 2006, the noon buying rate reported by the Federal Reserve Bank of New York was R\$2.2416 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:

Period	Closing Selling Rate for U.S. dollars			
	Period-End	Average ⁽¹⁾	High	Low
2001	R\$2.3204	R\$2.3226	R\$2.8007	R\$1.9357
2002	3.5333	2.9461	3.9552	2.2709
2003	2.8892	3.0964	3.6623	2.8219
2004	2.6544	2.9150	3.2051	2.6544
2005	2.3407	R\$2.4341	2.7621	2.1633
December	2.3407	-	2.3735	2.1800
2006				
January	2.2160	-	2.3460	2.2116
February	2.1355	-	2.2217	2.1177
March	2.1724	-	2.2238	2.1067
April	2.0892	-	2.1542	2.0892
May	R\$2.3005	-	R\$2.3711	R\$2.0586

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

Source: Central Bank

On June 20, 2006, the U.S. dollar selling rate reported by the Central Bank at the close of the day was R\$2.2506 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 2005, the Central Bank increased Brazil's base interest rate from 17.75% to 19.75% and started to decrease it in the second half of 2005, reaching a rate of 18.0% at December 31, 2005. During the first five months of 2006, Brazil's base interest rate decreased to 15.75% ..

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

Political developments may adversely affect our results of operations and the price of our preferred shares and ADSs.

The performance of the Brazilian economy has historically been influenced by the domestic politics. Political crises have, in the past, affected the confidence of investors and of the general public and resulted in economic slowdowns, adversely affecting the market price of the shares of listed companies.

The Brazilian Congress is currently conducting investigations into, among other matters, allegations related to political campaign contributions that were unaccounted for or not publicly disclosed, including contributions made to various important members of the current administration. Such allegations have resulted in the replacement of key ministers and have occupied most of Congress' agenda in 2006. While these developments have not had a material adverse effect on the Brazilian economy, if these investigations were to impact the confidence of the general public and/or of investors resulting in an economic slowdown in Brazil, our results of operations and the price of our preferred shares and our ADSs could be adversely affected.

Additionally, presidential elections in Brazil are scheduled to take place in October 2006, and we cannot assure you that the next administration will adopt or maintain economic policies that produce a growing economy. If the administration promotes significant changes in economic policies currently adopted, and such changes result in an economic slowdown in Brazil, our results of operations and the market price of our preferred shares and ADSs may be adversely affected.

In addition, market prices of shares of Brazilian companies have been volatile during presidential elections in the past. Uncertainties about the outcome of the election, and speculation about actions of the future government, may influence investors' perception of risk in Brazil and could have an adverse impact on the market price of the preferred shares and our ADSs.

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\$2.6544 per U.S. dollar at December 31, 2004 to R\$2.3407 at December 31, 2005. In the last two years, the value of the *real* appreciated by 19.0% against the U.S. dollar, and during the first months of 2006, the value of the *real* appreciated by 1.7%, to R\$2.3005 per U.S. dollar at May 31, 2006. At June 20, 2006, the *real*/U.S. dollar-exchange rate was R\$2.2506 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 a devaluation occurs 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.

In addition, our lending and leasing operations depend significantly on our capacity to match the cost of funds indexed to the U.S. dollar with the rates charged to our customers. A significant devaluation may affect our ability to attract customers on such terms or to charge rates indexed to the U.S. dollar.

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 1,158% in 1992, 2,708% in 1993 and 1,093% in 1994. More recently, Brazil's rates of inflation were 12.1% in 2004, 1.2% in 2005 and 0.6% for the five months ended May 31, 2006. 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:

- the level of economic activity;
- devaluation of the *real*;
- inflation; or
- an increase in interest rates.

A portion of our customers may not be able to repay loans when due 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.

Since the end of 1997, and in particular during the last four years, as a result of economic problems in various emerging market countries, including the economic crisis in Argentina, investors have had a heightened risk perception for investments in emerging markets. As a result, in some periods Brazil has experienced a significant outflow of U.S. dollars and Brazilian companies have faced higher costs for raising funds, both domestically and abroad, and have been impeded from accessing international capital markets. We cannot assure you that international capital markets will remain open to Brazilian companies or that prevailing interest rates in these markets will be advantageous to us.

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, including Argentina, which is one of Brazil's principal trading partners. 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 Argentina and 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.

A recurrence of the Brazilian energy crisis of 2001-2002 could adversely affect our operations.

During 2001 and early 2002 Brazil experienced a shortage of capacity to generate electrical energy. The crisis was due in part to the worst drought in sixty years, which caused water levels at hydroelectric

plants (which account for 90.0% of the country's generating capacity) to fall to less than one-third of capacity, and in part to a lack of past investment in power generation. In order to avoid rolling blackouts, the Brazilian government instituted general compulsory measures which were aimed at reducing electricity consumption and which were in effect from June 2001 until February 28, 2002. Under the reduced electricity consumption rules, we were required to reduce our electricity consumption by 20.0%.

If the drought recurs, or if there is no additional investment in power generation, Brazil may experience another energy crisis. If so, the Brazilian government may impose similar measures to reduce electricity consumption in the future, which could reduce our customers' ability to service their debt obligations and therefore adversely affect our operations and net earnings.

Risks Relating to Bradesco 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% in March 1999 and a low of 15.25% at January 17, 2001. In December 2004, the Central Bank increased the base interest rate 1.25 percentage points, to 17.75%. In May 2005, the Central Bank increased the base interest rate to 19.75%. The Central Bank reduced the base interest rate to 18.0% in December 2005. 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 uses changes in the base interest rate as an instrument for its management 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 might 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 generally add to the acquirers' market share, and as a result we may face increased competition from the acquirer.

Brazil's federal government announced the privatization of Instituto de Resseguros do Brasil S.A. (now IRB Brasil Resseguros S.A.), known as IRB, the state controlled reinsurance company. The privatization has been indefinitely suspended and it is currently not possible to know when, or if, such privatization will take place. If IRB is successfully privatized through the sale of controlling interest to one of our competitors, we could face increasing competition and decreased market share in our insurance operations.

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

At December 31, 2005, Cidade de Deus Companhia Comercial de Participações, which we call Cidade de Deus Participações, directly held 48.4% of our common shares and Fundação Bradesco, directly and indirectly, held 45.8% 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. 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 10 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 31st, 2005, the reserve requirements over demand and savings deposits required us to hold a total of R\$6.0 billion. On December 31st, 2005, the reserve requirements over time deposits, required us to hold a total amount of R\$5.2 billion in Brazilian government securities. 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 becomes seasoned.

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.

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 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 22.3% 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 depositary 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 depository 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 a certificate of registration from 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 certificates from 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 certificate of registration or register in accordance with Central Bank and 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 certificate of 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 certificate of 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.

You may be adversely affected by the imposition of 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. Reimposition 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 take similar 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. guide

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 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.

THE COMPANY

According to Central Bank's ranking, as of December 2005, we are the largest private-sector (non-government-controlled) bank in Brazil in terms of total net worth. We provide 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 customer 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* provider in Brazil on a consolidated basis in terms of insurance premiums, pension plan contributions and income from certificated savings plans. *Títulos de capitalização*, which we call certificated savings plans, is a type of savings account that is coupled with periodic drawings for prizes.

We are the largest private-sector bank in Brazil according to The Forbes Global 2000 report, published by *Forbes* magazine in March 2006.

Some of our subsidiaries rank 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, net worth and technical reserves (SUSEP and ANS);
- Bradesco Vida e Previdência S.A., our pension and life insurance subsidiary, which we call Bradesco Vida e Previdência is the biggest company in the market in terms of pension plan contributions, life and accident insurance premiums, investment portfolios and technical provisions (SUSEP);
- Bradesco Capitalização S.A., which we call Bradesco Capitalização, and which offers certificated savings plans to the public, in terms of revenues from the sale of certificated savings plans and amount of technical reserves (SUSEP);
- 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 Consórcios Ltda., which we call Bradesco Consórcios, in terms of the total number of consortium shares sold (BACEN); and
- Banco Finasa S.A., which we call Banco Finasa, in terms of automobile financing loans (BACEN);

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 December 2005, according to information published by the *Secretaria da Receita Federal* (the Federal Revenue Service), we accounted for 20.0% 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 is 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, 2005, we had, on a consolidated basis:

- R\$206.6 billion in total assets;
- R\$82.7 billion in total loans;
- R\$75.4 billion in total deposits;
- R\$20.2 billion in shareholders equity;
- R\$40.8 billion in insurance claim technical reserves, pension plans, certificated savings plans and pension investment contract operations;
- R\$11.2 billion in foreign trading financing;
- 13.0 million insurance policyholders;
- 16.5 million checking accounts;
- 35.1 million savings accounts;
- 2.5 million of certificated savings plan holders;
- 1,248 of Brazilian and multinational groups of affiliated companies in Brazil as corporate customers;
- a daily average of 11.8 million daily transactions, including 2.5 million in our 2,921 branches and 9.3 million through self-service outlets such as Automatic Teller Machines (ATMs), the Internet and Fone Fácil;

- a nationwide network consisting of 2,921 branches, 23,036 ATMs and 2,451 special banking service posts and outlets located on the premises of selected corporate clients; and
- a total of three branches and five subsidiaries located in New York, the Cayman Islands, the Bahamas, Japan, Argentina and Luxembourg.

Although our customer 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 11.8 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, 2005, by segment.

As of December 31, 2005, according to the sources cited in parentheses below, we were:

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- the leader among private-sector banks in savings deposits, with 19.3% of all savings accounts in Brazil and R\$26.2 billion on deposit (Central Bank);
- the largest provider of insurance and private pension plans, with R\$12.3 billion in net premiums written and revenues from private pension plans (SUSEP/ANS);
- one of the leaders in Brazilian leasing operations, with R\$2.5 billion outstanding (ABEL);
- one of the leaders in the placement of debt instruments in Brazil, having participated in 46.2% of the issuances of debt and equity securities registered with the Comissão de Valores Mobiliários (the Securities Commission, known as CVM,) during 2005 (ANBID);
- one of the largest private-sector fund and portfolio managers in Brazil, with R\$121.2 billion in total third-party assets under management, representing 15.0% of the total Brazilian market (ANBID);
- one of the largest credit card issuers in Brazil, with 10.2 million credit cards (Visa and MasterCard) issued and private label cards and, a credit cards revenue of R\$14.0 billion;
- one of the largest debit card issuers in Brazil, with 37.4 million debit cards issued, and income of R\$12.2 billion from our debit card business (Visa);
- the leader in payment processing and collection in Brazil, with a market share of 30.0% (Settlement System of the Central Bank);
- the leader in consortium quota marketing in the real estate and automobile sectors with 76,500 quotas and 131,900 quotas respectively (BACEN); and
- one of the leaders in vehicle acquisition customer financing with a market share of 27.0% (BACEN).

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

	For the Years Ended December 31,		
	2003	2004	2005
	(R\$ in million)		
Banking:			
Loans operations:			
Housing loans	R\$318	R\$223	R\$194
Agriculture-related loans	474	649	563
Leasing	307	297	441
Other loans ⁽¹⁾	11,077	11,643	16,038
Total	12,176	12,812	17,236
Fees and commissions:			
Asset management fees	371	454	620

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Collection fees	601	630	718
Credit card fees	349	452	562
Fees charged on checking account services	1,025	1,225	1,563
Fees for receipt of taxes	175	189	190

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Interbank fees	250	261	271
Loans	159	118	125
Consortium administration	26	87	149
Other services	269	469	489
Total	3,225	3,885	4,687
Insurance and pension plans ⁽²⁾:			
Insurance income:			
Health	2,649	3,036	3,518
Life and accident	1,502	1,615	1,787
Automobile, property and liability	1,998	2,113	2,500
Total	6,149	6,764	7,805
Pension plan income	R\$64	R\$374	R\$377

(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 2003 through December 31, 2005, 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, 2005 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

In March 2005, we acquired the minority participation interest held by third parties in the capital stock of Bradesco Seguros S.A. through the exchange of the Bradesco Seguros shares held by third parties to shares of Bradesco S.A. Upon the completion of such transaction, Bradesco Seguros became our wholly owned subsidiary and the minority shareholders of Bradesco Seguros became the holders of 363,271 shares of our capital stock. The total aggregate amount of this transaction was R\$12.0 million.

In April 2005, through our subsidiary Finasa Promotora de Vendas, we 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.

In July 2005, Banco Bradesco acquired 50.0% of the total issued and outstanding capital stock of Leader S.A. Administradora de Cartões de Crédito that we call Leadercard, the company responsible for the agency and management of the private label credit card of União de Lojas Leader, known as Leader Magazine, for a total amount of R\$47.0 million. Leader Magazine is a retail chain with its operations focused on the States of Rio de Janeiro and Espírito Santo. Leader Card is one of the five biggest own credit cards in Brazil, with over 2.3 million holders.

In December 2005, we made a winning bid for the acquisition of a controlling interest of Banco do Estado do Ceará BEC and its subsidiary BEC DTVM Ltda in an auction process carried out at the São Paulo Stock Exchange, known as BOVESPA. The transaction was concluded in January 2006 and involved the purchase of 82,459,053 BEC 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. In 2006, we will start to consolidate BEC's results in our financial statements. 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 March 2006, we entered into certain agreements with American Express Company and certain of its affiliates, which we call American Express to acquire the operations of American Express in Brazil. The agreements provide for the transfer to us of the American Express Brazilian subsidiaries operating in the credit card and related businesses, such as insurance brokerage, business travel, retail foreign exchange services and direct consumer financing operations. These agreements also provide for our exclusive right, for a period of 10 years, to issue the American Express Centurion charge card and credit cards in Brazil for individual and corporate clients. In accordance with the terms of the agreements, upon closing of the

transaction, Bradesco will pay American Express the total amount of R\$ 1,04 billion. On June 29, 2006, the Central Bank approved our transaction with American Express.

Acquisitions in 2003 and 2004

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 on June 9, 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 seventy-six 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 1, 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, 2005, BBVA held 5.1% of our common shares and 2.3% of our preferred shares. 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 62.5 % 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, under the Shareholders Agreement, our Controlling Shareholders have a right of first refusal over any proposed sale by BBVA of our common shares, and BBVA has a right, which expires on the seventh anniversary of the Shareholders Agreement, to require our Controlling Shareholders to purchase some or all of BBVA's holding of our common shares, under either of two modalities of acquisition and payment.

If BBVA exercises its put option, our Controlling Shareholders will pay for the shares at a price based on the average price of our common shares on BOVESPA. If the Controlling Shareholders cease to control us, the put option will expire thirty days after the change in control.

Finally, 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.

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 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 net worth of R\$335.0 million. In October 2004, Zogbi was merged into Banco Finasa and all of its assets and liabilities were transferred to Banco Finasa at book value, being consequently dissolved. 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 seventy-six branches, one hundred and twenty-five 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 of BBV Banco, currently Banco Alvorada, none of our acquisitions since January 1998 included a significant subsidiary in accordance with US GAAP.

Banco Postal

Bradesco offers its products and renders its services throughout Brazil, together with Empresa Brasileira de Correios e Telégrafos (ECT), the government owned postal company, which we refer to as the Postal Service, through correspondent offices operating under our trademark Banco Postal (Postal Bank).

Through our service contract dated September 24, 2001 with the Postal Service, we have exclusive rights to offer banking services at more than 7,500 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 on March 25, 2002, when we opened the first branch in the State of Minas Gerais. As of December 31, 2005 we had 5,461 open branches in over 4,800 Brazilian municipalities and more than 4.5 million open accounts, which processed more than 30 million transactions monthly.

More than 1,700 out of 5,461 branches were set up in new markets, which brought services, either directly or indirectly, to over 18 million people for whom financial services were previously either inaccessible or difficult to obtain.

The Postal Bank offers nearly all of the same services offered by our traditional branches.

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 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, each of whom has received training from Bradesco. 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 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.

In December 2004, Lojas Salfer, one of the largest Brazilian furniture and electronic retail chains, reached an operational and strategic agreement to finance new sales made by Lojas Salfer. The agreement maintains the existing relationship with and terms of financing that Lojas Salfer has been offering to its more than 1.1 million clients at its forty-seven store locations. Under this agreement we will provide the funding and Lojas Salfer will continue to manage the credit and collection relationship with its clients and will assume all financing risks. The agreement has no set expiration date and may constitute an additional credit portfolio (*carteira de crédito adicional*) of R\$1.6 billion in the next few years for Bradesco.

In December 2004, we reached an exclusive operational agreement with Banco BMC on credit right transfers of up to R\$2.0 billion. This partnership involves personal lending contracts addressed to beneficiaries, mostly retired citizens and pensioners, of the *Instituto Nacional do Seguro Social* (Brazilian Social Security Institute), which we refer to as the INSS. The agreement is valid for a three-year term, and permits minimum monthly disbursements of R\$50.0 million. This agreement provides Banco BMC with a consistently available credit line for its long-term financing needs and, as result, makes other resources available to finance medium-sized companies.

Also in December 2004, we reached separate operational agreements with Banco Cruzeiro do Sul and Banco Bonsucesso on credit right transfers of up to R\$4.0 billion each. These partnerships involve personal lending contracts addressed to INSS beneficiaries. Each agreement is valid for a three-year term, and permits maximum monthly disbursements of R\$100.0 million, respectively. Banco Cruzeiro do Sul is a pioneer in payroll committed credit operations and has operations in twenty-one Brazilian states, with 194 agreements, at the federal, state and municipal levels.

In January 2005, as part of our strategy to expand individual loans, we entered into an agreement with PanAmericano, a Silvio Santos Group finance company that involves personal lending contracts

addressed to INSS beneficiaries. PanAmericano has expertise in offering personal lending to pensioners through its 130 branches in Brazil and 200 banking correspondents.

On February 4, 2005, we reduced our participation interest in Companhia Siderúrgica Belgo-Mineira (Belgo Mineira) 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 2005, Banco Bradesco 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, Banco Bradesco and Ponte Irmão, 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 Irmão's customers. This transaction and the funding to be granted to Ponte Irmão's customers are secured by a letter of guarantee.

In August 2005, Banco Bradesco and Dismar (Dudony) 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.

Banco Bradesco and Lojas Esplanada and Otoch entered into an agreement for the administration of Lojas Esplanada and Otoch's 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 card certain information regarding Bradesco's products and services. Lojas Esplanada and Otoch are one of the biggest retail chains located in the states of the northeast of Brazil.

Banco Bradesco and Lojas Colombo S/A, the third biggest retail chain of electronic products and furniture in the country, signed a Memorandum of Understanding to establish a partnership pursuant to which Banco Bradesco will provide several products and financial services to the clients of Lojas Colombo. Lojas Colombo has 365 stores in the States of Rio Grande do Sul, Santa Catarina, Paraná, São Paulo, and Minas Gerais and has acted as a correspondent bank since August 2004, with more than 2 million active clients.

In March 2006, we entered into a joint venture agreement with Fidelity National Information Services, Inc., which we call 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. The services to be provided by Fidelity encompass all credit and benefit card processing services, such as transaction authorization, processing and settlement, including data exchange, database marketing processing, customer service, billing, collection, information management, and fraud prevention. Fidelity will service our clients and those of Banco Real, and other major card issuers and is expected to be one of the largest providers of credit card processing services in the Brazil.

In May 2006, we and GBarbosa Comercial Ltda., one of the biggest supermarket chains located in the states of the northeast of Brazil, entered into an agreement for the issuance and administration of GBarbosa private label credit card called Credi Hiper and the offering of financial service and products to the clients of GBarbosa.

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 1998, Bradesco Seguros incorporated Bradesco International Health Service, a subsidiary in Miami, which assists our clients who are receiving medical treatments abroad.

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, 13th Floor, New York, New York 10011.

Business Strategy

We believe that the expansion of the Brazilian economy, coupled with a significant increase in the Brazilian population, will lead to an increased demand for financial services. In this context, our main objective is to remain focused on the domestic market and to take advantage of our position, as the largest private bank in Brazil, to expand our profitability, thus maximizing our shareholders' value and generating a higher rate of return than other Brazilian financial institutions.

Our strategy to achieve these goals is focused not only on continuing to expand our client base but also on consolidating our role as a first bank to each of our clients by always being their first option in meeting their financial needs. Our goal is to become the Brazilian market's complete bank by playing an important role in each of the financial segments.

With more than 73,000 employees, a wide network of distribution channels, which include our branches, outlets, Postal Bank services performed at correspondent offices and ATM machines, we intend to provide a broader list of retail banking services to our clients. We are focused on increasing our business volume, acting as full service commercial bank, both investment bank and corporate bank, and expanding our private banking business segment.

In the insurance segment, we aim to consolidate the leadership of Bradesco Seguros e Previdência in the pension plan segment by taking advantage of the continuous increase in the demand for our pension plan products.

Furthermore, we intend to play an important role in each business segment and to be recognized by our clients as leaders in performance and 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 work discipline standards. As a result, our growth plans are not limited to increasing our client base but are also focused on continuously improving our products and channels of distribution. Additionally, we believe that the basis for the development of our business is investing in the training and professional development of

our employees and creating a cooperative and friendly environment where our employees can develop life-long careers.

Finally, our key philosophy is the management of our business in accordance with the highest ethical standards. Beyond creating shareholder 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;
- build on the business model of a large banking institution with a major insurance subsidiary, which we call the Bank-Insurance Model, in order to maintain our profitability and consolidate our leadership in the insurance sector;
- increase revenues, profitability and shareholder value by strengthening our loans operations, our core business, and expanding new products and services;
- maintain our commitment to technological innovation;
- build profitability and shareholder return through improvement of the efficiency index;
- maintain 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 growth of the Brazilian economy has been sustained over recent months and has produced strategic opportunities for growth in the financial and insurance industries, mainly due to increases in business volume. We plan to take advantage of these opportunities to increase our revenue, build profitability and maximize shareholder value by:

- capitalizing on the opportunity in the Brazilian market to capture new customers with underserved credit and financial needs, in addition to competing for a small stratum of customers in upper income brackets;
- expanding our financial services distribution channels by means of developing new products, using nontraditional means, such as the expansion of our credit cards and store credit cards offered through alliances with the stores and the rendering of services through the Postal Bank;
- taking advantage of our existing distribution channels, including our traditional branch network and newer Internet access technologies, to identify demand for new products;
- using our customer base to offer our products and services more widely and to increase the average number of products used per checking account from 4.7 products as of December 2005, to an average of 5.0 products per checking account by December 2006;

- 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 diverse products tailored to the needs of both our existing and potential 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 their banking, insurance and pension needs. We believe that we are in an especially good position to capitalize on the synergies among banking, insurance, pension and other financial activities, since we are able to sell our traditional banking, insurance and pension products through our branch network brokers and sales offices and through our Internet distribution services.

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, and by:

- maintaining our existing policy of careful evaluation of vehicle insurance risks and declining insurance in cases where such risks are too high;
- 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 through the *IRB Brasil Resseguros S.A.*, known as *IRB* to reduce exposure to large risks.

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 lending activities by improving the quality of our portfolio, through risk mitigation plans as well as more stringent application of credit standards to our potential customers through credit granting ratings;
- continuing to build our corporate and individual client base by offering services tailored to individual clients' needs, including foreign exchange and import/export trade financing services;
- focusing aggressively on fee-based services, such as bill collection and processing, and marketing them to existing and potential corporate clients;

- 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;
- continuing to expand our pension and asset management revenues; and
- continuing to build our base of high-income clients by offering a wide range of personalized products and services with the goal of enhancing our asset management services.

Maintain our commitment to technological innovation.

The development of efficient means of reaching customers and processing transactions is a key element of our goal to expand our profitability and to capitalize on opportunities for organic growth. Recently, we decided to strengthen this strategy by modifying our technological standards in order to maintain our market leadership in technological innovation, and we established a task force aimed at improving the public perception of the technology we use.

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. We expect to continue to increase the number of clients and transactions handled over the Internet through techniques such as:

- continuing to install Internet access stations, known as WebPoints, in public places, enabling clients to reach our Internet banking system whether or not they have access to a personal computer;
- 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 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 policy of cost control;
- 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 ATM distribution systems; and
- continuing to merge the institutions that we acquire in the future into our existing system in order to eliminate redundancies and potential inefficiencies.

Maintain acceptable risk levels in our operations.

We are constantly identifying and evaluating the level of risk of our activities by developing and keeping adequate controls, monitoring the procedures and the efficiency of our capital expenditures, and aiming to achieve and maintain international standards and competitive advantages.

Enter into strategic alliances and selective acquisitions.

We understand that in the coming years, the development of Brazilian financial institutions will rely on organic growth. We also believe that growth opportunities will be restricted to the acquisition of smaller institutions made available through privatizations. 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. 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 acquisition. Our analysis of prospective opportunities is guided by the impact they would have on our results.

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 customer 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. During the 1990s, we reached out to corporations and high-net-worth individuals to complement our traditional client base. Since 1999, we have built our corporate department, which serves our corporate clients who have annual revenues of R\$180.0 million or more, and a private banking department, which serves individual clients who have minimum net assets of R\$1.0 million. In 2002, we created Bradesco Companies (*Bradesco Empresas*) which is responsible for corporate clients that have an annual income of between R\$15.0 and R\$180.0 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 Retail

(Bradesco Varejo) 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, 2005:

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

	As of and for the year ended December 31,		
	2003	2004	2005
	(R\$ in million)		
Income statement data:			
Net interest income ⁽¹⁾	R\$10,034	R\$9,861	R\$12,892
Provision for loan losses	(2,034)	(1,429)	(1,823)
Non-interest income ⁽¹⁾	4,041	6,370	8,177
Non-interest expense	(10,424)	(11,418)	(13,418)
Income before taxes and minority interest ⁽¹⁾	1,617	3,384	5,828
Taxes on income	24	(457)	(1,570)
Income before minority interest ⁽¹⁾	1,641	2,927	4,258
Minority interest	(6)	(8)	(2)
Net Income	R\$1,635	R\$2,919	R\$4,256
Balance sheet data:			
Total assets	134,767	144,796	165,072
Selected results of operations data:			
Interest income:			
Interest on loans	R\$12,176	R\$12,812	R\$17,236
Interest on securities	1,895	1,496	3,548
Interest on federal funds sold and securities purchased under agreements to resell	3,861	2,738	2,018
Interfinancial deposits	315	132	311
Compulsory deposits with the Central Bank	1,459	1,542	2,160
Others	62	73	61
Interest expense:			
Interest on deposits	(6,401)	(5,008)	(6,944)
Interest on federal funds purchased and securities sold under agreements to repurchase	(2,855)	(2,390)	(3,862)
Interest on short-term borrowing and on long-term debt	(478)	(1,534)	(1,635)
Fee and commission income	R\$3,225	R\$3,885	R\$4,687

(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 we have offered to our customers since October 2004, due to a change in law, and 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
- deposits 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, 2005, we had 16.5 million checking accounts, with 15.5 million individual account holders, 957,000 corporate account holders and 35.1 million savings accounts. As of December 31, 2005, deposits (excluding deposits from financial institutions) totaled R\$75.2 billion and we had a 19.3% share of the Brazilian savings deposit market, according to the Central Bank.

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

	December 31,					
	2003		2004		2005	
	(R\$ in million, except %)					
Deposits from Customers:						
Demand deposits	R\$12,912	22.3%	R\$15,384	22.4%	R\$16,223	21.5%
<i>Reais</i>	12,647	21.8	15,155	22.1	16,026	21.2
Foreign currency	265	0.5	229	0.3	197	0.3
Savings deposits	22,140	38.1	24,783	36.1	26,201	34.7
<i>Reais</i>	22,140	38.1	24,783	36.1	26,201	34.7
Term deposits/certificates of deposit	22,944	39.5	28,460	41.5	32,837	43.6
<i>Reais</i>	19,003	32.7	26,246	38.3	30,434	40.4
Foreign currency	3,941	6.8	2,214	3.2	2,403	3.2
Total deposits from customers	57,996	99.9	68,627	100.0	75,261	99.8
Deposits from financial institutions	31	0.1	20	-	146	0.2
Total	R\$58,027	100.0%	R\$68,647	100.0%	R\$75,407	100.0%

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

- the Easy-Checking Account, a combination checking account and savings account in which, after the lapse of a pre-set period (the length of which is determined by regulation), deposited funds earn

interest at the same rate as our savings accounts, unlike our ordinary checking accounts, which earn no interest;

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

	December 31,		
	2003	2004	2005
Loans outstanding by product type:		(R\$ in million)	
Consumer credit operations	R\$11,365	R\$16,282	R\$26,137
Real estate financing	1,512	1,370	1,355
Loans from <i>Banco Nacional de Desenvolvimento Econômico e Social</i> (BNDES)	7,226	7,219	8,240
Other local corporate loans	13,930	16,124	20,450
Agricultural credit	4,404	6,034	6,369
Leasing	1,364	1,626	2,491
Credit Cards	1,373	1,289	1,830
Import and export financings	9,048	9,423	11,167
Other foreign loans	2,429	1,588	1,900
Other public sector loans	-	15	49
Total	52,651	60,970	79,988
Non-performing loans	2,144	2,206	2,701
Total	R\$54,795	R\$63,176	R\$82,689

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

	December 31,		
	2003	2004	2005
Borrower size:			
Largest borrower	1.5%	1.4%	1.1%
10 largest borrowers	10.1	8.9	7.0
20 largest borrowers	15.3	13.0	10.5
50 largest borrowers	24.4	20.7	16.8
100 largest borrowers	31.6%	26.4%	22.0%

Consumer Credit Operations

We provide a significant volume of personal loans to individual customers, which diminish the impact of any one loan on the performance of our portfolio and helps 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, and which have an average maturity of three months and on which interest accrues at an average rate of 5.52 % per month as of December 31, 2005;
- automobile financing loans, which have an average maturity of twelve months and on which interest accrues at an average rate of 3.0% per month as of December 31, 2005; and
- overdraft loans on checking accounts, which are, on average, repaid in one month and which carry interest rates varying from 4.58% to 8.23% per month as of December 31, 2005.

We also provide revolving credit facilities and traditional term loans. At December 31, 2005, we had outstanding advances, overdrafts, automobile financings, consumer loans and revolving credit loans in an aggregate amount of R\$26.1 billion, representing 31.6% of our credit portfolio as of that date. On the basis of loans outstanding at that date, we had a 17.6% share of the Brazilian consumer loan market, according to information published by the Central Bank.

Banco Finasa, our financing subsidiary, focuses on providing consumers with financing for the purchase of vehicles, other goods, leasing and personal loans. Banco Finasa's wholly owned subsidiary, Finasa Promotora de Vendas Ltda, is responsible for Banco Finasa's sale promotion. As of December 31, 2005, Finasa Promotora operates 239 branches throughout Brazil, as well as sales offices located in 17,949 vehicle stores and 22,490 stores that sell furniture, tourism services, auto parts, information technology programs, construction materials, clothing and shoes, among others. As of December 31, 2005, Finasa Promotora de Vendas had 4,029 employees, 74.0% of which directly focused on sales promotion.

Real Estate Financing

At December 31, 2005, we had 30,198 residential mortgage loans outstanding and 20.7% of all the units financed by the civil construction sector, according to information published by the Central Bank. On December 31, 2005, the aggregate outstanding amount of our residential mortgage loans amounted to R\$1.4 billion, representing 1.6% of our loan portfolio.

Our residential mortgage financings are made by either the *Sistema Financeiro Habitacional*, which we call the SFH, or the *Carteira Hipotecária Habitacional*, which we call the CHH. Loans from both portfolios are made at annual interest rates that vary between 12.0% to 18.0% plus TR.

Residential loans of SFH have stated maturities between five to eighteen years and the residential loans of CHH typically have maximum maturities of fifteen years and are subject to greater interest rates than the SFH loans.

Our construction loans granted to individuals have a stated maturity of up to twelve months and a repayment period lasting up to ten years. Payments are made on a floating rate basis of TR plus 12.0% per year for the SFH loans.

We also extend financing to corporate customers under the SFH. These loans, which are for construction purposes, typically have a maturity of up to twenty-four months and repayment begins within two years after the formal conclusion of construction. We make these loans on a floating-rate basis of TR plus 12.0% per year during the construction stage for SFH loans and TR plus 18.0% per year after construction has been completed for CHH loans.

Central Bank regulations require us to provide an amount of residential real estate financing equal to at least 65.0% of the balance of our savings accounts. Amounts that can be used to satisfy this requirement include, in addition to direct residential real estate loans, mortgage notes, charged-off residential real-estate loans, and other financings, all as specified in guidelines issued by the Central Bank. We generally do not finance more than 80.0% of the purchase price or the market value of a property, whichever is lower.

We currently hold 9.1% of the voting capital of *Companhia Brasileira de Securitização*, also known as CIBRASEC. CIBRASEC is a special purpose vehicle controlled by several Brazilian financial institutions that is engaged in the securitization of housing loans.

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. Under this program, we borrow funds from either (1) Banco Nacional de Desenvolvimento Econômico e Social, also known as BNDES, which is a Brazilian development bank wholly-owned by the federal government, or (2) *Agência Especial de Financiamento Industrial* FINAME, also known as 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. The on lending, whose risk is ours, is always secured. For further information on our BNDES loans, see note 14(a) to our consolidated financial statements.

According to BNDES, we are the biggest bank on-lender of BNDES loans, which we lend primarily to small corporate customers in the industrial sector. Our on-lending portfolio was R\$8.2 billion on December 31, 2005, representing 10.0% 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\$20.5 billion of outstanding corporate loans, accounting for approximately 24.7% of our credit portfolio at December 31, 2005. 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;
- revolving credit lines;
- discounting of trade receivables; and
- merchandise financing.

These lending products generally bear an interest rate of between 2.1% and 6.64% per month.

Agricultural Loans

We extend loans to the agricultural sector, which are financed by demand deposits, as well as by our own resources, in accordance with Central Bank regulations. At December 31, 2005, we had R\$6.4 billion in outstanding agricultural loans, representing 7.7% of our credit portfolio. In accordance with Central Bank regulations, we extend loans using funds from our compulsory deposits at a fixed rate, which was 8.75% per annum at December 31, 2005. The maturity of these loans generally matches agricultural cycles and the principal becomes due at the time the crop is sold. As security for such loans, we generally obtain a mortgage on the land where the activity being financed is conducted.

As with housing loans, Central Bank regulations establish an obligation to extend agricultural sector credits. Current Central Bank regulations require us to use at least 25.0% of our checking account deposits to provide rural credit. If we do not meet the 25.0% 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 persons and small companies, in accordance with Central Bank regulations requiring that banks direct a portion of their cash deposits to such credit transactions. We began extending such micro credits in August 2003. At December 31, 2005, we had 332,479 micro credit loans outstanding, totaling R\$86.7 million and representing 0.1% of our credit portfolio.

In accordance with Central Bank regulations, the micro credit loans have a maximum effective interest rate of 2.0% per month. The relevant regulations issued by *Conselho Monetário Nacional*, known as CMN, mandate that the maximum amount loaned to any borrower be limited to R\$580 for individuals and R\$1,430 for small companies.

Leasing Operations

According to ABEL *Associação Brasileira das Empresas de Leasing*, as of December 31, 2005, 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 the leasing portfolio. In addition, the aggregate discounted present value of the leasing portfolios of leasing companies in Brazil on December 31, 2005 was R\$21.9 billion, of which we had a market share of 11.5%.

On December 31, 2005, we held 54,607 outstanding leases with an aggregate value of R\$2.5 billion, representing 3.0% of our credit portfolio. The size of our leasing portfolio was R\$1.4 billion (under approximately 30,000 contracts) at December 31, 2003 and R\$1.6 billion (under approximately 28,000 contracts) at December 31, 2004.

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) leases, and our leasing operations primarily involve the leasing of cars, trucks, material handlers, aircraft and heavy machinery. In 2005, 62.1% of our outstanding leases were automobile leases, as compared to 77.4% for the Brazilian leasing market as a whole.

As of December 31, 2005, 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, 2005, Bradesco Leasing had R\$15.4 billion of debentures outstanding in the domestic market, which mature in 2025.

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 twenty-four months for transactions with respect to goods with an average life of five years or less, and thirty-six 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, 2005 the remaining average maturity of contracts in our lease portfolio was 35.4 months.

Through our leasing companies, we retain legal title to each asset until the final installment (including any agreed residual value) due under the lease is paid by the lessee. Our lease contracts are typically structured to spread payments on the agreed residual value through the life of the contract. We generally repossess the leased asset if a lessee is in default and require both a 30.0% down payment and maintenance by the lessee of full insurance on the leased asset.

Credit Cards

We issued Brazil's first credit cards in 1968, and as of December 31, 2005, we were one of Brazil's largest independent credit card issuers, with 10.2 million credit cards issued, equal to 13.1% of the approximately 66.3 million credit cards issued in Brazil, according to information published by Visa and Mastercard. We offer Visa and MasterCard credit cards to our existing customers as well as to potential clients. As of December 31, 2005, our credit cards were accepted in over twenty-four million commercial and service establishments in more than 150 countries.

We earn revenues from our credit card operations through:

- issuance fees and annual fees;
- processing fees;
- interest on credit card balances and advances;
- interest on cash advances through ATMs; and

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

We offer our customers several types of credit cards and related services, including:

- credit cards restricted to use within Brazil;
- credit cards accepted nationwide and internationally;
- credit cards directed toward high-net-worth customers, such as Gold , Platinum and Infinite Visa and Black MasterCard;
- cards which combine the features of a credit card (known as Visa Fácil) and a debit card (known as Visa Electron). Holders of these cards can use them to carry out traditional banking transactions as well as to purchase goods. These cards have lower credit limits;
- chip-embedded credit cards, which allow 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;
- Mini Bradesco Visa credit cards, which are 43.0% smaller than standard credit cards;
- Cred Mais credit cards for employees of our payroll processing clients, which have more attractive revolving credit fees;
- private label credit cards, which exclusively target retail clients in efforts to leverage the loyalty of our business and individual clients.
- 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;
- National Credit Card MT Foment Card (*Cartão de Crédito Nacional MT Fomento Card*), which has special credit card fees for Public Servants, retirees, pensioners and commissioners of the Government of the State of Mato Grosso;
- CPB - Bradesco Ticket Card , which is focused on the management and control of plane ticket expenses for corporations; and
- Casas Bahia Visa Credit Card , which allows the holder to pay for purchases made at Casas Bahia stores in up to twenty-four monthly installments, as well as the use of the card in all establishments that accept Visa credit cards.

As of December 31, 2005, we had more than seventy-seven partners with whom we offered co-branded, affinity and private label credit cards. These relationships have allowed us to integrate our relationships with our clients, allowing us to offer our credit card customers banking products and insurance services.

The following table sets forth a breakdown of credit cards we issued in Brazil by type of card at the dates indicated:

	December 31,					
	2003		2004		2005	
	Number of cards outstanding	% of total number	Number of cards outstanding	% of total number	Number of cards outstanding	% of total number
Visa	6,513,996	92.0%	7,056,789	92.6%	7,772,898	76.0%
MasterCard	475,645	7.0%	547,935	7.2%	896,751	9.0%
American Express	32,311	1.0%	-	-	-	-
Private Label	-	-	16,851	0.2%	1,534,739	15.0%
Total	7,021,952	100.0%	7,621,575	100.0%	10,204,388	100.0%

Our credit card billing totaled R\$14.0 billion during 2005, an increase of 22.2% over 2004.

Debit Cards

We began issuing debit cards in 1981 under the name Bradesco Instantâneo. In 1999, we began converting all our Bradesco Instantâneo debit cards into new cards called Bradesco Visa Electron 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 totaled R\$12.2 billion in 2005, a 29.8% increase from 2004, also due to the increase in the client base and the preference for this type of payment.

In 2005, Bradesco was one of the main companies responsible for the increase in the portfolio of Visa Vale, a company created by Bradesco, Banco do Brasil and ABN Amro Bank based on the Government's Workers' Food Plan (*Programa de Alimentação ao Trabalhador*, known as PAT). The portfolio of Visa Vale reached over one million debit cards by December 31, 2005, an increase of 35.6% over 2004. These cards are distributed by employers to certain employees to pay for food.

Receivables Payment and Human Resource Management Solutions

Receiving and Payment Solutions

In Brazil, the majority of consumers pay their bills in person at bank branches or at ATMs. 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 the transfer of resources and information.

These electronic solutions include: (a) the collection of payments from past-due bills, (b) providing on-line management of cash payments made at our branches, and (c) the electronic payment of taxes. In addition to these electronic solutions, we offer services to facilitate our clients' business development and provide tailor-made solutions for our clients' banking problems.

We also provide services to the public sector (including exclusive use of the Internet portal www.bradescopoderpublico.com.br), and have focused on making our branches readily accessible to federal, state, public service municipalities and concessionaires.

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. Our receipt processing services contribute to the productivity and results of our other businesses.

Charging (Cobrança)

In 2005, we processed 919.2 million payments, with a total aggregate amount of R\$921.9 billion and, in 2004, we processed 854.1 million charging transactions, with a total aggregate amount of R\$812.5 billion.

Collections (Arrecadações)

In 2004, we processed 248.1 million tax payments, utility bills and payments to the beneficiaries of the social security system, with a total aggregate amount of R\$140.8 billion. In 2005, we processed 271.8 million of such payments, with a total aggregate amount of R\$160.7 billion, including:

- R\$22.0 billion paid in 2005 for electricity, water, gas and telephone bills, out of which 29.5% was paid through automatic debit in checking and savings accounts; and
- R\$113.2 billion paid in 2005 as tax collection.

Check-Custody Services

As of December 31, 2005, we had 218,000 post-dated check -custody service accounts totaling R\$3.9 billion. 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. We offer our clients who use our check-custody service various alternatives, such as electronic data selection and available credit lines for fund advances. In 2004, we had 195,000 post-dated check-custody services accounts totaling R\$3.9 billion.

Suppliers and Taxes Payment

We offer our corporate clients electronic payment services, which allow them to make payments and financial transfers to their suppliers and creditors, as well as pay taxes and public utility bills online. As of December 31, 2005, more than 359,000 companies were using these services. In 2004, we processed over 111.1 million payments and transfers, totaling R\$401.5 billion. In 2005, we processed over 128.4 million payments and transfers, totaling R\$470.3 billion.

In 2005, R\$25.5 billion were paid to beneficiaries and pensioners of INSS, representing 18.3% of the total number of INSS beneficiaries in that year.

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, known as salary accounts, the salary card for employees who do not have accounts at Bradesco and the company card, for the payment of business trips and other company-related expenses. Once employees receive their salaries through this system, they may take advantage of various services, including overdraft protection and access to a broad ATM network. We earn revenues from these services through fees paid by our corporate clients.

Capital Markets and Investment Banking Services

Underwriting Services

We have been among the leaders in domestic debt and equity underwriting in Brazil for more than ten years, for both fixed income and variable income securities. In 2004, we participated in the issuance of notes of Braskem S.A. (R\$1.2 billion); Suzano Bahia Sul Papel e Celulose (R\$500.0 million); Telecomunicações de São Paulo S.A. - Telesp (R\$1.5 billion), Klabin S.A. (R\$314.0 million) and in the issuance of promissory notes by Empresa Brasileira de Telecomunicações S.A. - Embratel (R\$1.0 billion).

On December, 31, 2005, according to ANBID, we were ranked:

- first in originations of transactions, with R\$4.628 billion in operations with fixed income securities; and
- seventh in placement of securities, with a total of R\$126.9 million in equity transactions and R\$1.628 billion in fixed income operations.

During 2005, we coordinated R\$26.9 billion in equity and debt transactions, representing 46.2% of the issuances registered with the CVM. In 2004, we coordinated public issuances of equity and debt securities in the Brazilian market totaling R\$12.5 billion, corresponding to 59.5% of all transactions registered with the CVM.

In 2005, we coordinated the initial public offerings of Lojas Renner S.A. (R\$890.3 million); EDP - Energias do Brasil S.A. (R\$1.18 billion); OHL Brasil S.A. (R\$431.3 million); Cyrela Brazil Realty S.A. (R\$902.2 million) and Cosan S.A. Indústria e Comércio (R\$885.8 million). We have also participated in the issuance of notes by Braskem S.A. (R\$300.0 million); Camargo Corrêa Cimentos S.A. (R\$360.0 million); Companhia de Eletricidade da Bahia Coelba (R\$540.0 million) and Ultrapar Participações S.A. (R\$300.0 million).

Advisory Services

In 2005, we advised the following companies on structuring of credit receivables fund (*Fundos de Investimento em Direitos Creditórios*, known as FDIC), (i) Furnas Centrais Elétricas II, in the amount of R\$900.0 million, (ii) BGN Life Crédito Consignado (1st and 2nd series), in the amount of R\$400.0 million, (iii) CESP II, in the amount of R\$650.0 million, and (iv) Motorola Industrial, in the amount of R\$538.0 million.

We also coordinated several mergers and acquisitions transactions, such as the tender offer made by Cargill Agricola S.A. for the acquisition of the shares issued by Seara Alimentos S.A. and the acquisition of the share control of Águas Guariroba S.A.

Bradesco has also served as a financial advisor in project finance transactions for greenfield projects, such as the Enercan Project (October, 2001 - December, 2005), Furnas Centrais Eletricas in the Paulistas and Simplicio power generation plants (November - December, 2005) and Itumbiara Project (Since September, 2004).

In 2005, we served as financial advisors to (i) Ceará Steel Project, a Brazilian steelmaker whose shareholders are DongKuk Steel, Danieli and Companhia Vale do Rio Doce in connection with the structuring of the local funding for such project; (ii) Luziânia Consortium which is formed by Furnas Centrais Eletricas S.A., Schahin Engenharia, Queiroz Galvao, CEMIG and Orteng in order to assist them in the auction of certain transmission lines; and (iii) Furnas Centrais Eletricas S.A., in order to assist it in the bidding process for the development of the Simplicio and Paulista power generation projects, in which Furnas has been the winner. We are also providing financial advisory services to Campos Novos Energia Project, a hydroelectric power plant held by CPFL, Votorantim, CEEE and CELESC and to Itumbiara Project, a transmission line held by the Spanish companies of Elecnor, Isolux and Cobra.

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 provide market performance reports, portfolio advice and stock guides.

During 2005, Bradesco Corretora traded more than R\$18.1 billion on BOVESPA and, according to BOVESPA, was ranked twelfth in Brazil in terms of total trading volume.

In addition, during 2005, Bradesco Corretora traded approximately 3.9 million futures, swaps, options and other contracts, with a total value of R\$402.9 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 2005, Bradesco Corretora was ranked 20th in the Brazilian market, in terms of the number of options, futures and swaps contracts executed. In 2004, Bradesco Corretora traded 2.9 million of futures, swaps, options and other contracts, with a total amount of R\$315.8 billion on BM&F and, according to BM&F, was ranked 27th in the Brazilian market.

Bradesco Corretora has twenty one brokers covering retail investors and assisting our branch managers, eight brokers dedicated to Brazilian and foreign institutional investors and nine brokers dedicated to the BM&F. Bradesco Corretora has twelve traders on the floor of BM&F. 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 2005, trading through ShopInvest totaled R\$1.8 billion, corresponding, according to BOVESPA, to 2.3% of all transactions carried out through the Internet on BOVESPA and ranking Bradesco Corretora as the 8th largest Internet trader in the Brazilian market. In 2004, negotiations through ShopInvest totaled R\$1.4 billion, corresponding, according to BOVESPA, to 2.8% of all the transactions carried out through the Internet on BOVESPA, ranking Bradesco Corretora as the 5th largest

Internet trader in the Brazilian market. In 2005, Bradesco Corretora achieved the date protection and privacy seal GoodPriv@cy in the Home Broker product Protection Management of Data Transmitted through the Internet (ShopInvest), to enable the peddling of stock in the BOVESPA.

In July 2005, Bradesco Corretora made available to its clients the Direct Treasury Program, which enables the individual client to invest in Federal Public Securities through the Internet by only registering in Bradesco Corretora through its website.

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.

Administrative, Depositary and Custodial Services

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

As of December 31, 2005:

- Book-entry assets

- our system for registered shares had 164 companies, with a total of 2.4 million shareholders;
- our system for registered debentures had 42 companies with a total market value of R\$35.6 billion;
- our system for registered quotas had 26 investment funds with a market value of R\$1.5 billion; and
- we administered two BDR registered programs, with a market value of R\$127.6 million.

- Custody and Accounting

- our custodial services clients (funds, portfolios, receivables, DR and mutual funds) had total assets in custody of R\$179.3 billion;
- we act as custodian for 8 DR Programs registered, with market value of R\$42.1 billion; and
- R\$236.1 billion is the total net worth of the 658 investment funds and portfolios that used our controllership services.

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 Cayman Islands, a branch of Bradesco well as our subsidiary, Cidade Capital Markets Ltd., which we called Cidade Capital Markets ;
- in the Bahamas, a branch of Boavista;
- 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 ; and
- in Japan, Bradesco Services Co. Ltd., our subsidiary, which we call Bradesco Services Japan.

Our international operations are coordinated by our exchange department and supported by twelve operational units in Brazil, in addition to four additional support units and 3 foreign exchange platforms, located in Brazil's principal exporting and importing centers.

Revenues from Brazilian and Foreign Operations

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

	December 31,					
	2003		2004		2005	
	R\$ in million	%	R\$ in million	%	R\$ in million	%
Brazilian operations	R\$35,464	99.0%	R\$37,228	98.0%	R\$48,222	98.7%
Overseas operations	361	1.0	777	2.0	641	1.3%
Total	R\$35,825	100.0%	R\$38,005	100.0%	R\$48,863	100.0%

Foreign Branches and Subsidiaries

Our foreign branches and subsidiaries are principally engaged in sourcing funds in the international markets to provide us with credit lines to extend to our customers, who are generally 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\$14.4 billion as of December 31, 2005.

Our foreign branches periodically issue debt securities. In addition to short-term financing obtained from international banking institutions for foreign trade financing, our foreign branches, together with our head office in Brazil, raised US\$901.0 million during 2005, through public and private placements of medium-term and long-term securities. In 2005 there was a lower demand for loans indexed in foreign currency among Brazilian companies. Thus, in spite of the anxiety of the international capital markets for our securities, we did not access the market that much in 2005 compared to 2004, when we raised funds in the amount of US\$1.46 billion. The access to the international

capital markets, through the issuance of debt securities, diversifies our sources of foreign currency denominated funding. For most of 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, with an initial capitalization of R\$54.0 million. Bradesco Argentina's general purpose is to extend financing, largely to Brazilian companies established in Argentina and, to a lesser extent, to Argentinean companies doing business with Brazil. At December 31, 2005, its total assets were R\$49.4 million.

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 S.A., being Banco Bradesco Luxembourg S.A. the surviving entity. On December 31, 2005, the total assets of this subsidiary were R\$947.9 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, 2005, its total assets were R\$1.4 million.

Bradesco Securities U.S. Bradesco Securities U.S., our wholly owned subsidiary, is a broker dealer in the United States. Its 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, 2005, it had assets of R\$53.0 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, 2005, our subsidiary Cidade Capital Markets had R\$75.5 million in assets.

In 2005, BCN Cayman and Mercantil Cayman were merged into Bradesco Cayman and Boavista Banking Ltd. Nassau and Boavista Grand Cayman have been wind-up.

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 not begun to offer these services in the United States yet, and we can offer no assurances regarding when or whether we will offer such services, or that such operations will be profitable.

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 the exporters, attached to the receipt of a local currency payment by 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 n 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 pre-payment of exports, BNDES-EXIM on lending, and advance discounts.

Our foreign trade portfolio is funded primarily by credit lines with correspondent banks. 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 correspondent banks abroad, 93 of which granted funding facilities to us at the end of 2005.

By December 31, 2005, the costs associated with the financing of exports had reached their lowest levels in recent years, fifteen basis points above LIBOR for the period of 180 days and twenty-five basis points above LIBOR for 360 days. In comparison to 2004, there was a reduction of approximately eighteen base points, demonstrating a substantial improvement in the international market s perception of Brazilian risk.

In addition to traditional credit lines from banks, we had a Commercial Paper program in the United States in the amount of US\$300.0 million, which was liquidated in June 2005.

At December 31, 2005, the balance of our export financing transactions was R\$10.1 billion and the balance of our import financing transactions was R\$1.1 billion. The volume of our foreign exchange contracts for exports reached US\$25.6 billion, a 27.8% increase over 2004. Based on Central Bank information, during 2005, we had a market share for foreign exchange contracts for exports of 20.2% . During 2005, the volume of our foreign exchange contracts for imports reached US\$10.3 billion, a 38.9% increase over 2004. In addition, our market share for foreign exchange contracts for import was 14.5%, based on Central Bank information.

The following table sets forth the composition of our foreign trade portfolio at December 31, 2005:

	December 31, 2005
	(R\$ in million)
Export Financing	
Advances on Exchange Contracts (ACCs)	R\$4,146
Advances on Export Contracts (ACEs)	1,245
Pre-payment of exports	3,202
On-lending of funds via BNDES/EXIM	1,255
Other	219
Total Export Financing	R\$10,067
Import Financing	
Foreign-exchange-denominated import financings	686
Withdrawal discounted from import	414

Total Import Financing	1,100
Total Foreign Trade Portfolio	R\$11,167

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;
- collecting import receivables;
- cashing checks that are denominated in foreign currency; and
- structuring transactions such as receivables securitizations.

Private Banking Services

Bradesco Private Banking offers its high net worth individual clients (those who have liquid assets in excess of R\$1.0 million), an exclusive range of products and services, including assistance in asset allocation, fiscal 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; and
- insurance companies, including assets guaranteeing the technical reserves of Bradesco Seguros.

At December 31, 2005, we had R\$121.2 billion of assets under management, representing (15.0% of Brazilian market share), R\$111.8 billion of which managed by Bradesco Asset Management and R\$9.4 billion in third party funds related to the management, custodial and accounting services of BEM DTVM.

At December 31, 2005, we offered 516 funds and 110 portfolios over 3.4 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, the number of customers and the number of funds and customer portfolios as of the dates indicated:

	Distribution of Assets⁽¹⁾		
	2003	December 31, 2004	2005
	(R\$ in million)		
Mutual Funds:			
Fixed income	R\$69,784	R\$83,441	R\$104,183
Variable income	2,710	2,812	3,357
Third party share funds	1,294	5,067	5,103
Total	R\$73,788	R\$91,320	R\$112,643
Managed Customer Portfolios			
Fixed income	6,728	5,922	6,340
Variable income	2,305	2,321	1,822
Third party share funds	196	77	377
Total	R\$9,229	R\$8,320	R\$8,539
Total	R\$83,017	R\$99,640	R\$121,182

(1) Calculated in accordance with the criteria used for ANBID Third Party Asset Management Global Banking, which eliminates the effects of double counting.

	As of December 31,					
	2003		2004		2005	
	Amount	Quota holders	Amount	Quota holders	Amount	Quota holders
Mutual Funds	505	2,758,298	507	2,683,514	516	3,392,016
Portfolio	126	415	105	371	110	390
Total	631	2,758,713	612	2,683,885	626	3,392,406

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 consortia 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 Consorcios 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, 2005, Bradesco Consórcios registered total sales of over 220,400 quotas, with a total billed amount of approximately R\$6.3 billion and a net profit income of R\$73.2 million. Bradesco Consórcios acts as the administrator for the consortia, which are formed to purchase real estate and vehicles.

Insurance, Pension Plans and Certificated Savings Plans

The diagram below shows the principal elements of our insurance, pension plans and certificated savings plans segment as of December 31, 2005:

The following table sets forth selected financial data for our insurance, pension plans and certificated savings plans segment for the periods indicated:

	As of and for the year ended December 31,		
	2003	2004	2005
	(R\$ in million)		
Income statement data			
Net interest income ⁽¹⁾	R\$4,959	R\$4,937	R\$5,938
Non-interest income ⁽¹⁾	7,020	7,794	9,374
Non-interest expense	(10,949)	(12,201)	(12,428)
Income before taxes and minority interest ⁽¹⁾	1,030	530	2,884
Tax on income	(364)	(138)	(858)
Income before minority interest ⁽¹⁾	666	392	2,026
Minority interest	(2)	(4)	(9)
Net Income⁽¹⁾	R\$664	R\$388	R\$2,017
Balance sheet data			
Total assets	R\$32,441	R\$40,840	R\$49,670
Selected results of operations data			
Insurance premiums:			
Premiums of life insurance and personal accidents	1,502	1,615	1,787
Health insurance premiums	2,649	3,036	3,518
Automobile, property and casualty insurance premiums	1,998	2,113	2,500
Total	R\$6,149	R\$6,764	R\$7,805
Pension plan income	64	374	377
Interest income from insurance, pension plans, certificated savings plans and pension investment contracts	4,959	4,937	5,938
Changes in technical provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(3,777)	(4,326)	(3,939)
Insurance claims	(4,333)	(4,822)	(5,501)
Pension plan operating expenses	R\$(637)	R\$(751)	R\$(505)

(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 in Brazil in 2005 based on total revenues and technical provisions, according to information published by SUSEP and ANS. Grupo Bradesco de Seguros e Previdência provides a wide range of insurance products to companies and individuals in Brazil. It offers insurance products both on an individual basis and to corporate clients for the purpose of insuring their employees. Its products include health, life, accident, automobile and property and casualty insurance.

Health Insurance

Health insurance insures policyholders for medical expenses. We offer our private health assistance plans through our subsidiary Bradesco Saúde S.A., which we call Bradesco Saúde. At December 31, 2005, Bradesco Saúde had 2.5 million health insurance policyholders and dental plan holders, including both holders who obtained their insurance through their corporate employers and holders who obtained it on an individual basis. Almost 12,000 companies in Brazil have health insurance policies underwritten by Bradesco Saúde, including thirty-one of the country's 100 largest companies.

Bradesco Saúde currently has one of the largest health insurance networks in Brazil. As of December 31, 2005, it included approximately 9,000 laboratories, 9,000 specialized clinics, 14,000 physicians, 3,000 hospitals, 1,000 dental clinics and, 5,500 dentists located throughout the country.

Life Insurance

Bradesco Seguros offers its term life insurance through its subsidiary Bradesco Vida e Previdência, which had, at December 31, 2005, 8.4 million life insurance policyholders.

Automobiles, Property and Liability

We provide automobile, property, shipping, maritime, aviation and liability insurance through our subsidiary Bradesco Auto/RE Companhia de Seguros, which we call Bradesco Auto/RE. Our automobile insurance covers policyholders' losses resulting from vehicle theft, damage to vehicles, personal injury and injury to third parties. Our property and casualty insurance is geared towards (i) individuals, particularly those with residential and/or equipment related risks and (ii) with small and medium sized companies.

We focus on offering our individual customers products with a medium to low premium, but high profitability. For large business groups, Bradesco Auto/RE offers a highly specialized insurance product in accordance with the needs of each business group, including coverage for named, operational, engineering, liability and petroleum-related risks.

At December 31, 2005, Bradesco Auto/Re had 1.2 million automobile and 896,000 property and casualty insurance policyholders. Bradesco Auto/Re insures over one hundred of the largest companies in the country.

Sales of Insurance Products

We sell our insurance products through exclusive brokers in our branch network, as well as through other, non-exclusive brokers throughout Brazil. Bradesco Seguros pays the brokers' fees on a commission basis. At December 31, 2005, 31,455 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 costs of medical care, as well as the frequency of claims drive pricing for individual health insurance policies in Brazil. The same factors affect the pricing of group health insurance, although pricing varies depending on the number of insured individuals and the particular geographic region, in accordance with actuarial analysis.

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 policies.

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 reflect the value of the insured automobile and, consequently, the premium levels partially reflect the sales volume of new automobiles. The number of insured automobiles increased 8.0% in 2005 compared to 2004.

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. Individual insurance policies take into account a respective individual's risk factors, which are evaluated, in part, by guidelines published by the IRB.

Reinsurance

Brazilian regulations set retention limits on the amount of risks insurance companies may underwrite. According to such regulations, Grupo Bradesco de Seguros e Previdência reinsures with the IRB all the risks it underwrites whose insured amounts exceed the retention limits or risks that by technical-actuarial decision, the reinsurance is recommended in order to minimize the risks of our portfolio. In addition, when Grupo Bradesco de Seguros e Previdência reinsures risks with IRB, it may assist IRB in entering into reinsurance agreements with the international reinsurers in connection with those risks.

In 2005, Grupo Bradesco de Seguros e Previdência reinsured approximately R\$549.0 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.

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 National Association of Private Pension Plans, known as ANAPP.

Bradesco Vida e Previdência offers and manages a range of individual plans, and groups of pension plans. Our largest individual plans in terms of equity are of the defined contribution type, including the *Vida Gerador de Benefícios Livres*, which is known as VGBL, the *Plano Gerador de Benefícios Livres*, which is known as PGBL and *Fundos de Aposentadoria Individual*, which is known as FAPI. FAPIs are normal investment mutual funds but are not subject to withholding tax. VGBLs and PGBLs are pension plans and are also exempt from withholding taxes on income generated by the fund portfolio. Participants in these types of funds are taxed upon redemption of their shares, or reception of benefits.

During the first quarter of 2002, Bradesco Vida e Previdência began selling *Vida Gerador de Benefícios Livres*, which we refer to as VGBL, a pension investment contract that allows holders to redeem accrued policy value monthly over time or in one lump sum after a date chosen by the participant. As of December 31, 2005, Bradesco Vida e Previdência accounted for 44.8% of VGBL and 27.6% of PGBL sales in Brazil, according to ANAPP.

In 2005, Bradesco Vida e Previdência accounted for 37.5% of the supplementary pension plan market and VGBL market based on contributions, and 43.9% of assets under management, according to ANAPP.

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 25.1% over the past five years, in large part due to increased sales of our services through our branch network.

We manage pension plans and VGBL covering more than 1.6 million participants, 76.9% of whom are members of individual plans, and the remainder of whom are individual members of corporate plans. Corporate plans account for 31.4% of our technical reserves.

Under VGBL, PGBL and FAPI plans, participants are allowed to make contributions either in installments or in lump-sum payments. Participants in pension plans may deduct the amounts contributed to PGBL and FAPI 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, PGBL and FAPI plans for the benefit of their employees. As of December 31, 2005, Bradesco Vida e Previdência managed R\$13.529 billion in VGBL, R\$6.614 billion in PGBL plans and R\$329.0 million in FAPI 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 6.0% 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 by charging:

- monthly service fees based on (i) in the case of funds that guarantee a minimum return, a percentage of the contributions to the plan and the retention of any return on the invested amount in excess of the inflation rate plus 6.0% per annum and (ii) in the case of plans that do not guarantee a minimum return, a percentage of the contributions to the plan and the management fee or part of the fee; and
- from death-benefit plans, fees based on the estimated positive difference between the plan's claim experience and the actuarial hypotheses on which contributions are calculated.

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 has a nominal value from R\$7 to R\$1,000 and earns interest at a rate of TR plus 0.5% per month over the nominal value. From time to time, we have drawings at which some holders of the certificated savings plans win cash prizes of up to R\$2.0 million. The certificated savings plans are redeemable by the holder after twelve months. As of December 31, 2005, we had more than 4.5 million traditional certificated savings plans and more than 8.2 million assignment of raffle right certificated savings plans, in view that the purpose of assignment of raffle right certificated savings plans is to add value to the product of the partner company or even incentive 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, 2005, Bradesco Capitalização had issued more than 12.7 million of certificated savings plans, which are held by approximately 2.5 million clients.

Bradesco Capitalização was the first private certificated savings plan company in the country to receive the NBR ISO 9002 Certification, granted by Fundação Vanzolini. In December 2002, we had the above-mentioned certification updated to NBR ISO 9001:2000 Certification regarding our certificated savings plans management and on December 1, 2005 we received once again the certification of the quality system, based on the quality of our internal and management processes. Bradesco Capitalização was the first company in the sector to receive a brAA national rating from Standard & Poor's. Its current rating is brAA+.

Treasury Activities

We have a single treasury for all of our and our subsidiaries activities. Our treasury enters into transactions, including derivative transactions, mainly for hedging purposes (called the macro hedge). It enters 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 2005, as a result of a series of mergers, we closed eighty-three of our 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 2005 we established an additional 150 banking service posts on the premises of selected corporate clients and 239 banking service posts in 2004, reaching a total of 2,451 banking service posts as of December 31, 2005. 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, 2005, see Item 4. Information on the Company The Company Banking Activity International Banking.

We also offer banking services in 5,461 Brazilian post offices and through our correspondent banking offices. For further information about this project, see History Acquisitions in 2003 and 2004 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 16 million clients carrying out millions of daily transactions at our 2,600 branches and 2,400 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\$180.0 million per year. We currently have 130 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, we offer international partnership opportunities through UFJ-Japan, BBVA-Spain and BES-Portugal.

We were the first Brazilian bank to carry out an operational agreement through a strategic alliance with UFJ Bank, enabling approximately 300,000 Brazilian residents in Japan to access our banking services from abroad.

Bradesco Corporate also focuses on the management needs of specific clients:

- *Asian Desk* - We offer Asian clients in Brazil financial solutions in connection with their investments in Japan and the rest of Asia; and
- *Euro Desk* - We assist large clients in Spain and in Brazil by exploring synergies for businesses operating in Europe, United States and Latin America.

Bradesco Companies

Bradesco Companies was created in 2002 and is focused on a corporate clientele, with annual revenues of R\$15.0 million to R\$180.0 million, through 66 exclusive branches throughout Brazil.

Bradesco Companies strives to offer excellent business management with respect to loans, investments, foreign commerce, derivatives, cash management and structured transactions.

The Bradesco Companies team has 370 relationship managers, who are in the Certification Program of ANBID, who focus on an average of thirty economic groups each, representing 20,395 companies in various industries.

Bradesco Private Banking

Bradesco Private Banking, currently certified by ISO 9001:2000 as well as by Good Privacy (Data Protection 2002 Edition) granted by International Quality Network, was created to manage our relationship with high net wealth to value their assets, by maximizing results. Therefore, we look for the most appropriate financial solution for each client profile in a personalized concept providing asset allocation assessment, fiscal, tax and estate planning.

Bradesco Prime

Bradesco Prime was created to provide traditional and specialized products and services to individuals with monthly incomes of at least R\$4,000 or investments worth at least R\$50,000.

Bradesco Prime's customers are provided with:

- exclusive facilities specifically designed to provide them with a high degree of comfort and privacy;
- personalized services provided by the relationship managers who manage a small number of portfolios, giving special attention to each client; and
- large range of products and services, such as, Bradesco Prime Checking Account, which is a fidelity program that offers increasing benefits to the clients and promotes the relationship between the clients and Bradesco through the offer of such benefits; the chat on-line, which is a real time financial advisor, besides several investment funds specifically designed for Bradesco Prime clients.

Bradesco Prime has the largest exclusive network for the high net worth individuals, with 195 exclusive branches throughout Brazil, for a customer base of 268,068 individual clients.

We make available to all of Bradesco Prime's clients independent and exclusive internet banking and call center tools, besides the possibility to use Bradesco's branches and ATM machines throughout Brazil.

Some Bradesco Prime branches offer unique services, such as:

- *Agência Prime Digital*, which focuses on client customer service through call centers with expanded schedules (from 8:00 AM to 8:00 PM, 7 days per week, including holidays); and
- *Agência Prime Cidade de Deus*, the first wireless branch in Latin America, whereby managers, through the use of wireless technology, are able to offer our clients financial services at their place of business.

Our relationship managers are professionals constantly working to meet the financial needs of our clients. All of our Bradesco Prime relationship managers are enrolled in ANBID's certification program.

Branch System

The principal distribution channel for our banking services is our branch network. In addition to offering retail banking services, the 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.

Bradesco Corretora and Bradesco Consórcios also market brokerage, trading and consortium services through our branches. Bradesco Vida e Previdência sells its products on a commission basis through 7,827 independent agents nationwide, most of whom are based in our facilities.

We sell our insurance products and pension plans through exclusive brokers based in our network of bank branches, non-exclusive brokers throughout Brazil, all of whom are compensated on a commission basis. We also sell through our website. At December 31, 2005, 31,455 brokers offered our insurance policies to the public. Our certificated savings plans are offered through our branches, the Internet, customer services and external distribution channels.

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

	2003	2004	2005
	(% of total sales, per product)		
Insurance products			
Sales through the branches	37.4%	38.5%	34.9%
Sales outside the branches	62.6	61.5	65.1
Pension plans products			
Sales through the branches	72.1	85.4	83.1
Sales outside the branches	27.9	14.6	16.9
Leasing products			
Sales through the branches	96.6	91.2	78.1
Sales outside the branches	3.4	8.8	21.9
Certificated savings plans			
Sales through the branches	89.8	89.7	90.0
Sales outside the branches	10.2%	10.3%	10.0%

Data processing

We have two data processing centers, with twenty-one large-scale computers and 1,099 medium scale computers. All of our branches and ATMs have telecommunications services capable of exchanging data with any one of the two data processing centers.

Assistance channels (Internet and Telephone Access)

Our clients may access their monthly statements as well as consult their transaction records through a variety of electronic or telephone methods ATMs, *Fone Fácil* and the Internet.

ATM

Our ATM network is distributed in strategic locations throughout the country and consists of 23,036 ATMs (including 21,445 ATMs which operate during the weekends and holidays), which handle an average of 5.4 million on-line and real time transactions per day. In 2005, we installed 2,423 new ATM machines and replaced 1,663

machines by new ones with technology updated.

As of December 2005, we made available to our clients access to Banco24Horas (24-hour bank) Network, which holds 2,748 ATM machines throughout Brazil, for withdrawing transactions, balance and statement consultation.

Internet Services

We offer our clients 612 different services through our website (351 services for individuals and 261 for corporations). During 2005, we reached 6.943 million clients recorded and registered 594.122 million banking transactions through our Internet banking services.

Bradesco ShopInvest enables investment on Stock Exchanges with online quotations, investments, redemptions, calculation simulations, acquisition of certificated savings plans, private pension plans and it also provides information to follow-up the financial market. As of December 31, 2005, we had 1.1 million registered users on ShopInvest and carried out approximately 1.2 million of transactions valued at a total amount of R\$5.8 billion. ShopInvest offers investors the opportunity to invest in twenty-two asset management funds

ShopCredit allows individuals and corporate entities to fund lines of credit and financing. In 2005, ShopCredit registered approximately 16 million transactions valued at R\$338.7 million.

Bradesco Net Empresa, a website for corporate entities, enables the client to make 261 high security banking transactions by means of digital certification and electronic signature. It optimizes the financial management of the company's financial businesses and clients may operate checking and savings accounts, provide for payments, collections, file transfer, among other transactions. As of December 31, 2005, we had registered 361,569 participating companies and 31.3 million transactions were carried out over by Bradesco Net Empresa.

Telephone Service

Fone Fácil Bradesco offers banking information, products and services by phone with convenience, agility and security to all Brazilian states. Fone Facil Bradesco operates 24 hours a day, 7 days per week, including holidays. In 2005, we responded to 273.9 million calls, which have generated over 405.2 million transactions valued at R\$6.4 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.

Risk Management

Risk Management Area

Our risk management area is fully independent from our management and is responsible for assuring control over and monitoring of market risks, including credit and operational risks. Our risk management area monitors the procedures we have put in place to prevent money laundering.

It also coordinates the actions required to be taken by us to fulfill the regulations issued by the Brazilian Central Bank, regarding the new capital accord (Basel II) and Section 404 of the Sarbanes-Oxley Act.

Market Risk Management

Market risk is related to the possibility of the loss of income from fluctuating rates caused by mis-matched 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 adopted a conservative policy regarding market risk exposure: Risk limits, what we deem Value at Risk are defined by senior management, and compliance is monitored daily by an area, which is independent from portfolio management. The Value at Risk methodology has an accuracy level of 97.5% and is based upon statistical and economic studies conducted by us which we validate daily using back testing techniques

In addition, we perform a daily sensitivity analysis of positions, which measure the effect of the movement of Brazilian interest rates and foreign exchange coupon curves (interest spread paid above the foreign exchange variation) and the exchange rate on our portfolio.

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

Credit Risk Management

As part of our credit risk management enhancement process, we are working to improve the procedures for gathering and controlling portfolio information, developing new loss estimation models, enhancing and preparing the rating inventories used in the different sectors in which we operate, overseeing credit analysis, granting and settlement processes, monitoring credit concentration and identifying new components offering credit risks and preparing risks mitigation strategies.

We have focused our efforts on the utilization of advanced credit risk models that are used to assess the risks in all the components of the credit process. The credit risk models that we have adopted are in line with the best international practices.

We highlight the following actions and events:

- the Executive Committee of Credit Risk monthly holds a meeting with our management to discuss some of the major facts and decisions referring to credit risk;

- incentives to improve risk-rating models of clients within particular characteristics in the business segments the Bank operate;
- participation in the evaluation of credit risks upon review of products;
- the implementation of the system used to calculate projected and unexpected losses, in addition to the allocation of the corresponding capital;
- a periodical review of projects related to the compliance with best practices and requirements of BIS New Capital Accord, by monitoring actions in progress and identifying new gaps and needs emerged for the improvement of management process, preparing action plans;
- the back testing of models used to assess credit portfolio risks;
- the optimization of the management information systems, designed to meet the requirements of the present customers and department s segmentation approach, with an emphasis on decision making and credit portfolio management;
- 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; and
- continuously revising and restructuring our internal processes, embracing roles and responsibilities capacity building, review of organizational structures and information technology demands.

Operational Risk Management

Operational risks are those events which affect our clients or our business operations and which occur as a result of the business interruption, system failure, error, omission, fraud or any other external event.

We manage operational risks based on methodologies designed to allow, among other benefits, a decrease in unsubscribed regulatory capital and potential operational loss events. Such methodologies are aligned with the best practices in the market in operational risk management. Our risk management policies meet the guidelines enacted by the BIS New Capital Accord and the schedule set forth by the Brazilian Central Bank, by means of Notice 12,746, issued in December 2004.

Our goal is to obtain a qualification from the Advanced Measurement Approach (AMA), which is a structure that enables a better understanding of an institution s risk.

In addition, a new systemic corporate platform is currently being evaluated by us. This platform will integrate, in a single database, the Operational Risk and Internal Controls Information (quantitative and qualitative portion of risk), and will meet the requirements set forth by the U.S. Sarbanes-Oxley Act.

Management of Internal Controls and Compliance

We are continuously developing policies, systems and internal controls 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 controls adopted. 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. We are currently adjusting these policies in order to comply with Section 404 of Sarbanes-Oxley Act.

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 Audit Committee 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 - COSO and in the twenty-five Internal Control Principles defined by the Basel Committee. This system reinforces the ongoing improvement in the identification process and assessment of controls used to mitigate risks and has assisted our compliance with regulatory requirements including Section 404 of the Sarbanes-Oxley Act;
- our compliance agents are responsible for the execution of identification activities, classification, evaluation and monitoring of risks and controls, as well as for the elaboration of tests of adherence and plans of action, in accordance with the standards established by the Internal Controls Area.
- implementation of SPB (Brazilian Payment System) management guarantees the efficiency of the system, which transmits electronic message among our banks and other participating institutions. In addition, we have an SPB Systemic Contingency Plan developed to ensure that system failures are kept to a minimum;
- the TED (Online Cash Transfers) validation system is designed to reduce operating risks generated by the unauthorized transfer of funds from the Bradesco Group, providing a greater level of security and reliability in transactions;
- measures to prevent and combat money laundering in conformity with best corporate governance practices and which are based on the policy *Know your Client*. Training and awareness programs are provided to all employees. We are also constantly improving the technology to monitor financial movement in order to prevent our company from becoming involved in transactions which could be, directly or indirectly, related to crimes preceding money laundering, defined in Law 9,613/98; and
- implementation of Information Security Management, represented by a series of measures comprised mainly of controls and a security policy designed to protect customer and corporate information. We have a formal structure, with specific objectives and responsibilities, for defining, maintaining and improving information security in the corporate environment.

Credit

Our credit policy is focused on:

- ensuring the safety, quality and liquidity levels of our assets;
- maintaining flexibility and profitability in our credit operations; 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, companies and economic groups that demonstrate credit worthiness and ability to pay their obligations and, care is taken to ensure that the underlying guarantees are sufficient to support the obligations. In evaluating loans, we consider the reasons, the value and term 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 as for individuals as for legal entities ranging from the branches 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 ninety 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 loan to the Credit Collection Department.

Our credit policy is not static: as part of our risk management process, we continue to refine our credit procedures, including our procedures for collecting data on borrowers, for calculating potential losses and for evaluating applicable ratings. In addition, we are evaluating our institutional credit risk management in the light of the expected recommendations of the new Basel Accord, including:

- restructuring our methodology for calculating expected losses;

- identifying and implementing changes in our processes of disclosure to improve our management of our loan portfolio;
- creating our structure for information management; and
- evaluating the organizational structure of our evaluation practices, including a review of the demands on our technology, and discussing any issues found.

Consumer Credit Operations

Depending on the security required, loans to individuals of up to R\$50,000 are approved at the branch level. If the loan or credit support are not within the limits established for approval at the branch level, the approval of the loan is submitted to the credit department or, if necessary, to a higher level of authority. The following table sets out the limits within which branch managers may approve loans to individuals, depending on the amount and the type of credit support offered:

Decision-making authority	Range of loan approval authority	
	Loan with no real guarantee	Loan with real guarantee
	(R\$ in thousand)	
Manager of very small branch ⁽¹⁾	R\$0 to 5	R\$0 to 10
Manager of small branch ⁽²⁾	0 to 10	0 to 20
Manager of average branch ⁽³⁾	0 to 15	0 to 30
Manager of large branch ⁽⁴⁾	R\$0 to 20	R\$0 to 50

(1) Branch with total deposits up to R\$1,999,999.

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

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

(4) Branch with total deposits 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 into our decision-making process while maintaining consistent credit risk standards.

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:

Decision-making authority	Amount of loan	
	Minimum	Maximum
	(R\$ in thousand)	

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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\$35,001	

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 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:

Range of loan approval authority

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

(1) Branch with total deposits up to R\$1,999,999.

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

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

(4) Branch with total deposits above R\$15,000,000.

(5) Branch with exclusive middle market companies.

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

	Amount of loan	
	Minimum	Maximum
Decision-making authority	(R\$ in thousand)	
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\$35,001	

In order to authorize a corporate loan, the branch manager, the credit department and the Executive Credit Committee consider five primary factors:

- financial and economic data of the client, assessing the capacity of generating cash, level of indebtedness, cash flow, liquidity, profitability and quality of assets;

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- our evaluation of the trends and prospects of the sector in which it operates based on the macroeconomic context;
- our economic and financial projections of the company's capacity (net income and cash generation) to meet future obligations, based on our research and visits to the company;
- an analysis of company data, based on criteria analogous to those we use for evaluating loans to individuals; and

- qualitative information, regarding the management and marketing aspects of the borrower.

Data Processing Systems

Our principal computer facilities are located in our two operations centers in Osasco and Alphaville (Barueri), in the state of São Paulo. To ensure the continuity of our operations in case of power outages, our operations centers in Osasco and Alphaville each have sufficient energy capacity to operate independently for seventy-two hours. If we have sufficient access to fuel, we have the capacity to provide ourselves with electricity indefinitely.

Funding

Deposit-taking Activities

Our principal source of funding is deposits from Brazilian individuals and businesses. At December 31, 2005, our total deposits were R\$75.4 billion, representing 40.5% 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:

	December 31,			% of total deposits
	2003	2004	2005	2005
	(R\$ in million, except %)			
From customers				
Demand deposits	R\$12,912	R\$15,384	R\$16,223	21.5%
Savings deposits	22,140	24,783	26,201	34.7
Time deposits	22,944	28,460	32,837	43.6
From financial institutions	31	20	146	0.2
Total	R\$58,027	R\$68,647	R\$75,407	100.0%

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

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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 in excess of 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 0.5% per month, after funds have been left on deposit for at least one calendar month by individuals and not-for-profit entities and ninety days by 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, mortgage notes, letters of credit and securities issued by us are guaranteed, by the Credit Guarantee Fund, known as FGC, up to R\$20,000 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 fixed or a floating rate for one day or longer terms.

Other Funding Sources

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

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

	December 31,		
	2003	2004	2005
	(R\$ in million)		
Funding Sources:			
Import/export financing	R\$6,034	R\$5,340	R\$4,405
Internal funds onlending	7,556	8,357	9,429
Leasing obligations	449	333	368
Capital markets:			
Domestic	27,490	16,532	22,886
Euronotes	3,290	1,619	1,503
Mortgage-backed securities	1,017	674	827
Subordinated notes	4,995	5,973	6,719
Debentures (non-convertible)	-	-	2,625
Securitization of credit card receivables	2,599	2,655	1,776
Commercial paper	1,761	2,920	2,661
Other	187	54	69
Total	R\$55,378	R\$44,457	R\$53,268

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 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, 2005, we owned 808 properties and leased 2,288 properties from third parties throughout Brazil, and five 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 Brazil. The majority of our lease property is leased under renewable contracts with terms of an average of twelve 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, 2005, there were 138 multiple-service banks providing a full range of commercial banking activities, consumer finance, investment banking and other services, 22 commercial banks, 20 investment banks and numerous brokerage firms, leasing, savings and loan and other financial institutions in Brazil. For further information of the risks related to competition, see Item 3. Key Information Risk Factors Risks relating to Bradesco 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, 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 four banks: us, Banco Itaú S.A., also known as Banco Itaú, Banco Santander S.A., also known as Banco Santander, and Unibanco, 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, Unibanco and Banco Santander. 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 April 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, BankBoston, ABN AMRO and Hong Kong and Shanghai Banking Corporation, known as HSBC, are currently operating in Brazil. Other foreign banks could enter into 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 banking division.

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 66.3 million Visa and Mastercard credit cards issued as of December 31, 2005. Our primary competitors are Credicard, Banco do Brasil, Banco Itaú 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 (such as HP and IBM) and large banks (such as Banco Itaú, Banco Safra, ABN AMRO and Banco do Brasil). We currently enjoy certain competitive advantages, as we have the largest branch network among our private sector competitors. In addition, our size allows us to fund our leasing activities at more favorable rates, leading to lower interest rate charges for our customers.

Asset Management

The Brazilian asset management industry has grown significantly in recent years. In 2005, investment funds grew 20.0%, as compared to the previous year, mainly as a result of the significant amount of funds drawn by the Fixed Income and DI Referenced Funds that profited from the country's high interest rates and the development of the FIDC industry that became an excellent funding instrument for companies. There has been an improvement in the regulations governing investment funds as a result of CVM Instruction 409, whose purpose is to increase transparency and information released to the investors. A highlight for the Long/Short, PIBB, Dividends and Small Caps 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 faces increased competition from a number of Brazilian and multinational corporations in all of its insurance operations.

As of December 31, 2005, our primary competitors were Sul América Cia. Nacional Seguros, Itaú Seguros S.A., Unibanco AIG Seguros S.A., Porto Seguro Cia. de Seguros Gerais, Tokio Marine e Mapfre Seguradora S.A, which represent in the aggregate approximately 44.7% of the total premiums generated in the market, pursuant to information from SUSEP and ANS. 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 March 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 43.9% of assets under management in the sector as of December 2005, according to ANAPP.

We believe that the Bradesco brand name, together with our extensive branch network, our pioneer strategy 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, 2005, Bradesco Capitalização was second in the industry ranking with 20.5% of the market on technical revenues and 20.3% in technical provisions, according to SUSEP.

Our primary competitors in the certificated savings plans sector are Brasilcap Capitalização S.A., Itaú Capitalização S.A., Icatu Hartford Capitalização S.A, Caixa 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, 2005, 14 public sector commercial and multiple-service banks controlled by federal and state governments and 146 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 eight years several public sector multiple-service banks have been privatized and acquired by Brazilian and foreign financial groups.

The primary government-controlled banks include:

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

Private Sector Financial Institutions

As of December 31, 2005, the Brazilian financial private sector included:

- 146 commercial and multiple-service banks providing 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;
- 20 investment banks engaged primarily in specialized credit operations and securities underwriting and trading; and
- 50 consumer credit companies, 134 securities dealerships, 178 brokerage companies, 45 leasing companies, 5,794 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 National Monetary Council.

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 charged with:

- 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.

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 related economic activities on a daily basis.

The CVM

The CVM, the Brazilian Securities Commission, is responsible for regulating the Brazilian securities markets in accordance with the securities and exchange policies established by the 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 Regulation of Asset Management.

Bank Regulations***Principal Limitations and Restrictions on Activities of Financial Institutions***

Under the Banking Reform Law, 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 ratio of capital to risk-weighted assets of a minimum of 8.0%. At least half of total capital must consist of Tier I capital. Tier I, or core, capital includes equity capital less certain intangibles. Tier II capital includes asset revaluation reserves, general 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 Central Bank differ from the Basel Accord in a few respects. Among other differences, the Central Bank:

- (a) requires minimum capital of 11.0% of risk-weighted assets;
- (b) does not permit contingency reserves to be considered as capital;
- (c) imposes a deduction from capital corresponding to fixed assets held in excess over limits imposed by the Central Bank;
- (d) 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; and
- (e) 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.

The adjusted net worth of a financial institution is represented by the sum of its Tier I and Tier II capital and is utilized in determining its operational limits.

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 or guaranteed by the issuer or any of its related parties;
- 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 abroad, it must contain a clause of choice of venue; and
- it must have a minimum term of five years before redemption or amortization.

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 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 50.0% of the exposure.

In the past the Central Bank has imposed on other types of transactions certain compulsory deposit requirements that are no longer in effect, and could reimpose these requirements or impose similar restrictions in the future. 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) with the same client (including its 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 the 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 adjusted net worth. Limits on repurchase operations involving securities backed by Brazilian governmental authorities

vary in accordance with the type of security involved in the transaction and the perceived risk of the issuer as established by the Central Bank.

Onlending of Funds Borrowed Abroad

Financial institutions and leasing companies are permitted to borrow foreign currency-denominated funds in the international markets (through direct loans or the issuance of debt securities) in order to on-lend such funds in Brazil. These onlendings take the form of loans denominated in Brazilian currency but indexed to the U.S. dollar. The terms of the on-lending 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.

For purposes of the exchange control regulations, 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, effective as from March 14, 2005, regulations which 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, which 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, which 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 to impose 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.

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, the relevant article was revoked pursuant to a constitutional amendment.

Treatment of Overdue Debts

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

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

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

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

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

Rating	Our Classification
E	Deficient
F	Bad
G	Critical

H

Uncollectible

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

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:

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

(1) The period should be doubled in the case of loans with maturity in excess of thirty-six months.

Financial institutions are required to determine, on a monthly basis, whether any loans must be reclassified as a result of these maximum classifications, and 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:

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

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

Loans of up to R\$50,000 may be classified either 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.

Under the new rules, 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 directly affected by a restructuring of the Brazilian system of payments. 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 direct electronic transfers between institutions. 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 11,101/05 was enacted, revoking the previous regime under Decree-Law 7,661/45, which had been in effect since 1945. The main goal of the new bankruptcy law is to prevent the liquidation of viable companies, which are incapable of fulfilling their debit 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 undertaken by means of an agreement between the company and a commission comprised of creditors. The current provisions of the new bankruptcy law are not applicable to financial institutions, and as a result, Law 6,024/74 governing the intervention into, 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, for obligations contracted prior to the intervention, which have not yet matured, and for deposits 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 makes a serious violation of banking laws, regulations or rulings;
- the institution suffers a loss which subjects its unprivileged and unsecured creditors to severe risk; or

- if, upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within ninety 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:

- potential or ongoing 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 a Liquidation

In the liquidation of a financial institution, employees' wage and indemnities and tax claims have the highest priority of any claims against the bankrupt estate. 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. The member entities of the FGC are financial institutions, which take 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 maximum amount of R\$20,000 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.

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.

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 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. On December, 2005, the CMN has suspended for a term of two years the mandatory requirement to replace the independent accounting firm.

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

A March 2002 amendment to the Brazilian Corporate Law gave the members of our Board of Directors that are appointed by our preferred shareholders or our minority common shareholders 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.

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 accounting practices adopted in Brazil. Quarterly financial information filed with the CVM is subject to review by our independent accountants.

In January 2003, the CVM approved 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 passed 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 appointed the members of the audit committee and approved its internal regulations. 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 in connection with our financial statements of the second semester of 2004.

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 which 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 non-financial institution, a controlling shareholder, a subsidiary or an affiliate thereof, (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), or any of its controlling shareholders, subsidiaries and affiliates;
- 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.

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 to 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;
- **Stock 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

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 rates of the IOF tax, subject to a 25.0% ceiling set forth by law. The tax is withheld by the financial institution involved.

IOF may be imposed on a variety of foreign exchange transactions, including on the conversion of Brazilian currency into any foreign currency for the purposes of payment of dividends and repatriation of capital invested in our ADSs. Presently, however, the only foreign currency exchange transactions that are subject to the IOF are:

- the conversion into Brazilian currency of foreign loans with a term of less than 90 days, on which the IOF tax is levied at 5.0%; and
- foreign exchange transactions for the acquisition of goods with credit cards, in which case the rate is 2.0% of the amount of the transaction.

The IOF tax may also be levied on issuances of bonds or securities, including transactions carried out on Brazilian stock, futures or commodities exchanges. The rate of the IOF tax 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 tax is levied on all types of loan transactions, including overdraft loans, at a daily rate of 0.0041% 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.

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

- 0%, in the case of reinsurance or export credit-related transactions, the international transportation of goods, rural insurance or premiums designated to fund life insurance plans containing life coverage; or
- 2.0% of premiums paid, in the case of private health insurance;
- 2.0% (from September 1, 2005 to August 31, 2006) and 0% (after September 1, 2006) of premiums paid, in case of life insurance and similar policies, for personal and labor accidents, except for policies having premiums intended to pay for life insurance plans with over living coverage that are subject to no rates; and
- 7.0% of premiums paid, in the case of other types 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.

CPMF

In October 1996, the National Congress enacted a new tax called the Provisional Contribution on Financial Transactions, the CPMF that is levied at a rate of 0.38% and is collected on any checking account entry related to funds kept in Brazil. Despite the temporary nature of the collection of CPMF, its term has been systematically extended. In December 2003, as a consequence of the tax reforms, the Brazilian Congress approved an extension of the CPMF tax regime until December 31, 2007. A proposed constitutional amendment that would change this temporary contribution into a permanent tax is currently under discussion in Congress.

CPMF is collected on any checking account entry relating to funds kept in the country, with certain limited exceptions, creating an incentive for clients to reduce their transactions in the financial system and to limit their use of short-term investments. Financial institutions are exempted from the CPMF on financial transactions entered into in the course of their business. The CPMF rate can be modified at any time by the Brazilian government, but cannot exceed 0.38% .

The following transactions are exempt from the CPMF: (1) transactions carried out in the stock market; and (2) since February 2006, checking account entries for the payment of sale and purchase transactions made pursuant to public offerings registered at CVM by corporations or individuals domiciled in Brazil or abroad with the condition that such transactions have not been conducted in stock exchanges and the issuing company has the authority to trade such securities in the stock exchange.

Since October 1, 2004, the CPMF rate was reduced to 0% for (1) debits made to checking deposit accounts that are exclusively used for investment in fixed and floating income assets, including savings deposit accounts; and (2) for debits made to special cash deposit accounts for low income clients (subject to a limited number of maximum transactions and other conditions established by the CMN and by the Central Bank).

Income Tax and Social Contribution on Profits

The federal taxes that are levied on the companies 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 assessed at a rate of 9.0% of adjusted net income.

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 signed between Brazil and the country in which such income was obtained; 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. Effective January 1, 2002, profits realized by a 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 any 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 Brazilian GAAP, 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 accounting practices adopted 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 accounting practices adopted in Brazil.

Distributions of *interest on shareholders' capital* paid to holders of preferred shares, including payments to the depository 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 persons who are exempt from tax in Brazil or to persons 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.

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 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.

As of January 1, 2005, 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 fiscal authorities 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 not subject to 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 Central Bank under Resolution 2,689.

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

PIS and COFINS

Two federal taxes are imposed on the gross revenues of corporate entities: the Programa de Integração Social contribution, known as PIS, and the Contribuição para Financiamento de Seguridade Social, 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.

Brazilian laws authorize certain adjustments to the calculation base of those taxes depending on the business segment and on other aspects. In November 1999, the payment basis expanded from revenues to gross revenues.

PIS and COFINS underwent significant changes during the last four 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 new 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.

Until January 1999, we were not subject to COFINS. Since February 1, 1999, COFINS has been imposed on our gross revenues at a rate of 3.0%. After September 1, 2003, this tax rate increased to 4.0% for financial institutions. The calculation base for COFINS is the same as that for PIS. From January 1, 1999 to December 31, 1999, we were allowed to offset an amount corresponding to one third of the payments of COFINS against the social contribution tax on taxable profits.

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 Decreto-lei 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 persons. Insurance companies require government approval to operate, as well as specific approval from SUSEP to offer each of their products. Insurance companies may sell policies only through qualified brokers.

Insurance companies must set aside technical reserves, funds and reserves in accordance with CNSP criteria. The investments backing up the technical provision must be diversified. A substantial portion of the assets in which insurance companies can invest in are 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 Brasil Resseguros S.A.

A bill to privatize the reinsurance segment is currently being discussed in the Brazilian Congress. The proposed bill provides that during the first two years following the enactment of the bill, 60.0% of the reinsurance business must be transacted with Brazilian reinsurance companies. During the next two years, this percentage would decrease to 40.0%.

The bill also provides for the possibility that SUSEP will assume the supervision of the reinsurance market, which role is currently exercised by IRB. The insurance companies must reinsure an amount with the IRB equal to the amount of their liabilities that exceeds 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).

Prior to December 31, 2001, insurance companies were able to offer private health assistance plans pursuant to SUSEP regulations and subject to its supervision. Starting in 2002 and pursuant to ANS regulations and subject to its 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 asset 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 SUSESP 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 book balances, which include the related allocated interest.

We show liabilities in two categories: local and foreign currencies. Local currency balances represent liabilities expressed in reais, while foreign currency balances represent liabilities denominated in

foreign currencies, primarily the U.S. dollar. We 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

	2003			2004			2005		
	Average balance	Interest	Average yield/rate (%)	Average balance	Interest	Average yield/rate (%)	Average balance	Interest	Average yield/rate (%)
Interest-earning assets (1):	(R\$ in million, except %)								
Loans	R\$51,039	R\$12,176	23.9%	R\$55,230	R\$12,812	23.2%	R\$69,556	R\$17,236	24.6%
Federal funds sold and securities purchased under agreements to resell	19,487	3,861	19.8	18,628	2,738	14.7	12,858	2,018	15.7
Trading assets	27,077	5,932	21.9	34,039	5,330	15.7	37,878	7,251	19.1
Available-for-sale securities (2)	3,147	397	12.6	5,682	408	7.2	9,640	1,364	14.1
Securities held to maturity	3,088	482	15.6	4,528	659	14.6	4,235	495	11.7
Interest-bearing deposits in other banks	4,651	347	7.5	3,226	161	5.0	9,610	722	7.5
Other interest-earning assets									
Central Bank compulsory deposits	11,988	1,459	12.2	13,070	1,542	11.8	15,151	2,160	14.2
Other assets	985	62	6.3	858	73	8.5	811	61	7.4
Total interest-earning assets	121,462	24,716	20.3	135,261	23,723	17.5	159,739	31,307	19.6

Non-interest-earning assets (3):

Cash and due from banks	2,895	-	-	2,869	-	-	3,515	-
Central Bank compulsory deposits	4,499	-	-	4,261	-	-	4,656	-
Available-for-sale securities	1,625	-	-	1,320	-	-	1,684	-
Non-performing loans	2,172	-	-	1,904	-	-	2,021	-
Allowance for loan losses	(3,919)	-	-	(4,005)	-	-	(4,476)	-
Investment in unconsolidated companies and other investments	177	-	-	502	-	-	493	-
Premises and equipment	2,795	-	-	3,026	-	-	2,427	-
Goodwill	-	-	-	240	-	-	297	-
Intangibles assets	1,064	-	-	1,654	-	-	1,437	-
Other assets	14,102	-	-	15,859	-	-	16,298	-
Total non-interest-earning assets	25,410	-	-	27,630	-	-	28,352	-

Total assets	R\$146,872	R\$24,716	16.8%	R\$162,891	R\$23,723	14.6%	R\$188,091	R\$31,307
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On December 31

	2003			2004			2005		
	Average balance	Interest	Average yield/rate (%)	Average balance	Interest	Average yield/rate (%)	Average balance	Interest	Average yield/rate (%)
Interest-bearing liabilities	(R\$ in million, except %)								
Deposits from banks									
Domestic ⁽³⁾	R\$657	R\$111	16.9%	R\$90	R\$14	15.6%	R\$116	R\$21	18.1%
Total	657	111	16.9	90	14	15.6	116	21	18.1
Savings deposits									
Domestic ⁽³⁾	20,680	2,038	9.9	22,499	1,654	7.4	24,728	2,028	8.2
Total	20,680	2,038	9.9	22,499	1,654	7.4	24,728	2,028	8.2
Time deposits:									
Domestic ⁽³⁾	20,629	4,123	20.0	21,871	3,241	14.8	28,641	4,782	16.7
International ⁽⁴⁾	3,601	112	3.1	3,288	86	2.6	2,361	113	4.8
Total	24,230	4,235	17.5	25,159	3,327	13.2	31,002	4,895	15.7
Federal funds purchased and securities sold under agreements to repurchase	15,486	2,855	18.4	18,070	2,390	13.2	19,139	3,862	20.2
Borrowings:									
Short-term:									
International ⁽⁴⁾	9,219	(387)	(4.2)	8,442	(83)	(1.0)	7,164	(187)	(2.6)
Total	9,219	(387)	(4.2)	8,442	(83)	(1.0)	7,164	(187)	(2.6)
Long-term:									
Domestic ⁽³⁾	7,811	1,275	16.3	9,238	1,464	15.8	13,691	1,916	13.9
International ⁽⁴⁾	8,606	(410)	(4.8)	8,601	153	1.8	7,073	(94)	(1.3)
Total	16,417	865	5.3	17,839	1,617	9.1	20,764	1,822	10.2
Total interest-bearing liabilities	86,689	9,717	11.2	92,099	8,919	9.7	102,913	12,441	11.8

Non-interest-bearing liabilities:

Demand deposits									
Domestic ⁽³⁾	10,876	-	-	13,163	-	-	15,042	-	-
International ⁽⁴⁾	270	-	-	206	-	-	185	-	-
Total	11,146	-	-	13,369	-	-	15,227	-	-

Other non-interest-bearing liabilities .

	36,790	-	-	43,346	-	-	52,537	-	-
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Total non-interest-bearing liabilities

	47,936	-	-	56,715	-	-	67,764	-	-
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Total liabilities	134,625	9,717	7.2	148,814	8,919	6.0	170,677	12,441	-
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Shareholders equity	12,138	-	-	14,012	-	-	17,357	-	-
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Minority interest on consolidated subsidiaries	109	-	-	65	-	-	57	-	-
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Total liabilities and shareholders equity

	R\$146,872	R\$9,717	6.6%	R\$162,891	R\$8,919	5.5%	R\$188,091	R\$12,441	6.0%
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(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 10.7% in 2005, 6.9% in 2004 and 12.3% in 2003.

(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.

December 31						
2004/2003			2005/2004			
Increase (decrease) due to changes in:						
	Average volume	Average yield/rate	Net change	Average volume	Average yield/rate	Net change
(R\$ in million)						
Interest-earning assets						
Loans	R\$979	R\$(343)	R\$636	R\$3,503	R\$921	R\$4,424
Federal funds sold and securities purchased under agreements to resell	(164)	(959)	(1,123)	(895)	175	(720)
Trading assets	1,319	(1,921)	(602)	646	1,275	1,921
Available-for-sale securities	230	(219)	11	399	557	956
Securities held to maturity	211	(34)	177	(41)	(123)	(164)
Interest-bearing deposits in other banks	(89)	(97)	(186)	447	114	561
Central Bank compulsory deposits	129	(46)	83	268	350	618
Other assets	(9)	20	11	(4)	(8)	(12)
Total interest-earning assets	2,606	(3,599)	(993)	4,323	3,261	7,584
Interest-bearing liabilities						
Deposits from banks						
Domestic	(89)	(8)	(97)	4	3	7
Total	(89)	(8)	(97)	4	3	7
Savings deposits:						
Domestic	168	(552)	(384)	173	201	374
Total	168	(552)	(384)	173	201	374
Time deposits:						
Domestic	236	(1,118)	(882)	1,093	448	1,541
International	(9)	(17)	(26)	(29)	56	27
Total	227	(1,135)	(908)	1,064	504	1,568

Federal funds purchased and securities sold under agreements to repurchase	426	(891)	(465)	149	1,323	1,472
Borrowings						
Short-term:						
International	30	274	304	14	(118)	(104)
Total	30	274	304	14	(118)	(104)
Long- term:						
Domestic	227	(38)	189	639	(187)	452
International	-	563	563	(23)	(224)	(247)
Total	227	525	752	616	(411)	205
Total interest-bearing liabilities	R\$989	R\$(1,787)	R\$(798)	R\$2,020	R\$1,502	R\$3,522

Net Interest Margin and Spread

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

	December 31,		
	2003	2004	2005
	(R\$ in million, except %)		
Average balance of interest-earning assets	R\$121,462	R\$135,261	R\$159,739
Average balance of interest-bearing liabilities	86,689	92,099	102,913
Net interest income ⁽¹⁾	R\$14,999	R\$14,804	R\$18,866
Interest rate on the average balance of interest-earning assets	20.3%	17.5%	19.6%
Interest rate on the average balance of interest-bearing liabilities	11.2	9.7	12.1
Net yield on interest earning assets ⁽²⁾	9.1	7.8	7.5
Net interest margin ⁽³⁾	12.3%	10.9%	11.8%

(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:

	December 31,		
	2003	2004	2005
	(R\$ in million, except % and per share information)		
Net income	R\$2,302	R\$3,327	R\$6,310
Average total assets	146,872	162,891	188,091
Average shareholders equity	R\$12,138	R\$14,012	R\$17,357
Net income as a percentage of average total assets	1.6%	2.0%	3.4%
Net income as a percentage of average shareholders equity	19.0	23.7	36.4
Average shareholders equity as a percentage of average total assets	8.3%	8.6%	9.2%
Dividends payout ratio per class of shares ⁽¹⁾	0.58	0.40	0.30

(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 securities held to maturity as of the dates indicated. The amounts below exclude our investments in unconsolidated companies. For additional information on our equity investees, 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 securities held to maturity.

	December 31,		
	2003	2004	2005
	(R\$ in million, except %)		
Trading securities			
Mutual funds	R\$22,929	R\$21,941	R\$21,420
Brazilian government securities	11,389	8,787	17,142
Corporate debt securities	985	1,115	901
Brazilian securities issued abroad	220	554	521
Derivative financial instruments	283	491	518
Bank debt securities	1,055	44	324
Foreign government securities	212	162	122
Total	R\$37,073	R\$33,094	R\$40,948
Trading securities as a percentage of total assets	22.3%	18.7%	19.8%
Available-for-sale securities			
Brazilian government securities	R\$1,694	R\$2,388	R\$6,146
Brazilian securities issued abroad	1,264	3,221	4,313
Corporate debt securities	1,086	1,880	1,744
Bank debt securities	52	246	309
Equity securities in public companies	2,098	2,368	2,198
Total	R\$6,194	R\$10,103	R\$14,710
Available-for-sale securities as a percentage of total assets	3.7%	5.7%	7.1%
Held to maturity securities:			
Brazilian government securities	R\$3,085	R\$3,152	R\$3,137
Brazilian securities issued abroad ⁽¹⁾	180	976	909
Financial Institution securities	-	53	44
Foreign government securities	-	19	31
Total	R\$3,265	R\$4,200	R\$4,121
Held to maturity securities as a percentage of total assets	2.0%	2.4%	2.0%

(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, 2005, of our trading securities, available-for-sale securities and securities held to maturity.

As of December 31, 2005 we held no tax-exempt securities in our portfolio.

December 31, 2005

	Due in 1 year or less		Due after 1 year to 5 years		Due after 5 years to 10 years		Due after 10 years		Unspecified Maturity	Total
	Average yield		Average yield		Average yield		Average yield		Average yield	Average yield
(R\$ in million, except %)										
Trading bonds and securities (1):										
Brazilian government securities	R\$8,254	13.3%	R\$8,225	14.5%	R\$528	18.9%	R\$135	18.0%	- -	R\$17,142 14.1%
Fixed rate	4,059	8.2	4,305	10.5	-	-	-	-	- -	8,364 9.9
Floating rate	4,195	18.3	3,920	19.0	528	18.9	135	18.0	- -	8,778 18.9
Brazilian sovereign bonds issued abroad	42	(11.7)	188	(0.9)	94	(0.6)	197	(0.9)	- -	521 (1.8)
Floating rate bills of exchange	42	(11.7)	188	(0.9)	94	(0.6)	197	(0.9)	- -	521 (1.8)
Foreign government securities	121	(8.8)	1	(20.0)	-	-	-	-	- -	122 (8.9)
Floating rate bills of exchange	121	(8.8)	1	(20.0)	-	-	-	-	- -	122 (8.9)
Bonds issued by non-financial institutions	408	5.3	146	1.2	347	2.5	-	-	- -	901 3.0
Floating rate	408	5.3	146	1.2	347	2.5	-	-	- -	901 3.0
Bonds issued by financial institutions	-	-	210	1.0	12	1.0	102	1.0	- -	324 1.0
Floating rate	-	-	210	1.0	12	1.0	102	1.0	- -	324 1.0
Mutual Funds (2)	-	-	-	-	-	-	-	-	R\$21,420 -	21,420
Floating rate	-	-	-	-	-	-	-	-	21,408 -	21,408
Floating rate bills of exchange	-	-	-	-	-	-	-	-	12 -	12
Derivative financial instruments (2)	-	-	-	-	-	-	-	-	518 -	518

Floating rate	-	-	-	-	-	-	-	-	518	-	518	
Total trading bonds and securities	R\$8,825	-	R\$8,770	-	R\$981	-	R\$434	-	R\$21,938	-	R\$40,948	
Available-for-sale securities at market value ⁽²⁾:												
Brazilian government securities	R\$263	18.8	R\$2,696	11.4	R\$654	18.7	R\$2,533	18.0	-	-	R\$6,146	14.4
Fixed rate	14	17.1	-	-	-	-	-	-	-	-	14	17.1
Floating rate	249	18.8	2,696	11.4	654	18.7	2,533	18.0	-	-	6,132	14.4
Brazilian sovereign bonds issued abroad	-	-	1,325	3.6	1,229	1.3	1,759	3.0	-	-	4,313	2.9
Floating rate bills of exchange	-	-	1,325	3.6	1,229	1.3	1,759	3.0	-	-	4,313	2.9
Bonds issued by non-financial institutions	87	6.2	206	3.8	1,360	(0.4)	91	3.5	-	-	1,744	2.9
Floating rate	83	6.7	196	4.0	454	0.5	91	3.5	-	-	824	6.7
Floating rate bills of exchange	4	(3.8)	10	0.2%	906	(0.9)	-	-	-	-	920	(0.9)
Bonds issued by financial institutions	2	(1.4)	-	-	179	(3.8)	128	-	-	-	309	1.4
Floating rate	1	1.0	-	-	-	-	-	-	-	-	1	1.0
Floating rate bills of exchange	1	(3.8)	-	-	179	(3.8)	128	-	-	-	308	1.4
Securities portfolio (open companies) ⁽²⁾	-	-	-	-	-	-	-	-	R\$2,198	-	2,198	
Total available-for-sale securities	R\$352	-	R\$4,227	-	R\$3,422	-	R\$4,511	-	R\$2,198	-	R\$14,710	
Total securities held to maturity, at amortized cost:												
Brazilian government securities	R\$1,043	12.0	-	-	-	-	R\$2,094	(0.8)	-	-	R\$3,137	(2.0)
Floating rate	1,043	12.0	-	-	-	-	2,094	(0.8)	-	-	3,137	(2.0)
Foreign governmental	31	5.2	-	-	-	-	-	-	-	-	31	5.2

securities

Floating rate bills of exchange	31	5.2%	-	-	-	-	-	-	-	31	5.2%
Bonds issued by financial institutions	-	-	-	-	R\$44	(3.8)	-	-	-	44	(3.8)
Floating rate bills of exchange	-	-	-	-	44	(3.8)	-	-	-	44	(3.8)
Brazilian sovereign bonds issued abroad	-	-	-	-	869	2.4	40	(1.3)	-	909	(3.8)
Floating rate bills of exchange	-	-	-	-	869	2.4%	40	(1.3)%	-	909	(3.8)
Total securities held to maturity	R\$1,074	-	-	-	913	-	2,134	-	-	4,121	
Total	R\$10,251	-	R\$12,997	-	R\$5,316	-	R\$7,079	-	R\$24,136	-	R\$59,779

(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 following table shows our securities portfolio by currency as of the dates indicated:

	At fair value		Amortized Cost	Total
	Trading	Available for sale	Securities held to maturity	
December 31, 2005:	(R\$ in million)			
Indexed to <i>reais</i>	R\$40,293	R\$9,169	R\$3,137	R\$52,599
Denominated in foreign currency ⁽¹⁾	655	5,541	984	7,180
December 31, 2004:				
Indexed to <i>reais</i>	31,974	5,660	3,112	40,746
Indexed to foreign currency ⁽¹⁾	952	4,431	1,029	6,412
Denominated in foreign currency ⁽¹⁾	168	12	59	239
December 31, 2003:				
Indexed to <i>reais</i>	35,344	3,716	2,718	41,778
Indexed to foreign currency ⁽¹⁾	929	609	367	1,905
Denominated in foreign currency ⁽¹⁾	R\$800	R\$1,869	R\$180	R\$2,849

(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,					
	2003		2004		2005	
	R\$	% of total compulsory deposits	R\$	% of total compulsory deposits	R\$	% of total compulsory deposits
	(R\$ in million, except %)					
Total deposits:						
Non-interest earning ⁽¹⁾	R\$4,577	27.4%	R\$5,045	25.0%	R\$5,269	24.3%
Interest-earning ⁽²⁾	12,113	72.6	15,164	75.0	16,417	75.7
Total	R\$16,690	100.0%	R\$20,209	100.0%	R\$21,686	100.0%

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

Credit Operations

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

	December 31,				
	2001	2002	2003	2004	2005
	(R\$ in million)				
Type of credit operations					
Commercial					
Industrial and others	R\$18,142	R\$20,157	R\$21,156	R\$23,343	R\$28,690
Import financing	1,475	1,291	673	1,242	1,100
Export financing	5,160	7,863	8,375	8,181	10,067
Leasing	1,667	1,506	1,364	1,626	2,491
Real estate construction financing	543	427	415	449	523
Individuals					
Overdraft	1,199	1,033	1,134	1,301	1,572
Residential mortgage loans	1,246	1,200	1,097	921	832
Other financing ⁽¹⁾	6,985	8,269	10,231	14,981	24,565
Credit card	973	1,164	1,373	1,289	1,830
Rural credit	2,959	3,922	4,404	6,034	6,369
Foreign currency loans	2,388	3,151	2,429	1,588	1,900
Public Sector	-	-	-	15	49
Non-performing loans	2,257	2,341	2,144	2,206	2,701
Allowance for loan losses	(2,941)	(3,455)	(3,846)	(4,063)	(4,964)
Loans, net	R\$42,053	R\$48,869	R\$50,949	R\$59,113	R\$77,725

(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.

Real estate construction financing - 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 other financing, of which more than 98.0% consists, at each date in the table above, 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.

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;
- the observable market value of the loan; 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.

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 and future perspectives. Loans with larger outstanding balances are evaluated based on the risk characteristics of each borrower.

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 thirty-six months), until they are up to 540 days overdue.

We generally carry overdue loans as non-performing loans before charging them off. Under our previous policies, we carried overdue loans for only 240 days before charging them off. As a result of the adoption of the new policies, the amount of our non-performing loans increased by an amount equal to the amount of loans, which were 240 to 360 days in arrears. In addition, since the allowance for loan losses related to any loan remains on our books until the loan is charged off, our allowance for loan losses also increased when we implemented the new policy. Because the amount of the allowance for each non-performing loan more than 240 days overdue equals the value of that loan, the amount of this increase also equaled the amount of loans, which were 240 to 360 days in arrears.

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, 2005

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 ⁽¹⁾	Total loans, gross	Allowance for losses	Total
(R\$ in million)										
Commercial Industrial and others	R\$7,168	R\$7,692	R\$3,502	R\$3,164	R\$5,265	R\$1,654	R\$1,027	R\$29,472	R\$(1,885)	R\$27,587
Import financing	178	337	264	223	98	-	-	1,100	(24)	1,483
Export financing	1,696	1,939	1,792	1,332	2,368	940	82	10,149	(123)	10,026
Real estate construction financing	5	10	33	80	329	66	10	533	(56)	472
Leasing	137	274	358	591	1,051	64	43	2,518	(105)	2,413
Individuals Overdraft	1,388	-	-	-	-	-	372	1,760	(242)	1,518
Residential mortgage loans	36	41	49	73	213	410	89	911	(137)	774
Other financings ⁽²⁾	2,172	3,819	4,281	5,863	7,849	386	1,502	25,872	(1,832)	24,040
Credit cards	-	-	-	-	-	-	2,014	2,014	(249)	1,765
Rural credit	431	262	816	1,386	1,186	2,268	62	6,411	(304)	6,107
Foreign currency loans	77	228	526	496	552	2	19	1,900	(7)	1,893
Public Sector	-	1	1	3	11	33	-	49	-	49
Total	R\$13,288	R\$14,603	R\$11,622	R\$13,211	R\$18,922	R\$5,823	R\$5,220	R\$82,689	R\$(4,964)	R\$77,725

(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, 2005							
	Due within 30 days or less	Due in 31 to 90 days	Due in 91 to 180 days	Due in 181 to 360 days	Due in 1 to 3 years	Due after 3 years	No stated maturity	Total loans, gross
	(R\$ in million)							
Types of loans to customer by maturity								
Floating or adjustable rates ⁽¹⁾	R\$4,653	R\$3,310	R\$4,396	R\$5,060	R\$7,753	R\$4,472	R\$2,701	R\$32,345
Fixed rates	8,635	11,293	7,226	8,151	11,169	1,351	2,519	50,344
Total	R\$13,288	R\$14,603	R\$11,622	R\$13,211	R\$18,922	R\$5,823	R\$5,220	R\$82,689

(1) Includes non-performing loans.

Credit Approval Process

For a description of our credit approval process, see The Company Risk Management Credit.

Indexation

The majority of our entire portfolio of loans is denominated in reais. However, a portion of our portfolio is indexed to foreign currencies, predominantly the U.S. dollar. Our loans indexed to the U.S. dollar consist of on lending of Eurobond funds and export and import financing. In many cases our clients hold derivative instruments to minimize exchange rate variation risk.

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 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.

	December 31,				
	2001	2002	2003	2004	2005
	(R\$ million, except %)				
Non-performing loans	R\$2,257	R\$2,341	R\$2,144	R\$2,206	R\$2,701
Foreclosed assets, net of reserves	192	257	194	229	166
Total non-performing loans and foreclosed assets	2,449	2,598	2,338	2,435	2,867
Allowance for loan losses	2,941	3,455	3,846	4,063	4,964
Total loans	R\$44,994	R\$52,324	R\$54,795	R\$63,176	R\$82,689
Non-performing loans as a percentage of total loans	5.0%	4.5%	3.9%	3.5%	3.3%
Non-performing loans and foreclosed assets as a percentage of total loans	5.4	5.0	4.3	3.9	3.5
Allowance for loan losses as a percentage of total loans	6.5	6.6	7.0	6.4	6.0
Allowance for loan losses as a percentage of non-performing loans	130.3	147.6	179.4	184.2	183.8
Allowance for loan losses as a percentage of non-performing loans and foreclosed assets	120.1	133.0	164.5	166.9	173.1
Net charge-offs for the period as a percentage of the average balance of loans (including non-performing loans)	2.7%	3.9%	3.1%	2.1%	1.3%

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 loans does not exceed 1.0% of our total assets. Therefore, we do not believe that such information is material to an understanding of the risks associated with our loan portfolio.

Additionally, our deposit base is primarily comprised of Brazilian residents and the amount of deposits in our branches outside Brazil is less than 10.0% of our total deposits and is therefore not considered significant.

Loans by Economic Activity

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

	December 31,					
	2003		2004		2005	
	Loan portfolio	% of loan portfolio	Loan portfolio	% of loan portfolio	Loan portfolio	% of loan portfolio
	(R\$ in million, except %)					
Industrial:						
Food, beverages and tobacco	R\$3,066	5.8%	R\$3,366	5.5%	R\$4,065	5.1%
Electric and electronic, and communication equipment	532	1.0	1,088	1.8	964	1.2
Chemicals and pharmaceuticals	1,416	2.7	1,738	2.8	2,100	2.6
Civil construction	854	1.6	894	1.5	1,214	1.5
Basic metal industries	2,805	5.3	1,623	2.7	1,693	2.1
Textiles, clothing and leather goods	977	1.9	1,046	1.7	1,241	1.5
Manufacturing of machinery and equipment	929	1.8	1,307	2.1	1,268	1.6
Paper, paper products, printing and publishing	1,609	3.0	1,337	2.2	1,440	1.8
Automotive	2,074	3.9	2,484	4.1	2,749	3.4
Non-metallic minerals	225	0.4	302	0.5	398	0.5
Rubber and plastic	616	1.2	764	1.3	906	1.1
Information technology and office equipment	33	0.1	55	0.1	25	-
Wood and wood products, including furniture	458	0.9	578	1.0	617	0.8
Extractive	386	0.7	266	0.4	855	1.1
Petrochemicals	204	0.4	448	0.7	307	0.4
Others	2,257	4.3	846	1.4	3,050	3.8
Subtotal	18,441	35.0	18,142	29.8	22,892	28.5
Individuals:						
Consumer loans	12,738	24.2	17,571	28.8	27,967	35.0
Residential mortgage loans	1,097	2.1	921	1.5	832	1.0
Lease financing	56	0.1	44	0.1	55	0.1

Subtotal	13,891	26.4	18,536	30.4	28,854	36.1
Real Estate Construction	415	0.8	449	0.7	523	0.7
Commercial						
Retail	3,295	6.3	5,632	9.3	7,014	8.8
Wholesale	3,593	6.8	3,428	5.6	4,228	5.3
Lodging and catering services	193	0.4	225	0.4	302	0.4
Subtotal	7,081	13.5	9,285	15.3	11,544	14.5
Financial services:						
Financial institutions	552	1.0	969	1.6	762	1.0
Insurance companies and private pension plans	8	-	16	-	26	-
Subtotal	560	1.0	985	1.6	788	1.0
Services						
Telecommunications	1,917	3.6	1,462	2.4	1,423	1.8
Service providers	1,370	2.6	1,358	2.2	1,625	2.0
Transportation	1,999	3.8	2,717	4.5	3,435	4.3
Real estate	731	1.4	496	0.8	566	0.7
Health and social services	413	0.8	467	0.8	572	0.7
Leisure	374	0.7	332	0.5	423	0.5
Education	208	0.4	245	0.4	320	0.4
Public administration and defense	2	-	11	-	16	-
Other	845	1.6	451	0.7	638	0.8
Subtotal	7,859	14.9	7,539	12.3	9,018	11.2
Agriculture, breeding, forestry and fishing	4,404	8.4	6,034	9.9	6,369	8.0
Total	R\$52,651	100.0%	R\$60,970	100.0%	R\$79,988	100.0%

Classification of Loan Operations Portfolio

The following table shows our loan portfolio's classification by risk category as of December 31, 2005, where AA represents minimum credit risk and H represents extremely high credit risk. At December 31, 2005, approximately 93.9% of our loan portfolio was classified between AA and C, representing loans on full accrual basis.

Risk Level	Loans	Non-Performing Loans	Allowance for loan losses
	(R\$ in million)		
AA	R\$15,969	-	-
A	41,548	-	R\$208
B	6,099	-	79
C	14,063	-	1,254
D	1,048	R\$482	395
E	161	332	241
F	249	266	346
G	213	236	418
H	638	1,385	2,023
Total	R\$79,988	R\$2,701	R\$4,964

Allowance for Loan Losses

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

	December 31,				
	2001	2002	2003	2004	2005
	(R\$ in million, except %)				
Balance at the beginning of the period	R\$2,345	R\$2,941	R\$3,455	R\$3,846	R\$4,063
Charge-off from assets					
Commercial					
Industrial and others	(657)	(751)	(1,006)	(853)	(604)
Import financing	(22)	(5)	(14)	(5)	-
Export financing	-	(6)	(28)	(13)	(8)
Construction	(67)	(5)	(5)	(5)	-
Leasing	(29)	(31)	(85)	(31)	(23)
Individuals					
Overdraft	(9)	(287)	(284)	(278)	(177)
Real Estate	(185)	(26)	(72)	(135)	(26)
Other financing ⁽¹⁾	(88)	(900)	(290)	(207)	(572)
Credit card	(4)	(162)	(163)	(287)	(153)
Agricultural	(341)	(145)	(109)	(8)	(39)

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Foreign currency loans	(12)	(2)	(2)	(2)	(1)
Total charge-off from assets	(1,414)	(2,320)	(2,058)	(1,824)	(1,603)
Recoveries					
Commercial					
Industrial and others	52	69	144	286	308
Import financing	-	2	-	1	-
Export financing	-	1	-	-	-
Construction	3	1	-	-	-
Leasing	16	17	18	4	42
Individuals					
Overdraft	17	83	48	54	38
Residential mortgage loans	76	5	2	69	31
Other financing ⁽¹⁾	38	97	193	175	208

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	December 31,				
	2001	2002	2003	2004	2005
	(R\$ in million, except %)				
Credit card	33	15	7	7	10
Agricultural	5	1	3	5	36
Foreign currency loans	7	-	-	11	8
Total recoveries	247	291	415	612	681
Net charge-offs	(1,167)	(2,029)	(1,643)	(1,212)	(922)
Provision for loan losses	1,763	2,543	2,034	1,429	1,823
Balance at the end of the period	R\$2,941	R\$3,455	R\$3,846	R\$4,063	R\$4,964
Net charge-offs during the period as a percentage of average loans outstanding(including non-performing loans)	2.7%	3.9%	3.1%	2.1%	1.3%

(1) Primarily composed of vehicle financing and consumer loans

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

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

	Year ended December 31,			% Change	
	2003	2004	2005	2004/2003	2005/2004
	(R\$ in million except %)				
Provision for loan losses expenses	R\$2,034	R\$1,429	R\$1,823	(29.7)%	27.6%
Loan Charge-offs	(2,058)	(1,824)	(1,603)	(11.4)	(12.1)
Loan recoveries	415	612	681	47.5	11.3
Net Charge-offs	R\$(1,643)	R\$(1,212)	R\$(922)	(26.2)%	(23.9)%
Provision for loan losses ⁽¹⁾	3.8%	2.5%	2.5%	-	-

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

Allocation of the Allowance for Loan losses

The tables below set forth the allocation of the allowance for loan losses for the periods indicated. The allowance amount allocated and the loan category are stated as a percentage of total loans.

December 31, 2001

Type of loans	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Allocated allowance as a percentage of total loans (2)	Loan category as a percentage of total loans (1)	Loan category as a percentage of total loans (2)
(R\$ in million, except percentages)					
Commercial					
Industrial and others	R\$1,671	3.9%	3.7%	42.6%	41.9%
Import financing	45	0.1	0.1	3.5	3.3
Export financing	30	0.1	0.1	12.1	11.5
Construction	27	0.1	0.1	1.3	1.3
Leasing	123	0.3	0.3	3.9	3.8
Individuals					
Overdraft	92	0.2	0.2	2.8	3.1
Real estate	155	0.4	0.3		