BANK BRADESCO
Form 20-F
April 30, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20 F

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

OR

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

For the fiscal year ended December 31, 2012

OR

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

Commission File Number: 1 15250

OR

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

BANCO BRADESCO S.A.

(Exact name of Registrant as specified in its charter)

BANK BRADESCO

(Translation of Registrant's name into English)

Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Luiz Carlos Angelotti (Managing Officer and Investor Relations Officer)

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

(Name, telephone, e mail and/or facsimile number and address of company contact person)

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

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

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

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

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

Number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2012:

1,909,762,290	Common Shares, without par value
1,907,650,491	Preferred Shares, without par value

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

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

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

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

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

Large accelerated filer x Accelerated filer ¨ Non accelerated filer ¨

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

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

If “Other” has been checked in response to the previous question, 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 x No

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

In this annual report, the terms "Bradesco," the "Company," the "Organization," 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, purchasing consortium management, asset management, insurance, investment banking, pension plan (or pension) and capitalization bond services for all segments of the Brazilian market. Our operations are based primarily in Brazil.

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

Our audited consolidated financial statements as of and for the years ended December 31, 2012, 2011 and 2010, with the corresponding notes, are included under "Item 18. Financial Statements" of this annual report and were prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

Until December 31, 2010, our consolidated financial statements were prepared in accordance with the United States generally accepted accounting principles ("U.S. GAAP"). U.S. GAAP differs in certain respects from IFRS.

This is the second time Bradesco files financial statements in accordance with IFRS, as issued by the IASB as part of its Form 20-F. However, for domestic reporting purposes, the adoption date of financial statements under IFRS as issued by the IASB was December 31, 2010. Therefore, the transition date of our financial statements was January 1, 2009. Thus, selected financial data presented in Item 3.A. (including the 2009 financial data) derives from our consolidated financial statements prepared in accordance with IFRS.

For certain purposes, such as reports for Brazilian shareholders, filings with the Brazilian Securities and Exchange Commission ("CVM") and determining dividend and federal income tax payments, we use accounting practices adopted in Brazil for financial institutions authorized to operate by the Brazilian Central Bank (Banco Central do Brasil), or the "Central Bank."

On March 31, 2013, the real/U.S. dollar exchange rate was R$2.0138 per US$1.00 based on the closing selling exchange rate reported by the Central Bank. The selling exchange rate as of December 31, 2012 was R$2.0435 per US$1.00. See "Item 3.A. Selected Financial Data-Exchange Rate Information" for more information regarding the exchange rates applicable to the Brazilian currency since 2007.

As a result of recent fluctuations in the real/U.S. dollar exchange rate, the closing selling commercial exchange rate at March 31, 2013 or at any other date may not be indicative of current or future exchange rates.

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

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

References in this annual report to the “common shares” and “preferred shares” are to our common shares and preferred shares, respectively, and together our "shares." References to “American Depositary Shares” or “ADSs” are to American Depositary Shares, each representing one preferred share. The ADSs are evidenced by American Depositary Receipts, or ADRs, issued pursuant to an Amended and Restated Deposit Agreement, dated as of July 22, 2009, by and among us, The Bank of New York Mellon, as depositary, and the holders and beneficial owners of ADSs evidenced by ADRs issued thereunder (the "Deposit Agreement").

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On March 13, 2012, we established an American Depositary Shares program for our common shares, with each common share ADS representing one common share, referred to as the "common share ADSs." The common share ADSs are evidenced by "common share ADRs," issued pursuant to a Deposit Agreement, dated as of March 13, 2012 by and among us, The Bank of New York Mellon, as depositary, and the holders and beneficial owners of common share ADSs evidenced by common share ADRs issued thereunder (the "Common Share Deposit Agreement" and together with the Deposit Agreement, the "Deposit Agreements").

Unless indicated otherwise, references herein to American Depositary Shares, ADSs, American Depositary Receipts and ADRs refer only to those represented by our preferred shares.

Throughout this annual report, we may indicate that certain information is available at different websites operated by us. None of the information on the websites referred to or mentioned in this annual report is part of or is incorporated by reference herein.

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FORWARD LOOKING STATEMENTS

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

- global economic conditions;
- economic, political and business conditions in Brazil and the markets in which we operate;
- risks of lending, credit, investments and other activities;
- our level of capitalization;
- cost and availability of funds;
- higher levels of delinquency by borrowers, credit delinquency and other delinquency events leading to higher impairment of loans and advances;
- loss of customers or other sources of income;
- our ability to execute our investment strategies and capital expenditure plans as well as to maintain and improve our operating performance;
- our revenues from new products and businesses;
- adverse claims, legal or regulatory disputes or proceedings;
- inflation, depreciation of the *real* and/or interest rate fluctuations, which could adversely affect our margins;
- competitive conditions in the banking, financial services, credit card, asset management, insurance sectors and related industries;
- the market value of securities, particularly Brazilian government securities; and
- changes by the Central Bank and others in laws and regulations, applicable to us and our activities, including, but not limited to, those affecting tax matters.

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

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

3.A. Selected Financial Data

We present below our selected financial data prepared in accordance with IFRS as of and for the years ended December 31, 2012, 2011, 2010 and 2009. The data as of and for the years ended in 2012 and 2011 is derived from our consolidated financial statements, which were audited by KPMG Auditores Independentes, an independent registered public accounting firm, as stated in their report included in this annual report. The data for the year ended December 31, 2010, is derived from our consolidated financial statements which were audited by PricewaterhouseCoopers Auditores Independentes, an independent registered public accounting firm, as stated in their report included in this annual report. The data as of December 31, 2010 and 2009, and for the year ended December 31, 2009 is derived from our audited consolidated financial statements that are not included herein. For more information regarding the change in our independent auditors, see "Item 16.F. Change in Registrant Certifying Accountant."

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

Selected Financial Data

Year ended December 31,	US$ in thousands [1]		R$ in thousands		
2012	**2012**	**2011**	**2010**	**2009**	
Data from the Consolidated Statement of Income					
Interest and similar income	41,282,012	83,133,716	82,367,272	63,772,183	55,165,229
Interest and similar expenses	(19,684,552)	(39,640,751)	(46,755,986)	(31,000,892)	(27,974,717)
Net interest income	**21,597,461**	**43,492,965**	**35,611,286**	**32,771,291**	**27,190,512**
Fee and commission income	6,376,594	12,841,186	10,868,311	9,421,485	7,866,601
Fee and commission expenses	(18,071)	(36,391)	(33,978)	(26,947)	(19,219)
Net fee and commission income	**6,358,524**	**12,804,795**	**10,834,333**	**9,394,538**	**7,847,382**
Net gains/(losses) on financial instruments classified as held for trading	1,047,826	2,110,113	(608,270)	2,212,733	5,983,781
Net gains/(losses) on financial assets classified as available for sale	941,491	1,895,974	365,302	754,416	757,255
Net gains/(losses) of foreign currency transactions	(472,433)	(951,385)	2,625,813	(682,961)	(897,638)
Income from insurance and pension plans	701,667	1,413,016	3,076,175	2,577,730	1,778,016
Impairment of loans and advances	(5,715,652)	(11,510,179)	(8,296,151)	(5,756,125)	(10,809,611)
Personnel expenses	(5,788,272)	(11,656,422)	(11,150,970)	(8,794,017)	(7,334,164)
Other administrative expenses	(5,909,417)	(11,900,383)	(11,477,134)	(9,761,445)	(8,138,058)
Depreciation and amortization	(1,260,433)	(2,538,260)	(2,120,335)	(1,966,433)	(1,516,529)
Other operating income/(expenses)	(4,235,110)	(8,528,664)	(4,858,702)	(6,002,663)	(3,024,640)
Income before income taxes and equity in the earnings of associates	**7,265,653**	**14,631,570**	**14,001,347**	**14,747,064**	**11,836,306**
Equity in the earnings of associates	432,348	870,662	682,122	577,053	728,867
Income before income taxes	**7,698,001**	**15,502,232**	**14,683,469**	**15,324,117**	**12,565,173**
Income and social contribution taxes	(2,061,048)	(4,150,538)	(3,594,027)	(5,271,924)	(4,264,330)
Net income for the year	**5,636,952**	**11,351,694**	**11,089,442**	**10,052,193**	**8,300,843**
Attributable to shareholders					
Controlling	5,607,096	11,291,570	10,958,054	9,939,575	8,283,007
Non-controlling interest	29,857	60,124	131,388	112,618	17,836

[1] Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$2.0138 per US$1.00, the Central Bank exchange rate on March 31, 2013. Such translations should not be construed as a representation that the Brazilian *real* amounts presented were or could be converted into U.S. dollars at that rate.

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Year ended December 31,	R$, except for number of shares			
	2012	2011	2010	2009
Data on Earnings and Dividends per Share (1)				
Earnings per share (2) (3) (4)				
Common	2.83	2.74	2.52	2.12
Preferred	3.12	3.01	2.77	2.34
Dividends/interest on equity per share (2)				
Common	0.97	0.93	0.85	0.73
Preferred	1.07	1.03	0.94	0.80
Weighted average number of outstanding shares				
Common	1,909,848,315	1,908,948,826	1,880,830,018	1,856,653,104
Preferred	1,907,702,283	1,906,821,919	1,881,367,208	1,856,685,513

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

(2) Holders of preferred shares are entitled to receive dividends per share in an amount 10.0% greater than the dividends per share paid to common shareholders. For purposes of calculating earnings per share according to IFRS, we used the same criteria adopted for dividends per share. For a description of our two classes of shares. see "Item 10.B. Memorandum and Articles of Incorporation".

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

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

Year ended December 31,	In US$			
	2012	2011	2010	2009
Dividends/interest on equity per share (1)				
Common	0.47	0.50	0.51	0.42
Preferred	0.52	0.55	0.56	0.46

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at the exchange rate disclosed by the Central Bank at the end of each fiscal year.

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As of December 31,	US$ in thousands (1)	R$ in thousands		
	2012	2012	2011	2010
Data from the Consolidated Statement of Financial Position				
Assets				
Cash and balances with banks	29,790,832	59,992,777	93,777,577	80,960,12
Financial assets held for trading	55,536,581	111,839,567	96,597,077	75,234,19
Financial assets available for sale	40,500,967	81,560,848	45,248,398	40,179,14
Investments held to maturity	1,845,105	3,715,673	4,110,987	3,394,30
Assets pledged as collateral	52,702,999	106,133,299	97,122,080	79,700,61
Loans and advances to banks	46,092,578	92,821,233	72,663,890	64,715,41
Loans and advances to customers, net of impairment	133,902,288	269,652,428	245,874,949	210,280,18
Non-current assets held for sale	264,705	533,062	445,351	412,14
Investments in associated companies	1,368,059	2,754,998	2,390,466	2,298,20
Property and equipment	2,250,648	4,532,355	4,267,218	3,669,28
Intangible assets and goodwill	3,851,259	7,755,665	7,216,697	5,412,08
Taxes to be offset	2,655,027	5,346,693	4,572,927	1,590,29
Deferred income tax assets	8,930,161	17,983,558	17,093,388	12,733,79
Other assets	18,156,988	36,564,543	30,705,887	22,374,24
Total assets	**397,848,197**	**801,186,699**	**722,086,892**	**602,954,02**
Liabilities				
Deposits from banks	109,656,514	220,826,288	204,290,176	171,920,91
Deposits from customers	104,663,477	210,771,310	216,320,938	192,475,94
Financial liabilities held for trading	2,011,114	4,049,982	747,210	732,96
Funds from securities issued	25,599,411	51,552,093	41,630,969	17,809,76
Subordinated debt	17,306,443	34,851,714	26,910,091	26,314,94
Insurance technical provisions and pension plans	58,977,416	118,768,720	99,112,321	83,493,04
Other provisions	10,451,481	21,047,193	17,926,450	13,327,86
Current income tax liabilities	1,665,572	3,354,128	2,758,978	1,923,37
Deferred income tax liabilities	1,535,240	3,091,667	2,246,508	1,980,54
Other liabilities	30,552,793	61,527,214	50,761,157	41,816,08
Total liabilities	**362,419,460**	**729,840,309**	**662,704,798**	**551,795,45**
Equity				
Share capital	14,946,867	30,100,000	30,100,000	28,500,00
Treasury shares	(97,974)	(197,301)	(183,109)	(10,049
Capital reserves	17,863	35,973	35,973	87,14
Revenue reserves	16,977,546	34,189,383	26,732,531	19,481,98
Additional paid-in capital	35,006	70,496	70,496	70,49
Other comprehensive income	3,176,450	6,396,736	1,751,059	2,219,27
Retained earnings	269,352	542,422	632,096	702,38
Equity attributable to controlling shareholders	**35,325,111**	**71,137,709**	**59,139,046**	**51,051,23**
Non-controlling interest	**103,625**	**208,681**	**243,048**	**107,33**

Total equity	**35,428,737**	**71,346,390**	**59,382,094**	**51,158,56**
Total liabilities and equity	**397,848,197**	**801,186,699**	**722,086,892**	**602,954,02**

(1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R$2.0138 per U
Central Bank exchange rate on March 31, 2013. Such translations should not be construed as a representation that
real amounts presented have been or could be converted into U.S. dollars at that rate.

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Exchange Rate Information

In the past years, the exchange rate between the *real* and the U.S. dollar has experienced significant variation. From 2007 to mid-2008, the *real* appreciated against the U.S. dollar. In the second half of 2008, the *real* depreciated against the U.S. dollar, from R$1.5919 per US$1.00 on June 30, 2008 to R$2.3370 per US$1.00 on December 31, 2008, mainly due to the global economic crisis that began in mid-2008. In 2009, the *real* began to appreciate against the U.S. dollar, from R$2.3370 per US$1.00 on December 31, 2008 to R$1.7412 as of December 31, 2009. In 2010, the *real* continued to appreciate against the U.S. dollar and reached R$1.6662 on December 31, 2010. In 2011, the Brazilian real depreciated 12.6% against the U.S. dollar, reaching R$1.8758 on December 31, 2011. In 2012, the Brazilian real depreciated 8.9% against the U.S. dollar, reaching R$2.0435 on December 31, 2012. On March 31, 2013 the exchange rate was R$2.0138 per US$1.00. Under the current floating exchange-rate system, the *real* may be subject to fluctuations and depreciation or appreciation against the U.S. dollar and other currencies.

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

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

Period	Period-End	Average (1)	Maximum (1)	Minimum (1)
2007	1.7713	1.9460	2.1380	1.7440
2008	2.3370	1.8287	2.3370	1.5666
2009	1.7412	2.0171	2.3784	1.7412
2010	1.6662	1.7575	1.8748	1.6662
2011	1.8758	1.6705	1.8758	1.5563
2012	2.0435	1.9524	2.1074	1.7092
November	2.1074	1.9448	2.1074	1.7092
December	2.0435	1.9524	2.1074	1.7092
2013				
January	1.9883	2.0159	2.0435	1.9883
February	1.9754	2.0024	2.0435	1.9754
March	2.0138	2.0053	2.0435	1.9754
April (until April 16, 2013)	1.9903	2.0023	2.0435	1.9754

(1) Average, maximum and minimum of the month end rates from December of the previous period.
Source: Central Bank.

3.B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

3.D. Risk Factors

Macroeconomic risks

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

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

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Since 2008, the continuation of the economic crisis in Europe, particularly in Greece, Spain, Italy, Ireland and Portugal, has continued to reduce investor confidence globally, as has the downgrade of the U.S. long-term sovereign credit rating by Standard & Poor's on August 6, 2011. These ongoing events could negatively affect our ability and the ability of other Brazilian financial institutions to obtain financing in the global capital markets, as well as weakening the recovery and growth of the Brazilian and/or foreign economies and cause volatility in the Brazilian capital markets. The bank does not have exposure to sovereign debt issued by the countries known as "PIIGS": Portugal, Ireland, Italy, Greece, and Spain.

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

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

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

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

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

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

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

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

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

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

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

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

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

The memory of and potential for inflation is still present, despite the monetary stability achieved in the mid-1990s which intensified after 1999 with the adoption of an inflation targeting norms. There are still concerns that inflation levels might rise again in the future. This current system is a monetary regime which the Central Bank operates in order to assure that the effective rate of inflation keeps in line with a predetermined target, previously announced to the public.

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

Future Brazilian government actions, including the imposition of taxes, intervention in the foreign exchange market and actions to adjust or fix the value of the real, as well as any GDP growth beyond expected levels may trigger increases in inflation. If Brazil experiences fluctuations in rates of inflation in the future, our costs and net margins may be affected and, if investor confidence lags, the price of our securities may fall. Inflationary pressures may also affect our ability to access foreign financial markets and may lead to counter-inflationary policies that may have an adverse effect on our business, financial condition, results of operations and the market value of our shares, ADSs and common share ADSs.

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

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

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

• low base interest rates may diminish our interest income.

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

Developments and the perception of risk in Brazil and other countries, especially emerging market countries, may adversely affect the market price of Brazilian securities, including our shares, ADRs and common share ADRs ("American Depositary Receipts").

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

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

The recent global financial crisis has had significant consequences worldwide, including Brazil, such as capital mark

Risks relating to Bradesco and the Brazilian banking industry

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

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

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

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

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

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

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

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

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

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

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

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

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

- increasing competition for foreign investment opportunities.

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

The value of certain of our investments in financial assets may decline significantly due to volatile financial markets and may fluctuate over short periods of time. As of December 31, 2012, investments in financial assets represented 24.1% of our assets, and realized investment gains and losses have had and will continue to have a significant impact on the results of our operations. The amounts of such gains and losses, which we record when investments in financial assets are sold, or in certain limited circumstances where they are marked to market or recognized at fair value, may fluctuate considerably from period to period. The level of fluctuation depends, in part, upon the fair value of the financial assets, which in turn may vary considerably, and our investment policies. We cannot predict the amount of realized gain or loss for any future period, and our management believes that variations from period to period have no practical analytical value. Furthermore, any gains on our investment portfolio may not continue to contribute to net income at levels consistent with recent periods or at all, and we may not successfully realize the appreciation now existing in our consolidated investment portfolio or any portion thereof.

We may incur losses associated with counterparty exposures.

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

Our trading activities and derivatives transactions may produce material losses.

We engage in the trading of securities, buying debt and equity securities principally to sell them in the near term with the objective of generating profits on short-term differences in price. These investments could expose us to the possibility of material financial losses in the future, as securities are subject to fluctuations in value, which may generate losses. In addition, we enter into derivatives transactions to manage our exposure to interest rate and exchange rate risk. Such derivatives transactions are designed to protect us against increases in exchange rates or interest rates or against decreases in such rates, but not both. If we have entered into derivatives transactions to protect against, for example, decreases in the value of the *real* or in interest rates and the *real* instead increases in value or interest rates increase, we may incur financial losses. Such losses could materially and adversely affect our future results of operations and cash flow.

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

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

- minimum capital requirements;
- compulsory deposit/reserve requirements;
- investment requirements in fixed assets;
- lending limits and other credit restrictions;
- accounting and statistical requirements;

- solvency margins;
- minimum coverage; and
- mandatory provisioning policies.

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

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

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

As of December 31, 2012, Fundação Bradesco directly and indirectly held 56.5% of our common shares. As a result, Fundação Bradesco has the power, among other things, to prevent a change in control of our company, even if a transaction of that nature would be beneficial to our other shareholders, as well as to approve related party transactions or corporate reorganizations. Under the terms of Fundação Bradesco's by-laws, members of our *Diretoria Executiva*, or of our Board of Executive Officers, and departmental officers that have been working at the Organization for more than ten years serve as members of the Board of Trustees of Fundação Bradesco. The Board of Trustees has no other members. Decisions in relation to our policy towards acquisitions, divestitures, financings or other transactions could be made by Fundação Bradesco which may be contrary to the interests of holders of common shares, and which may have a negative impact on the interests of holders of common shares. For more information on our shareholders, see "Item 7.A. Major Shareholders."

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

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

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

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

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

- a portion of our compulsory deposits do not bear interest;
- a portion of our compulsory deposits must be held in Brazilian government securities; and
- a portion of our compulsory deposits must finance a federal housing program, the Brazilian rural sector, low income customers and small enterprises under a program referred to as a "microcredit program."

As of December 31, 2012, our compulsory deposits in connection with demand, savings and time deposits and additional compulsory deposits were R$47.9 billion. Reserve requirements have been used by the Central Bank to control liquidity as part of monetary policy in the past, and we have no control over their imposition. Any increase in the compulsory deposit requirements may reduce our ability to lend funds and to make other investments and, as a result, may adversely affect us. For more information on compulsory deposits, see "Item 4.B. Business Overview-Deposit-taking activities."

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

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

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

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

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

With the enactment of the new Civil Code (or Law No. 10,406/02), as amended, unless the parties to a loan have agreed to use a different rate, in principle the interest rate ceiling has been related to the base rate charged by the National Treasury. Currently, this base interest rate is the SELIC rate, the base interest rate established by the COPOM, which was in March 2013, 7.25% *per annum*. However, there is presently some uncertainty as to whether the base interest rate would be the SELIC rate or the 12% *per annum* interest rate established in the Brazilian Tax Code should apply.

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

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

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

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

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

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

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

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

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

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

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

Risks relating to our shares, ADSs and common shares ADSs

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

Under Brazilian corporate law (Brazilian Law No. 6,404/76, as amended by Law No. 9,457/97 and Brazilian Law No. 10,303/01, which we refer to collectively as "Brazilian Corporate Law") and our Bylaws, holders of our preferred shares, and therefore of our ADSs, representing our preferred shares, are not entitled to vote at our shareholders' meetings, except in limited circumstances (see “Item 10.B. Articles of Association and Articles of Incorporation – Organization – Voting Rights,” for further information on voting rights). This means, among other things, that holders of ADSs are not entitled to vote on corporate transactions, including any proposed merger or consolidation with other companies.

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

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

Investing in securities that trade in emerging markets such as Brazil often involves greater risk than investing in securities of issuers in more developed countries, and these investments are generally considered more speculative in nature. The Brazilian securities market is substantially smaller and less liquid than major securities markets, such as the United States, and may be more volatile. Although you are entitled to withdraw our shares underlying the ADSs or common share ADSs from the depositary bank at any time, your ability to sell our shares underlying the ADSs or common share ADSs at a price and time acceptable to you may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets such as the United States or other countries. The ten largest companies in terms of market capitalization accounted for 52.2% of the aggregate market capitalization of the BM&FBOVESPA in March 2013.

Our shares, ADSs and common share ADSs are not entitled to a fixed or minimum dividend.

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

On March 1, 2013 CMN Resolution No. 4,193 was issued in an effort to further implement the Basel III Accord in Brazil. Pursuant to such rules, a restriction of dividend and interest payments on equity may be imposed by the Central Bank in the event the additional capital requirements determined by the Central Bank are not complied with, in accordance with "Item 5.B. Liquidity and Capital Resources - Capital adequacy and leverage."

As a holder of ADSs or common share 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 our shares may have fewer and less well defined rights to protect your interests relative to actions taken by our Board of Directors or the holders of our common shares than under the laws of other jurisdictions outside Brazil.

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

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

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

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

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

Payments on the ADSs or common share ADSs may be subject to U.S. withholding under FATCA

In order to receive payments free of U.S. withholding tax under Sections 1,471 through 1,474 of the US Internal Revenue Code (commonly referred to as "FATCA"), we and financial institutions through which payments on the ADSs or common share ADSs are made may be required to withhold at a rate of up to 30% on all, or a portion of, payments in respect of the ADSs or common share ADSs made after December 31, 2016.

We may enter into an agreement with the U.S. Internal Revenue Service to provide certain information about investors. Under such an agreement, withholding may be triggered if: (a) an investor does not provide information sufficient for the relevant party to determine whether the investor is a U.S. person or should otherwise be treated as holding a ''United States Account'' of our company, (b) an investor does not consent, where necessary, to have its information disclosed to the U.S. Internal Revenue Service or (c) any investor or person through which payment on the ADSs or common share ADSs is made is not able to receive payments free of withholding under FATCA.

If an amount in respect of FATCA were to be deducted or withheld from interest, principal or other payments on or with respect to the ADSs or common share ADSs, we would have no obligation to pay such amount or otherwise indemnify a shareholder for any such withholding or deduction by us, a paying agent or any other party as a result of the deduction or withholding of such amount. As a result, if FATCA withholding is imposed on these payments, investors may receive less interest or principal than expected.

An investor that is a "foreign financial institution" (as defined under the FATCA rules) but that is withheld upon generally will be able to obtain a refund only to the extent an applicable income tax treaty with the United States entitles the investor to a reduced rate of tax on the payment that was subject to withholding under FATCA, provided the required information is furnished in a timely manner to the U.S. Internal Revenue Service.

The United States is in the process of negotiating intergovernmental agreements to implement FATCA with a number of jurisdictions. Different rules than those described above may apply if our company or an investor is a resident in a jurisdiction that has entered into an intergovernmental agreement to implement FATCA.

Investors should consult their own advisers about the application of FATCA, in particular if they may be classified as financial institutions under the FATCA rules.

You may be unable to exercise preemptive rights relating to our shares.

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

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If you exchange your ADSs or common share ADSs for their underlying shares, you risk losing Brazilian tax advantages and the ability to remit foreign currency abroad.

Brazilian law requires that parties obtain registration with the Central Bank in order to remit foreign currencies, including U.S. dollars, abroad. The Brazilian custodian for the shares must obtain the necessary registration with the Central Bank for payment of dividends or other cash distributions relating to the shares or after disposition of the shares. If you exchange your ADSs or common share ADSs for the underlying shares, however, you may only rely on the custodian's certificate for five business days from the date of exchange. Thereafter, you must obtain your own registration in accordance with the rules of the Central Bank and the CVM, in order to obtain and remit U.S. dollars abroad after the disposition of the shares or the receipt of distributions relating to the 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 shares. For more information, see "Item 10.D. Exchange Controls."

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

ITEM 4. INFORMATION ON THE COMPANY

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

The company

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

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

According to information published in December 2012 by SUSEP and by ANS, we are the largest insurance, pension plan and capitalization bond group in Brazil on a consolidated basis in terms of insurance premiums, pension plan contributions and income from capitalization bonds. *Título de capitalização,* or "capitalization bond," refers to a type of savings account combined with periodic cash-prize draws.

In 2012, some of our subsidiaries ranked among the largest companies in Brazil in their respective markets, according to the sources cited in parentheses below, including:

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

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

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

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

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

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

- *Bradesco Administradora de Consórcios Ltda.* ("Bradesco Consórcios"), market leader in the segments of real estate, automobiles, trucks and tractors, with 736,202 outstanding purchasing consortium quotas (Central Bank); and

- BRAM – Bradesco Asset Management, one of the leaders in the asset management sector, with R$287.4 billion in managed assets (ANBIMA).

We are also one of the leaders among financial institutions in underwriting debt securities, according to information published by ANBIMA.

As of December 31, 2012, we had, on a consolidated basis:

- R$801.2 billion in total assets;
- R$289.7 billion in total loans and advances;
- R$211.9 billion in total deposits;
- R$71.3 billion in equity, including non-controlling interest;
- R$118.8 billion in technical reserves for our insurance and pension plan business;
- R$37.3 billion in foreign trading financing;
- 37.3 million insurance policyholders;
- 25.7 million checking account holders;
- 48.6 million savings accounts;
- 3.5 million capitalization bonds holders;

- 2.3 million pension plan holders;

- 1,332 Brazilian and multinational corporations with affiliated companies in Brazil as "Corporate" customers;

- an average of 20.3 million daily transactions, including 2.1 million in our 4,686 branches and 18.2 million through self-service outlets, mainly Automatic Teller Machines, or ATMs, the Internet, telephone and mobile services (*Fone Fácil* and *Bradesco Celular*);

- a nationwide network consisting of 4,686 branches and 5,237 special points of banking services located on the premises of selected corporate customers, 34,859 ATMs, and 12,975 shared ATMs under the Banco24Horas brand for cash withdrawals, obtaining statements and account balance information, loans, payments and transfers between accounts; and

- a total of 3 branches and 10 subsidiaries located in New York, London, the Cayman Islands, Tokyo, Buenos Aires, Luxembourg, Hong Kong and Mexico.

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

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

2011 and 2010 acquisitions

In May 2011, Bradesco acquired 96.99% of the common shares and 95.21% of the preferred shares, corresponding to 96.23% of the capital stock of Banco do Estado do Rio de Janeiro S.A. ("BERJ") from the Government of the State of Rio de Janeiro. As part of the acquisition, Bradesco also acquired the right to provide services to the Government of the State of Rio de Janeiro including: (i) its payroll, (ii) its supplier payroll, (iii) the collection of state taxes, among others, in the period from January 2012 to December 2014. This transaction expanded Bradesco's presence in the State of Rio de Janeiro. A Special shareholders' meeting held in November 2011 voted to alter the name of Banco do Estado do Rio de Janeiro S.A – BERJ to Banco BERJ S.A. Bradesco's process of assuming control of BERJ was ratified by the Central Bank in November 2011. In May 2012 Bradesco acquired common and preferred shares issued by BERJ, held by its non-controlling shareholders, by way of a Unified Tender Offer (Unified OPA).

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

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

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

Other strategic alliances

In 2012, Bradesco Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários (BRAM) continued to develop its internationalization strategy with the launch of new funds intended for foreign investors. The company introduced a short-term fixed income fund in April 2012 and a Latin-American equities fund in December 2012. These new funds are now part of the family of investment funds called "Bradesco Global Funds," which was launched by Bradesco in September 2009. These funds are domiciled in Luxemburg and are marketed exclusively to foreign investors. Bradesco Global Funds is an umbrella structure that provides investors with a series of investment funds, each with different investment objectives.

In April 2011, we launched "Elo" in partnership with Banco do Brasil and Caixa Econômica Federal, a new Brazilian card flag that gives customers more choice and strengthens the Bank's portfolio. Accordingly, Elo Participações, a company incorporated by Bradesco and Banco do Brasil, now comprises certain businesses related to electronic means of payment, which include, as follows: (i) Elo Serviços S.A. (“Elo Serviços”), the owner and manager of the new Elo brand “Elo” of debit, credit and pre-paid cards; (ii) the activities of CBSS, which will be directly or indirectly integrated into Elo Participações (“Elo Participações”); and (iii) our ownership interest in IBI Promotora de Vendas Ltda. (“IBI Promotora”), which was sold to CBSS in September, 2011. Other businesses originally intended, but not yet finalized, are dependent upon the completion of ultimate documents and the compliance with applicable legal and regulatory formalities.

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

In February 2010, we entered into a non-binding memorandum of understanding with Banco do Brasil and Banco Santander S.A. ("Santander Brasil") to facilitate consolidation of operations of our respective networks of external self-service terminals (ATMs located outside branches).

Divestments

In November, 2012, we sold 308,676 shares of Serasa S.A (“Serasa”) to Experian Brasil Ltda. ("Experian Brasil"), a Brazilian subsidiary of Experian plc. The transaction generated income before taxes of R$793.3 million.

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In September 2010, the Organization announced the sale of its controlling interest in CPM Braxis SA (CPM) to Capgemini SA, reducing its interest in the total capital stock of CPM to 20%. In February 2012, after entry of new shareholders, the Organization's interest fell to 13.59%.

Bradesco Expresso – Correspondent Bank

Bradesco Expresso enables us to expand our share in the correspondent bank segment through partnerships with supermarkets, drugstores, department stores and other retail chains, ensuring presence in all Brazilian cities which are not served by the banking branch network.

The main services we offer through Bradesco Expresso are:

- receipt and submission of account applications;
- receipt and submission of loans, financing and credit card applications;
- withdrawals from checking accounts and savings accounts;
- Social Security National Service ("INSS") benefit payments;
- checking and savings account deposits;
- checking accounts, savings accounts and INSS balance statements;
- receipt of utility bills, bank charges and taxes; and
- prepaid mobile top-up.

In 2012, Bradesco Expresso network totaled 43,053 outlets, of which 8,214 were new outlets, with an average of 39.1 million monthly transactions or 1.8 million transactions per business day.

Business strategy

The key elements of our strategy are: (i) to consolidate and expand our position as one of the leading financial institutions and insurance providers in Brazil; (ii) maximize shareholder value; and (iii) maintain high standards of corporate responsibility and sustainability.

We intend to pursue the following strategies to reach these goals:

Consolidate and build upon our service network and brand as one of the leading financial institutions and insurance providers in Brazil, which offers a complete portfolio of products and services to all levels of society.

We believe that our position as one of the leading financial institutions in Brazil, with a presence in all Brazilian regions through a broad network of distribution channels and with exposure to individuals of all income levels as well as large, mid sized and small businesses, will allow us to maintain the organic growth strategy. We will also continue to expand the insurance, pension and capitalization bonds business segment, in order to consolidate our leadership in this sector. As part of this strategy, we intend to increase the sales of our traditional banking, insurance, pension and capitalization bonds products through our wide branch network, our internet distribution services and other distribution channels. We are committed to investing significantly in our IT platform to support such growth. In addition, we intend to continue to leverage our relationships with corporate clients and high-income individuals to further develop our investment banking, private banking and asset management operations through Bradesco BBI, Banco Bradesco Europa, Bradesco Securities and other subsidiaries in Brazil and other key financial centers such as London, New York, Hong Kong and Tokyo.

Maintain asset quality and operational risk levels.

We are focused on sustainable growth to ensure our standards in relation to our asset quality and risk levels. We intend to maintain the quality of our loan portfolio by continuously improving our delinquency risk models, ensuring better results in credit granting and appropriate provisions for possible incurred losses. Our strategy involves maintaining our existing policy for our insurance business of careful evaluation of risk spreads through robust actuarial analysis, while entering into reinsurance agreements with well-known reinsurers to reduce exposure to large risks.

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With respect to risk management, we intend to continue our integrated approach that utilizes a centralized method for identifying, measuring, controlling, monitoring and mitigating credit, market, liquidity and operational risks. We intend to continue to use specialized risk management committees in relation to the adoption of institutional policies, operational guidelines and the establishment of limits for risk exposure in accordance with best international practices, with the aim of maintaining operational risk levels within adequate boundaries.

Complement organic growth with strategic alliances and pursue selective acquisitions.

To complement our organic growth strategy, we constantly seek opportunities for strategic alliances and selective acquisitions to consolidate our position as one of the leading financial institutions in Brazil and to expand our presence in growth markets such as consumer financing, investment banking, broker dealing and insurance. We believe our partnership with Banco do Brasil and Caixa Econômica Federal in relation to credit, debit and pre-paid cards for checking account holders and non-account holders is an example of such a growth opportunity. Similarly, our merger with Odontoprev has increased our presence in the segment of dental care plans enabling us to cement our leadership position in the insurance market. We will continue to focus on asset quality, potential operating synergies, sale and acquisition of know-how to maximize return for our shareholders.

Focus on corporate responsibility and sustainability as core principles of our business.

We believe that corporate responsibility and sustainability are fundamental to our operations and have incorporated the following three principles into our overall strategy: sustainable finance, responsible management and investments in social and environmental projects. We are always seeking to develop and incorporate sustainable finance concepts into the process of designing and managing our products and services and in our relationships with clients and suppliers. We believe our admission to the sustainability indexes of both the New York Stock Exchange and BM&FBOVESPA represents strong recognition of our success in implementing sustainability principles. As part of this strategy, we will continue to apply social-environmental risk analysis in financing and investment activities in accordance with international practices, including the Equator Principles which we signed up to in 2004. Corporate responsibility has always been one of our core principles as evidenced by the significant investments we have made in education since 1956 through Fundação Bradesco, which is present in every state in Brazil and the Federal District, with 40 schools primarily located in regions of high socioeconomic deprivation. Fundação Bradesco offers quality formal education, free of charge, to children and young people from early childhood to high school as well as professional high school education for young people and adults, as well as initial and continuing education for employment and income.

4.B. Business Overview

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

The data about these segments was compiled from reports prepared for Management to assess performance and make decisions on allocating funds for investments and other purposes. Management uses various data, including financial data in conformity with the accounting practices adopted in Brazil and non-financial metrics compiled on different bases. Hence the segment data were prepared under accounting practices adopted in Brazil and the consolidated financial statements were compiled under International Financial Reporting Standards ("IFRS") as issued by the IASB. For further information on differences between the results on a consolidated basis and by segments, see "Item 5.A. Operating Results-Results of operations for the year ended December 31, 2012 compared with the year ended December 31, 2011" and "Item 5.A. Operating Results-Results of operations for the year ended December 31, 2011 compared with the year ended December 31, 2010."

As of December 31, 2012, according to the sources cited in parentheses below, we were:

- one of the leading banks in terms of savings deposits, with R$69.0 billion, accounting for 13.9% of Brazil's total savings deposits (Central Bank);

- one of the leaders in BNDES onlending, with R$12.4 billion in disbursements (BNDES);

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- one of the leaders in leasing operations in Brazil, with a leasing portfolio of R$8.0 billion at present value (ABEL);

- one of Brazil's largest fund and portfolio managers, with R$441.8 billion in total managed assets, of which R$147.7 billion are held by our subsidiary, BEM Distribuidora de Títulos e Valores Mobiliários Ltda., or “BEM DTVM,” specialized in trust, custody and controllership of asset management services (ANBIMA);

- one of the largest credit card issuers in Brazil, with 93.1 million credit cards issued (Visa, American Express, Elo, MasterCard and private label cards) with sales on credit cards and private label of R$103.5 billion (ABECS);

- the leader in bank payment processing and collection services in Brazil (Central Bank);

- the leader in number of active quotas in managed purchaser consortiums for the three segments: real estate, with 196,991 quotas; automobiles, with 500,702 quotas, and trucks and tractors with 38,509 quotas (Central Bank);

- one of the leaders in automobile financing loans, with a market share of 15.4% (Central Bank);

- the leading bank in benefit payments from the Social Security Institute (Instituto Nacional do Seguro Social, or INSS), with over 7.4 million "INSS" retirees, beneficiaries and other pensioners, accounting for 24.6% of the total number of INSS beneficiaries (INSS); and

- Brazil's largest insurance and open pension fund operator with R$44.3 billion in total premiums, pension plan contributions and capitalization bond income (SUSEP and ANS).

Additionally, Bradesco was recognized as one of the world’s strongest banks, according to a survey conducted by Bloomberg News. The Bank ranks 13th among 20 financial institutions in the world, and it is the only bona fide Brazilian institution listed in the ranking. Bradesco was also recognized as the “best company for you to start a career,” in the Retention of Young Talents category of Você S/A magazine, in partnership with Fundação Instituto de Administração – FIA. Bradesco was granted the *Award for Excellence* 2012 by Euromoney magazine in the *Best Bank in LatAm* and *Best Bank in Brazil* categories. The Bank was also granted the *Deals of the Year Awards* from Latin Finance magazine and the “Best Investor Relations of the Financial Sector” award, promoted by *IR magazine*, RI magazine and the Brazilian Institute of Investor Relations (IBRI).

Main subsidiaries

The following is a simplified chart of our principal subsidiaries in the financial and insurance services businesses and our voting and ownership interest in each of them as of December 31, 2012 (all of which are consolidated in our financial statements in "Item 18. Financial Statements"). With the exception of Banco Bradesco Argentina, which was incorporated in Argentina, all of these principal subsidiaries were incorporated in Brazil. For more information regarding the consolidation of our principal subsidiaries, see Note 2a to our consolidated financial statements in "Item 18. Financial Statements."

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Revenues per business segment

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

Years Ended December 31,	R$ in thousands		
	2012	2011	2010
Banking			
Loans and advances [1]	54,433,883	52,890,045	43,574,580
Fees and commissions	13,885,450	11,989,868	10,450,714
Insurance and pension plans			
Premiums retained from insurance and pension plans	40,176,745	34,315,543	27,994,116

[1] Includes industrial loans, financing under credit cards, overdraft loans, trade financing and foreign loans.

For further details of our segments, see "Item 5.A. Operating Results" and Note 5 of our consolidated financial statements in "Item 18. Financial Statements."

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

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Banking

We have a diverse customer base that includes individuals and small, midsized and large companies in Brazil. Historically, we have cultivated a stronger presence among the broadest segment of the Brazilian market, middle- and low-income individuals. In 1999, we set up our corporate department to serve corporate customers with annual revenues of R$250 million or more, and our private banking department to serve our individual customers with minimum net assets of R$3 million. In 2002, we created *Bradesco Empresas* (Middle Market) to cater for corporate customers with annual revenues of R$30 to R$250 million, in other to expand our business in the middle corporate market. In 2003, we launched Bradesco Prime, which offers services to individual customers who either have a monthly income of at least R$9,000 or R$100,000 available for immediate investment. Bradesco Varejo is our division for corporate customers with annual revenues of less than R$30 million and individual customers with monthly income of less than R$9,000. For more information, see "Distribution channels" and "Specialized distribution of products and services."

The following diagram shows the breakdown of our banking activities as of December 31, 2012:

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Form 20-F

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

Year ended December 31,	R$ in thousands		
	2012	2011	2010
Statement of Income data			
Net interest income	39,181,426	31,379,722	28,223,501
Impairment of loans and advances	(10,925,404)	(9,275,421)	(6,354,670)
Other income/(expenses) [1]	(20,301,375)	(13,063,262)	(12,497,956)
Income before income taxes	**7,954,647**	**9,041,039**	**9,370,875**
Income and social contribution taxes	(273,930)	(1,305,702)	(2,416,284)
Net income for the year	**7,680,717**	**7,735,337**	**6,954,591**
Net income attributable to controlling shareholders	7,672,233	7,724,917	6,943,764
Net income attributable to non-controlling interest	8,484	10,420	10,827
Statement of Financial Position data			
Total assets	750,410,472	657,903,426	548,664,554
Selected results of operations data			
Interest and similar income			
Loans and advances to banks	6,758,555	8,469,093	6,759,299
Loans and advances to customers	47,675,328	44,420,954	36,815,282
Financial assets	17,013,594	15,913,414	9,828,935
Compulsory deposits with the Central Bank	3,808,229	6,112,337	2,869,307
Other financial interest income	37,540	40,774	35,707
Interest and similar expenses			
Deposits from banks	(18,563,193)	(23,215,922)	(14,065,917)
Deposits from customers	(11,224,649)	(14,974,545)	(11,296,932)
Funds from securities issued	(3,439,647)	(2,598,702)	(699,640)
Subordinated debt	(2,884,331)	(2,787,681)	(2,022,540)
Net interest income	**39,181,426**	**31,379,722**	**28,223,501**
Net fee and commission income	**13,885,450**	**11,989,868**	**10,450,714**

Note: Data presented above includes income from related parties of other segments before elimination.
[1] For additional information, see "Item 5.A. Operational Results".

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

- deposit-taking with clients, including checking accounts, savings accounts and time deposits;
- loans and advances (individuals and companies, real estate financing, microcredit, onlending BNDES funds, rural credit, leasing, among others);

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

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Deposit-taking with clients

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

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

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

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

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

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

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

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

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

As of December 31, 2012, we had 25.7 million checking account holders, 24.2 million of which were individual account holders and 1.5 million corporate account holders. As of the same date, we had 48.6 million savings accounts.

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

December 31,	**R$ in thousands, except %**					
	2012		**2011**		**2010**	
Deposits from customers						
Demand deposits	**37,684,126**	**17.9%**	**32,535,978**	**15.0%**	**35,775,239**	**18.6%**
Reais	37,216,483	17.7%	32,090,220	14.8%	35,389,537	18.4%
Foreign currency	467,643	0.2%	445,758	0.2%	385,702	0.2%

Savings deposits	**69,041,721**	**32.8%**	**59,656,319**	**27.6%**	**53,435,652**	**27.8%**
Reais	69,041,721	32.8%	59,656,319	27.6%	53,435,652	27.8%
Time deposits	**104,045,463**	**49.4%**	**124,128,641**	**57.4%**	**102,157,837**	**53.1%**
Reais	80,846,398	38.4%	104,114,818	48.1%	94,723,153	49.2%
Foreign currency	23,199,065	11.0%	20,013,823	9.3%	7,434,684	3.9%
Total deposits from customers	**210,771,310**	**100.0%**	**216,320,938**	**100.0%**	**191,368,728**	**99.4%**
Others	**-**	**-**	**-**	**-**	**1,107,220**	**0.6%**
Total	**210,771,310**	**100.0%**	**216,320,938**	**100.0%**	**192,475,948**	**100.0%**

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We offer our customers certain additional services, such as:

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

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

Loans and advances to customers

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

December 31,	**R$ in thousands**		
	2012	**2011**	**2010**
Loans and advances to individuals outstanding by type of operation			
Other loans and advances to individuals	69,096,406	58,014,635	48,769,011
Housing loans	22,302,967	15,930,568	10,186,535
Onlending BNDES/Finame	35,703,861	35,398,656	29,554,340
Other corporate loans and advances	91,079,090	85,760,876	71,611,871
Rural loans	11,580,061	11,036,251	10,179,753
Leasing	8,035,454	11,550,838	16,365,943
Credit cards	22,646,420	20,252,191	18,474,095
Import and export financings	29,245,863	25,577,600	20,494,370
Total	**289,690,122**	**263,521,615**	**225,635,918**

The following table summarizes concentration for our outstanding loans and advances to customers by borrower on the dates shown:

December 31,	**2012**	**2011**	**2010**
Borrower size			
Largest borrower	0.9%	0.9%	1.2%
10 largest borrowers	5.2%	5.2%	5.8%
20 largest borrowers	8.1%	8.6%	9.1%
50 largest borrowers	12.9%	14.0%	14.6%
100 largest borrowers	16.9%	18.1%	18.5%

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

Loans and advances to consumers

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

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

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

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

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

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

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

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

Real estate financing

As of December 31, 2012, we had 69,857 outstanding real estate loans. We reached a 35.1% market share of units financed through loans granted to real estate developers and builders by financial entities, according to data provided by the Central Bank. As of December 31, 2012, the aggregate outstanding amount of our real estate loans amounted to R$22.3 billion, representing 7.7% of our portfolio of loans and advances.

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

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

Our individual loans made for construction purposes are repaid within 360 months, with 24 months to completion of construction, a 2-month grace period and the remainder for repaying the loan. Payments are made at the interest rate of 10.5% *per annum* plus TR variation for real estate falling into the SFH rules, or interest rates of 11.0% *per annum* plus TR variation for real estate falling into the CHH.

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

for CHH loans.

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

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

Microcredit

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

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

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BNDES onlending

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

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

Other local commercial loans

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

- short-term loans of 29 days or less;
- working capital loans to cover our customers' cash needs;
- guaranteed checking accounts and corporate overdraft loans;
- discounting trade receivables, promissory notes, checks, credit card and supplier receivables, and a number of other receivables;
- financing for purchase and sale of goods and services;
- corporate real estate financing;
- investment lines for acquisition of assets and machinery; and
- guarantees.

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

Rural loans

We extend loans to the agricultural sector by financing demand deposits, BNDES onlendings and our own funds, in accordance with Central Bank regulations. As of December 31, 2012, we had R$11.6 billion in outstanding rural loans, representing 4.0% of our portfolio of loans and advances. In accordance with Central Bank regulations, loans arising from compulsory deposits are paid a fixed rate. The annual fixed rate was 5.5% as of December 31, 2012. Repayment of these loans generally coincides with agricultural harvest and principal is due when a crop is sold, except for BNDES onlending for rural investment which is repaid within five years with repayments on a semi-annual or annual basis. As security for such loans, we generally obtain a mortgage on the land where the agricultural activities being financed are conducted.

Since July 2012, Central Bank regulations require us to use at least 34% of the annual average (from June through May) of our checking account deposits to provide loans to the agricultural sector. By the end of June, if we do not reach 34%, we must deposit the unused amount in a non-interest-bearing account with the Central Bank or pay a penalty of 40% of this amount.

Leasing

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

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

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

Most of our leases are financial (as opposed to operational). Our leasing operations primarily involve the leasing of trucks, cranes, aircraft and heavy machinery. As of December 31, 2012, 66.8% of our outstanding leases were vehicle leases, compared with 56.7% in the Brazilian leasing market as a whole.

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

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

As of December 31, 2012, Bradesco Leasing had R$67.7 billion of debentures outstanding in the domestic market. These debentures will mature in 2028 and bear monthly interests at the interbank interest rate ("CDI rate").

Terms of leasing agreements

Financial leases represent a source of medium and long-term financing for Brazilian customers. Under Brazilian law, the minimum term of financial leasing contracts is 24 months for transactions relating to products whose average life of five years or less, and 36 months for transactions for those with an average useful life of five years or more. There is no legal maximum term for leasing contracts. As of December 31, 2012, the remaining average maturity of contracts in our lease portfolio was approximately 51 months.

Credit cards

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

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

We earn revenues from our credit card operations through:

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

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

- cards issued for use restricted to Brazil;
- credit cards accepted nationwide and internationally;
- credit cards directed toward high net worth customers, such as Gold, Platinum and Infinite/Black from Visa, American Express and MasterCard brands;

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- cards that combine credit and debit features in a single card, which may be used for traditional banking transactions and shopping;

- corporate credit cards accepted nationwide and internationally;

- co-branded credit cards, which we offer through partnerships with companies;

- "affinity" credit cards, which we offer through associations, such as sport clubs and non-governmental organizations;

- "*CredMais*" credit cards for employees of our payroll processing customers, which have more attractive revolving credit fees, and "*CredMais INSS*" credit cards for INSS pensioners and other beneficiaries with lower financing interest rates;

- private label credit cards, which we only offer to customers of retailers, designed to increase business and build customer loyalty for the corresponding retailer, which may or may not have a restriction on making purchases elsewhere;

- "CPB" and "EBTA," virtual cards for corporate customers with the management and control of airline ticket expenses;

- Bradesco's card for transportation companies, shippers, risk management companies and truck drivers, with both prepaid and debit card functionalities;

- "Contactless," which enable customers to simply place the card next a scanner to make a payment;

- "MoneyCard – Visa Travel Money and Global Travel Card" are prepaid international cards designed for foreign currency transactions, which target international travel;

- "Agrocard Bradesco" – created for farmers and combines the features of a credit card and a debit card. Holders of these cards can use them to buy farm products in stores authorized by Cielo;

- "Corporate Mastercard Black card" – created for executives offering exclusive services including Priority Pass, which provides access to more than 600 VIP lounges in airports, and Showpass, which facilitates the purchase of theatre tickets and promotions through *Plataforma Black*;

- "Prepax Presente prepaid cards" – issued by Alelo, which is a pre loaded card which can be given as a gift to individuals;

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

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

As of December 31, 2012, we had more than 62 partners with whom we offered co-branded, affinity and private label/hybrid credit cards. These relationships have allowed us to integrate our relationships with our customers and offer our credit card customers banking products, such as financing and insurance.

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

		In millions	
	2012	**2011**	**2010**
Card base			
Credit	93.1	91.3	86.5
Revenue – R$			
Credit	**103,542.5**	**89,624.1**	**75,561.0**
Number of transactions			
Credit	**1,225.6**	**1,105.8**	**959.1**

Debit cards

We first issued debit cards in 1981 under the name "*Bradesco Instantâneo."* In 1999, we started converting all of our *Bradesco Instantâneo* debit cards into new cards called "*Bradesco Visa Electron."* Bradesco debit cardholders can use them to purchase goods and services at establishments or make withdrawals through our self-service network in Brazil or the "Plus" network worldwide. Purchase amounts are debited to the cardholder's Bradesco account, thus eliminating the inconvenience and bureaucracy of writing checks.

Cash Management Solutions

Management of receipts and payments

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

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

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

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

Global Cash Management

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

Solutions for receipts and payments

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

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

Production chain solutions

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

Franchising solutions

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

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Public authority solutions

Public administration also requires agility and technology in its everyday activities. We have a business area specifically to serve this market, which offers specialized services to entities and bodies of the Executive, Legislative and Judiciary branches at federal, state and municipal levels, in addition to independent governmental agencies, public foundations, state-owned and mixed companies, the armed forces (army, navy and air force) and the auxiliary forces (federal and state police forces) and notary officers and registrars, identifying business opportunities and structuring customized solutions.

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

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

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

Asset management and administration

We administer and manage assets by way of:

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

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

The following tables show our equity of funds and equity of portfolios which are under our management, the number of investors and the number of investment funds and managed portfolios for each period.

Distribution of Assets as of December 31,	R$ in thousands	
	2012	**2011**
Investment Funds		
Fixed income	369,287,183	283,632,556
Variable income	28,645,545	26,471,324
Third party share funds	8,781,502	6,103,154
Total	**406,714,230**	**316,207,034**
Managed Portfolios		
Fixed income	24,573,236	10,549,837
Variable income	9,301,431	7,446,961
Third party share funds	1,242,315	1,166,162
Total	**35,116,982**	**19,162,960**
Overall Total	**441,831,212**	**335,369,994**

As of December 31,	2012		2011	
Number	Quotaholders	Number	Quotaholders	
Investment Funds	1,373	3,159,302	1,319	3,159,749
Managed Portfolios	231	469	240	441
Overall Total	**1,604**	**3,159,771**	**1,559**	**3,160,190**

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

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

Services related to the capital market and investment banking activities

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

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

Equities

Bradesco BBI coordinates and places public offerings of shares in the local and international capital markets and intermediates public tender offers. In 2012, Bradesco BBI increased its presence in IPOs and follow-ons onto the market, reaching second place by value of operations, in the ANBIMA ranking of equities. Taking into account the public offerings registered with CVM in 2012, it took part as an underwriter and Joint Bookrunner in: follow-on for Qualicorp in the amount of R$759 million; IPO for Banco BTG Pactual, the largest IPO in Brazil and one of the largest in the world in 2012, in the amount of R$3.2 billion; underwriter and Joint Bookrunner of the IPO for BR Pharma, in the amount of R$553 million; underwriter and Joint Bookrunner of the follow-on for Suzano Celulose e Papel, in the amount of R$1.5 billion; Equatorial Energia, in the amount of R$1.4 billion and Marfrig Alimentos, in the amount of R$1.1 billion.

Fixed income

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

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

Structured operations

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

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

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

Mergers and acquisitions

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

Project finance

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

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

Intermediation and trading services

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

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

In addition, in the same period, Bradesco Corretora traded 27,412,044 futures, swaps and options totaling R$2,595.0 billion on the BM&FBOVESPA. According to the BM&FBOVESPA, in 2012, Bradesco Corretora ranked 9th in the Brazilian market, in terms of the number of options, futures and swaps contracts executed.

With more than 40 years of tradition and efficiency in capital markets, Bradesco Corretora was also the first in the market to provide its customers with DMA-Direct Market Access. DMA is an innovative computer order routing service that enables investors to buy or sell assets directly in BM&FBovespa's market, with all convenience and security, without leaving home or the office.

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

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

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

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

Bradesco Corretora also offers its services as a representative of non-resident investors for transactions in the financial and capital markets, in accordance with CMN Resolution No. 2,689/00, which we refer to as "Resolution No. 2,689/00." For more details of Resolution No. 2,689/00, see "Item 10.D. Exchange Controls."

Custody, depositary and controllership services

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

We submit our processes to the Quality Management System ISO 9001:2008 and GoodPriv@cy certifications. Bradesco Custódia alone has 10 quality related and three protection and data privacy certifications.

As of December 31, 2012, Bradesco Custódia offered:

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

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

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

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

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

- Asset registration:

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

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

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

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

International banking services

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

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

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

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

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

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

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

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

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

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

Revenues from Brazilian and foreign operations

The table below breaks down revenues (interest and similar income, and fee and commission income) from our Brazilian and foreign operations for the periods shown:

For the years ended December 31,	2012 R$ in thousands	%	2011 R$ in thousands	%	2010 R$ in thousands	%
Brazilian operations	94,384,198	98.3%	91,944,418	98.6%	72,316,384	98.8%
Overseas operations	1,590,704	1.7%	1,291,165	1.4%	877,284	1.2%
Total	**95,974,902**	**100.0%**	**93,235,583**	**100.0%**	**73,193,668**	**100.0%**

Foreign branches and subsidiaries

Our foreign branches and subsidiaries are principally engaged in trade finance for Brazilian companies. Bradesco Europe also provides additional services to the private banking segment. With the exception of Bradesco Services Japan and Bradesco Trade Services, our branches abroad are allowed to receive deposits in foreign currency from corporate and individual customers and extend financing to Brazilian and non-Brazilian customers. Total assets of the foreign branches, excluding transactions between related parties, were R$122.1 billion, as of December 31, 2012, denominated in currencies other than the *real*.

Funding required for import and export finance is mainly obtained from the international financial community, through credit lines granted by correspondent banks abroad. As an additional source of funding, we issued debt securities in international capital markets which amounted to US$15.4 billion as of December 31, 2012.

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

Bradesco Europe (Bradesco Luxembourg's current business name) – In April 2002, we acquired full control of Banque Banespa International S.A. in Luxembourg and changed its name to Banco Bradesco Luxembourg S.A. In September 2003, Mercantil Luxembourg was merged into Banco Bradesco Luxembourg and the surviving entity was named Banco Bradesco Luxembourg. In January 2011, we made a capital injection of US$200 million. As of December 31, 2012, its total assets were R$4.4 billion.

Bradesco Services Japan – In October 2001, we incorporated Bradesco Services Japan to provide support and specialized services to the Brazilian community in Japan, including remittances to Brazil and advice regarding investments within Brazil. As of December 31, 2012, its assets totaled over R$1.5 million.

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

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

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

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

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

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

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

Banking operations in the United States

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

Import and export finance

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

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

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

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

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

The following table shows the composition of our foreign trade asset portfolio as of December 31, 2012:

2012	**R$ in thousands**
Export financing	
Advance on foreign exchange contracts – undelivered bills	5,999,882
Advance on foreign exchange contracts – delivered bills	1,020,377
Export prepayment	10,431,892
Onlending of funds borrowed from BNDES/EXIM	3,865,601
Proex - Rate Equalization Program	1,083,352
NCE/CCE (Exports Credit Note/Exports Credit Certificates)	5,586,677
Total export financing	**27,987,781**
Import financing	
Import financing – foreign currency	4,431,947
Exchange discounted in advance for import credit	2,126,981
Import credit opened	1,609,757
Total import financing	**8,168,685**
International financing	**1,096,451**
Total foreign trade portfolio	**37,252,917**

Foreign exchange products

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

- purchasing and selling travelers checks and foreign currency paper money;
- cross border money transfers;
- advance payment for exports;
- accounts abroad in foreign currency;
- domestic currency accounts for foreign domiciled customers;
- cash holding in other countries;
- collecting import and export receivables;
- cashing checks denominated in foreign currency;
- foreign loans to customers (Decree-Law No. 4,131/62);

- service agreements – receiving funds from individuals abroad via money orders;
- prepaid cards with foreign currency (individuals);
- structured foreign currency transactions through our foreign units; and
- international financial clearance certificate.

Purchasing consortiums

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

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

Insurance, pension plans and capitalization bonds

The following diagram shows the principal elements of our insurance, pension plans and capitalization bonds segment as of December 31, 2012:

The following table shows selected financial data for our insurance, pension plans and capitalization bonds segment for the periods indicated.

As of and for the year ended December 31,	R$ in thousands 2012	2011	2010
Statement of Income data			
Net interest income	3,124,512	3,274,715	2,823,860
Other income and expenses (1)	2,725,672	1,905,577	1,930,852
Income before income taxes	**5,850,184**	**5,180,292**	**4,754,712**
Income and social contribution taxes	(2,196,399)	(1,850,139)	(1,771,955)
Net income for the year	**3,653,785**	**3,330,153**	**2,982,757**
Net income attributable to controlling interest	3,591,743	3,201,449	2,912,981
Net income attributable to non-controlling interest	62,042	128,704	69,776
Statement of Financial Position data			
Total assets	153,695,571	123,867,399	105,026,136
Selected results of operations data			
Income from insurance and pension plans			
Written premiums	37,899,360	32,136,300	26,136,471
Pension plan contributions	3,273,485	3,061,682	2,541,130
Coinsurance premiums ceded	(198,281)	(190,724)	(127,307)
Premiums returned	(500,468)	(418,791)	(362,060)
Reinsurance premiums	(297,351)	(272,924)	(194,118)
Premiums retained from insurance and pension plans	**40,176,745**	**34,315,543**	**27,994,116**
Changes in the insurance technical provisions and pension plans	(23,326,101)	(18,212,405)	(14,294,977)
Retained claims	(13,123,833)	(11,168,612)	(9,577,429)
Selling expenses for insurance and pension plans	(2,314,815)	(1,859,208)	(1,567,344)
Income from insurance and pension plans	**1,411,996**	**3,075,318**	**2,554,366**

Note: Data presented above include income from related parties outside the segment.
(1) For additional information, see "Item 5.A. Operational Results".

Insurance products and services

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

Life and personal accident insurance

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

Health insurance

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

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

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

Automobiles, property/casualty and liability insurance

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

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

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

Other Information

Sales of insurance products

We sell our insurance products through brokers in our branch network and through non-exclusive brokers throughout Brazil. Bradesco Seguros pays brokers' fees on a commission basis. As of December 31, 2012, 32,077 brokers publically offered our insurance policies. We also offer certain automobile, health, and property/casualty insurance products directly through our website.

Pricing

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

The pricing of life insurance is usually based on life expectancy statistics, and in some cases, the frequency of the average amounts of claims actually made bay Brazilian population. Any amount exceeding the reinsurance agreement limit is transferred for reinsurance companies such as by IRB Brasil Resseguros

S.A., known as “IRB”.

The pricing of automobile insurance depends on the frequency and severity of the claims made, and includes several factors such as place of use of the vehicle and its specific characteristics. We also factor customer profiles into the pricing of automobile insurance, in line with market practice.

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

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

Reinsurance

Brazilian regulations set retention limits on the amount of risk insurance companies may underwrite without having to purchase reinsurance. Under these regulations, risk underwritten by Bradesco Auto/RE are reinsured substantially with IRB-Brasil Re if insured amounts exceed retention limits or if reinsurance is recommended for technical/actuarial decisions taken to minimize the risks of certain portfolios.

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In January 2007, Brazil's Congress enacted Supplementary Law No. 126/07, which abolished IRB-Brasil Re's monopoly and allowed three types of reinsurers referred to as "local," "admitted" and "occasional," thus opening up Brazil's reinsurance market for competition. Under the same supplementary law, IRB-Brasil Re was recognized as a local reinsurer and authorized to continue its operations and make any required adjustments in due course.

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

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

Through Decree No. 6,499/08, the President of Brazil set maximum limits for the ceding of premiums to reinsurance company in each calendar year. For local insurers, such maximum limit was 10% of premiums, and for local reinsurers, 50% of premiums. In the case of local insurers, CNSP Resolution No. 203/09 raised the limit from 10% to 25% in the case of guarantees for public obligations and oil risks.

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

CNSP Resolution No. 241/11 enabled the transfer of risks as part of reinsurance or retrocession operations to reinsurers not authorized by SUSEP as long as the shortfall in the Brazilian reinsurance market's capacity has been shown and certain rules and limits are followed.

On December 31, 2012 there were 102 reinsurers authorized to operate in the Brazilian market, including IRB-Brasil Re and Lloyd's of London. Thirty-three reinsurance brokerage firms have authorization to intermediate reinsurance and retrocession operations.

Bradesco Auto/RE purchases reinsurance from a small number of reinsurers authorized by SUSEP and previously approved by its Executive Board, and holds IRB-Brasil Re as its main reinsurer, by granting the leadership in all automatic agreements and 100% of optional agreements. These reinsurers are classified by SUSEP as local (IRB-Brasil Re) or admitted (other), posting capital and rating above the minimum determined by the Brazilian legislation.

We emphasize that practically all portfolios of our property and casualty insurance, except for automobiles, have reinsurance protection. Most of these lines of insurance, with proportional and non-proportional plans, have re-insurance protection by risk and/or event. The premium assigned in reinsurance, in relation to the premium issued by the insurance company, is relatively small.

All re-insurance contracts are entered into directly with the re-insurer, without the intermediation of any reinsurance brokers, and they adopt the re-insurance contractual provisions prepared by the company's technical and legal departments.

Pension plans

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

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

As of December 31, 2012, Bradesco Vida e Previdência accounted for 29.6% of the pension plan and VGBL market in terms of contributions, according to Fenaprevi. Also according to the same source, managed pension funds accounted for 29.5% of VGBL, 26.9% of PGBL and 39.0% of traditional pension plans in Brazil. As of December 31, 2012, Bradesco Vida e Previdência accounted for 33.4% of all supplementary pension plan assets under management, 31.0% of VGBL, 23.9% of PGBL and 55.7% of traditional pension plans, according to Fenaprevi.

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

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

Under VGBL, PGBL and FAPI plans, participants are allowed to make contributions either in installments or in lump-sum payments. Participants in pension plans may deduct the amounts contributed to PGBL up to 12% of the participant's taxable income when making their annual tax declaration. Under current legislation, redemptions and benefits are subject to withholding tax. VGBL plan participants may not deduct their contributions when declaring income tax. At the time of redemption, or when benefits are paid out, tax will be levied on these benefits, pursuant to current legislation.

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

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

Bradesco Vida e Previdência earns revenues primarily from:

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

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

- Financial income.

Capitalization bonds

Bradesco Capitalização offers its customers capitalization bonds with the option of a lump-sum or monthly contributions. Plans vary in value (from R$8.00 to R$50,000), form of payment, contribution period, and periodicity of draws for cash prizes of up to R$2.0 million (gross premiums). Customers' contributions earn interest at a rate of TR plus 0.5% per month over the value of the mathematical provision. Capitalization bonds may be redeemed after a 12-month grace period. As of December 31, 2012, we had around 8.2 million "traditional" capitalization bonds and around 13.7 million incentive capitalization bonds. Given that the purpose of the incentive capitalization bonds is to add value to the products of a partner company or even to provide an incentive for its customer to avoid delinquency, the plans are for short terms and grace periods with low unit sales value. As of December 31, 2012, Bradesco Capitalização had approximately 21.9 million capitalization bonds and 3.5 million customers.

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

Bradesco Capitalização is the only company in its industry to have received a Standard & Poor’s (“S&P”) rating of brAAA, the highest rating in Brazil. This rating was reaffirmed, with a stable outlook, in the report issued by S&P in November 2011. The robust level of financial and property protection Bradesco assures its customers contributed to this result.

Treasury activities

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

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Form 20-F

Distribution channels

Our branch network is complemented by other distribution channels such as points of service, banking correspondents, ATMs, telephone banking services, and Internet and mobile banking. In introducing new distribution systems, we have focused on enhancing our security as well as increasing efficiency.

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

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

Specialized distribution of products and services

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

Bradesco Varejo

Bradesco is present in 100% of municipalities in Brazil. Bradesco Varejo service network comprises 4,270 branches, 3,771 banking and electronic points of service, 1,456 mini-branches and 43,053 Bradesco Expresso banking correspondent units, in addition to thousands of ATMs. Bradesco Varejo targets individuals with monthly incomes of up to R$8,999.99 and companies with annual revenues of up to R$30.0 million. As of December 31, 2012, we provided services for over 24.9 million account holders. For a segment of clients called “Exclusive Individuals,” those with monthly incomes between R$4,000.00 and R$8,999.99 as well as corporate clients, Bradesco Varejo offers customized services provided by professionals who present financial solutions according to the needs and expectations of each customer profile.

The service network makes products and services available even at remote or hard-to-reach areas and also at densely populated and low income communities, such as: Rocinha, Cidade de Deus, Rio das Pedras, Complexo do Alemão, Gardênia Azul, Santo Cristo, Cantagalo, Turano, Santa Marta, Mangueira and Chapéu Mangueira in Rio de Janeiro, and Heliópolis and Paraisópolis in São Paulo.

Bradesco Prime

Bradesco Prime was created in May 2003 to target the high-income segment and provide services for individual customers with either monthly incomes of at least R$9 thousand or investments worth at least R$100 thousand. Its mission is to be the bank of choice for these customers by focusing on quality relationships, and providing solutions for their needs through well-trained teams, adding shareholder and collaborator value while upholding our ethical and professional standards. The value of the Bradesco Prime segment is based on the following assumptions:

- **Personalized services provided by relationship managers**: Qualified and experienced professionals with certification from ANBIMA, providing full financial advisory services and managing a small number of portfolios;

- **Exclusive facilities**: Bradesco Prime customers have access to their own network of exclusive branches offering convenience and privacy to tend to their business affairs and can count on “Bradesco Prime Spaces” - special reserved areas at Bradesco Varejo branches - to fully maintain the segment's value proposition. Also at their disposal is our nationwide branch network, including "Bradesco Dia & Noite" and "Banco24Horas” ATMs;

- **Exclusive products and services**: Bradesco Prime has a comprehensive set of differentiated products and services, such as internet banking (bradescoprime.com.br), call center (*Fone Fácil* Bradesco Prime), online advisors and investment funds, credit solutions at special rates, a diversified portfolio of insurance, pension plans and credit cards, among others; and

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

Bradesco Prime is present in all Brazilian capital cities. Throughout its history, by investing in technology, enhancing customers relationships and training its professionals, Bradesco Prime has earned an outstanding position in the Brazilian market for banking services for high-income customers and has consolidated as the largest banking services provider for these customers in terms of its service network, with 305 branches and 360 Bradesco Prime Spaces strategically positioned to serve over 674,000 customers.

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

Bradesco Private Bank

Bradesco Private Bank was created in 2000 for the sole purpose of advising high net-worth individuals, family-owned holding companies and investment companies with high liquidity availability for investments. Bradesco Private Banking finds the most appropriate financial solution for each customer profile based on tailor-made basis focusing on asset allocation, tax guidance and estate planning.

Bradesco Private Bank has offices located in São Paulo, Rio de Janeiro, Belo Horizonte, Blumenau, Brasília, Campinas, Curitiba, Fortaleza, Goiânia, Manaus, Porto Alegre, Recife, Ribeirão Preto and Salvador. Bradesco Private Banking is supported by our international units in Cayman, New York and Luxembourg.

Bradesco Private Bank earned “ISO 9001:2008” certification for "Customer Relationship Management with High Net Worth Individuals and Management of Integrated Solutions – São Paulo and Rio de Janeiro Offices." It also has the "GoodPriv@cy" (*Data Protection Label* – 2007 *edition*, awarded by *IQNet International Quality Network*) for "Management of Privacy for Data Used in Relationships with High Net Worth Customers – São Paulo Unit.”

Bradesco Empresas

Bradesco Empresas serves companies whose annual revenues range from R$30 million to R$250 million through its 71 business units strategically located in state capitals, as follows: Southeast (42), South (17), Mid-West (4), Northeast (6) and North (2). It also has 50 Espaços Empresas (spaces reserved for Bradesco Empresas) in strategic locations not heavily serviced by Bradesco Empresas. These are specially structured places for rendering services to economic groups within the segment.

Bradesco Empresas offers top quality business management through products such as loans and advances, financing, investments, foreign trade, hedging transactions, cash management and structured transactions in capital markets to ensure customer satisfaction and good results for the Organization.

Bradesco Empresas manages funds totaling R$100.0 billion through loans and advances, deposits, funds and collection.

Bradesco Corporate

Our Corporate segment was created in 1999 to serve companies posting annual revenues of more than R$250 million in most cases, served by a team of 145 with centralized relationship management offering both traditional and tailor-made products.

Branch Network

The principal distribution channel for our banking services is the branch network. In addition to offering retail banking services, branches serve as a distribution network for all of the other products and services, including payment and collection management services, private banking services, credit cards and asset management products. We market leasing services through channels operated by the branch network, as well as through our wholly owned subsidiaries Bradesco Leasing and Bradesco Financiamentos. Bradesco Corretora and Bradesco Consórcios also offer our services of brokerage, trading and purchasing consortium services through our branches. Bradesco Vida e Previdência sells its products through 10,233 independent agents nationwide, most of whom are based on our own premises. Compensation for these agents is commission-based.

We sell our insurance products, pension plans and capitalization bonds through our website, through exclusive brokers based in our network of bank branches, and non-exclusive brokers throughout Brazil, all of whom are compensated on a commission basis. As of December 31, 2012, there were 32,077 brokers were offering our insurance policies to the public. Our capitalization bonds are offered through our branches, the Internet, our call center, ATMs and external distribution channels.

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

	% of total sales, per product		
	2012	**2011**	**2010**
Insurance products			
Sales through the branches	38.1%	45.3%	40.0%
Sales outside the branches	61.9%	54.7%	60.0%
Pension plans products			
Sales through the branches	83.7%	76.8%	81.7%
Sales outside the branches	16.3%	23.2%	18.3%
Capitalization bonds			
Sales through the branches	79.6%	84.1%	90.5%
Sales outside the branches	20.4%	15.9%	9.5%

Other distribution channels

Bradesco Dia & Noite Digital channels

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

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

People with disabilities and reduced mobility have access to internet banking services for the visually impaired; personalized service for the hearing impaired using digital language at *Fone Fácil, Bradesco Celular* for the visually impaired; visual mouse for motor disabled people; and ATM access for customers with visual and physical disabilities.

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

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

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

Additionally, Bradesco Celular also provides the following services:

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

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

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

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

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

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

Internet

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

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

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

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

Self-service network

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

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

We use a biometric reading system, which identifies customers and authenticates ATM transactions through a sensor/invisible light beam capturing the image of the vascular pattern of the palm of the hand.

This technology enables our customers to use only biometry and their card to check accounts and carry out transactions, without the need to type in a six-figure password, thus making services faster and easier, in addition to being one of the world's most advanced security technologies. This technology is available on 32,731 machines of the Bradesco Self-Service Network and 5,742 machines of the Banco24Horas Network.

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

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Telephone services – Fone Fácil

Fone Fácil Bradesco (Bradesco easy phone) is Bradesco's telephone banking system. The customized service system, with financial experts and virtual servicing, make Fone Fácil one of the most efficient service channels and we have one of the most awarded banking relationship centers in Brazil, which is available to customers on a 24/7 basis.

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

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

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

Banking units in retail chains

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

Integrated risk control

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

Risk management

Risk management is of great strategic importance to us due to the increasing complexity of services and products and the globalization of our business. The improvement in this activity has enabled us to be the first and single bank in Brazil authorized by the Central Bank to use, since January 2013, market risk internal models, which were already used in its management, in order to calculate the regulatory capital set forth in the new Basel Accord.

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

Our risk management process ensures that risks are proactively identified, measured, mitigated, monitored and reported, as required for the complexity of our financial products and the profile of our activities.

Risk Management Structure

The structure of our risk management activity consists of statutory and executive committees, responsible for assisting our Board of Directors and the Diretoria Executiva in making strategic decisions.

We have a statutory committee called the "Integrated Risk Management and Capital Allocation Committee," which is tasked with advising the Board of Directors on the performance of its roles in the management and control over risks and capital.

The statutory committee is assisted by our executive committees for risk management of: a) Credit; b) Market and Liquidity; c) Operational; d) Grupo Bradesco de Seguros e Previdência; and e) Basel II Implementation. There are also executive committees for our business units, whose tasks include suggesting limits for exposure to their related risks and devising mitigation plans to be submitted to the Integrated Risk Management and Capital Allocation Committee and the Board of Directors.

Credit risk

Credit risk is the possibility of losses associated with a borrower's or counterparty's failure to comply with their respective contractual obligations under the originally agreed terms. For purposes of risk management disclosure, we consider and consolidate all credit risk elements exposed, such as the depreciation of loan agreements resulting from deterioration in the borrower's risk rating, the reduction in gains or remunerations, including benefits granted in renegotiations, recovery costs and other amounts related to the counterparty's non-compliance with the financial obligations.

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

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

In order to ensure the quality expected from the portfolio, committees monitor relevant aspects of the process of lending, concentration, collateral requirements, maturities, and other aspects.

We aim to map the activities that could potentially generate exposure to credit risk, classifying them by their probability and magnitude, identifying their managers, as well as their measurement and mitigation plans.

Credit Risk Management Process

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

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

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

Corporate control and monitoring of our credit risk take place in the credit risk unit of the Integrated Risk Control Department. In the governance structure for risks, this department coordinates with the Credit Risk Management Executive Committee on discussions and implementation of the methodologies to measure the credit risk. Relevant issues discussed by this committee are reported to the Integrated Risk and Capital Allocation Committee, which reports to the Board of Directors.

In addition to the committee meetings, the business area holds monthly meetings with officers and heads of products and segments to ensure they are informed about the evolution of the portfolio of loans and advances, delinquency, impairment of loans and advances, credit recovery, portfolio limits and concentrations, and other items. This information is also reported to the Audit Committee.

The business area also tracks each internal or external event that may significantly impact credit risk for the organization such as mergers, bankruptcies or crop failures and monitors sectors of economic activity in which the company has most exposure risks.

Both the governance process and limits are validated by the Integrated Risk and Capital Allocation Committee, submitted for approval by the Board of Directors, and reviewed at least once a year.

Market Risk

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

This risk is identified, measured, mitigated and controlled, and the market risk guidelines and limits of exposure profile to market risk, are monitored independently on a daily basis.

All activities exposed to market risk are mapped, measured and classified according to probability and magnitude, with their respective mitigation plans approved by the governance structure.

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Our risk management process involves the participation of all levels of the organization, from business units to the Board of Directors.

Market risk measurement and control are carried out by methodologies adjusted to each situation, such as Value at Risk (VaR), Economic Value of Equity (EVE), stress testing and sensitivity analysis, and limits for earnings management and financial exposure.

In spite of being controlled separately, the trading portfolio risk and the risk associated to banking portfolio positions are measured through the VaR Delta-Normal one-day methodology adjusted with gamma and vega risks of the option transactions with a 99% confidence level and for calculating volatilities and correlations we use statistical methods that allocate more weighting to recent returns.

The VaR methodology provides an estimate of maximum potential loss that may be expected for a given adverse event, and volatilities and correlations are derived from statistical methods. Measurement and management of the banking portfolio's interest rate risk are based on the EVE methodology, which measures the economic impact on our positions of economic scenarios devised by us in order to determine positive and negative trends in interest rate yield curves that may affect our investment and funding.

In line with corporate governance and in order to preserve and strengthen our management of market and liquidity risks, as well as to meet the requirements of CMN Resolution No. 3,464/07, the Board of Directors approved the Market and Liquidity Risk Management Policy, which is reviewed every year by the relevant committees and the Board of Directors itself, providing the main operational guidelines for accepting, controlling and managing market and liquidity risk.

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

- classification of operations;
- reclassification of operations;
- trading in government or private securities;
- use of derivatives; and
- hedging.

Market Risk Management Process

Our market risk management process is run on a corporate wide, centralized and independent basis. This process involves diverse areas with specific duties, in the measurement and control of market risk, which enabled us to be the first financial institution in Brazil authorized by the Central Bank to use, as of January

2013, its market risk internal models, which were already used in its management, in order to calculate its regulatory capital requirement. The management process, approved by the Board of Directors, is also reassessed annually by the relevant committees and the Board of Directors itself.

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

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

For the trading portfolio, we monitor the following limits:

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

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

For the banking portfolio, we monitor the following limits:

- interest rate risk; and
- equities portfolio.

Market risk is controlled and monitored primarily by an independent business unit, the Integrated Risk Control Department, which calculates risk of outstanding positions on a daily basis, consolidates results and reports as required by the existing governance process.

In addition to daily reports, exposures are discussed weekly by the Treasury's Executive Committee, which assesses results and risks and discusses and validates strategies for the coming weeks. Both governance process and limits are validated by the Integrated Risk and Capital Allocation Committee and submitted for approval by the Board of Directors, and reviewed at least once a year.

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

Liquidity risk

Liquidity risk is represented by the possibility of the institution failing to effectively comply with its obligations, without affecting its daily operations and incurring significant losses, as well as the possibility of the institution to fail to trade a position at market price, due to its larger size as compared to the volume usually traded or in view of any market interruption.

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

Liquidity Risk Management Process

We manage our liquidity risk process on a group wide basis with centralized monitoring which includes daily monitoring of available funds, compliance with minimum liquidity levels, and contingency planning for high-stress situations.

Our policy for risk management and market liquidity is approved by the Board of Directors, whose objectives include ensuring standards, criteria and procedures to guarantee the establishment of the

Minimum Liquidity Reserve (RML), as well as the strategy and action plans for liquidity crisis situations. The policy and controls we established fully comply with CMN Resolution No. 4,090/12.

Our criteria and procedures determine the minimum liquidity reserve to be maintained on a daily basis and the types of assets considered as available funds. Additionally, we determine instruments for management of liquidity in normal and crisis scenarios, with strategies to be followed in each case.

Our liquidity risk is managed by the Treasury Department, based on the positions provided by the back-office controls positions, which provides liquidity information to our management and monitors compliance with established limits. The Integrated Risk Control Department is responsible for measuring liquidity reserve requirements methodology, control over limits established by type of currency and company (including for non-financial companies), reviewing policies, standards, criteria and procedures, and drafting reports for new recommendations.

Liquidity risk is monitored at meetings of the Treasury's Executive Committee, which controls liquidity reserves and maturity and currency mismatches. Additionally, monitoring activity is also conducted by the Risk Management and Market Liquidity Executive Committee, the Integrated Risk and Capital Allocation Committee and the Board of Directors.

Operational Risk

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

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Operational Risk Management Process

We use a group wide, centralized and independent approach, with an emphasis on continuous improvement, to monitor the dynamic evolution of our business and minimize the existence of gaps that may compromise the quality of this management process, which is conducted within the following framework:

- jointly identifying events arising from operational risk events and reporting losses;
- standardizing the reporting format for various departments through the Internal Corporate Control Risk (ROCI) system developed by our Integrated Risk Control Department for daily and/or monthly delivery of operational risk event data;
- receiving, processing and reconciling data for entering in the corporate operational risk database; and
- using the database for statistical modeling of events to calculate operational VaR.

The Integrated Risk Control department controls and monitors our operational risk.

It holds meetings with other departments to discuss subjects related to the management of operating losses and the effectiveness of controls implemented to mitigate existing and potential risks and new ones that may arise. This involves using a set of data, both internal and external, scenarios and indicators for continuous monitoring of unexpected events over a 1-year period.

The Integrated Risk Control Department coordinates the Operational Risk Management Executive Committee, and relevant subjects are reported to the Audit Committee and subsequently the Integrated Risk Management and Capital Allocation Committee, which reports to the Board of Directors.

The governance process is approved by the Board of Directors being reviewed at least once a year.

Management of internal controls and compliance

The Internal Controls and Compliance Department independently certifies effectiveness and execution of controls that ensure acceptable risk levels in the Organization processes.

Internal control area

We maintain all components of the internal controls system up-to-date, to mitigate possible potential losses arising from risk exposure and to strengthen processes and procedures focused on management of internal controls and also on corporate governance.

The Internal Controls Area is in charge of:

- management of internal controls, determining criteria and methodologies to identify, classify, evaluate and monitor risks and their controls;
- conducting a corporate self-evaluation aimed at determining the level of knowledge, understanding and compliance with matters deemed as relevant, such as ethics, information security and the prevention of money laundering;
- applying operational self-evaluation in the branch network, Prime and Varejo segments, in order to assess perception of branch-level management and compliance for internal controls of administrative and business activities undertaken in these units;
- coordinating and/or taking part in actions aimed at strengthening the ethical culture of employees, in accordance with the guidelines issued by our Ethical Conduct Committee; and
- preparing conformity reports to include the consolidated results of departments and which are submitted, on a semiannual basis, to the Audit and Internal Controls and Compliance Committees, *Diretoria Executiva* and Board of Directors, for approval purposes.

Internal Controls Management

The effectiveness of our internal controls is based on our staff, processes and technology. In this context, our skilled professional staff is working exclusively on previously defined and determined processes with the appropriate technology for business needs.

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Policy for internal controls and compliance and risk and controls management corporate methods are duly formalized and aligned with the main control frameworks such as the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and Control Objectives for Information and Related Technology ("COBIT"), which cover both business and technology aspects, complying with the requirements of Resolution No. 2,554/98, of the CMN, PCAOB – Public Company Accounting Oversight Board, and of Section No. 404 of the US Sarbanes-Oxley Act.

The work on internal controls is developed together with a number of areas managing our services, products and processes, which adherence tests are applied with the required frequency, with the results reported to our Audit and Internal Controls and Compliance Committees and the Board of Directors. In case of non-conformity, the respective correction action must be forwarded for addressing with due follow-up.

The set of these actions is translated into the improved quality of operating processes and the dissemination of the importance of the control culture, ratifying the improvement of best practices.

Prevention of Money Laundering and Terrorism Financing

We maintain specific policies, principles, procedures and systems to prevent and/or detect the utilization of our structure, products and services for money laundering and terrorist financing purposes.

We make investments in staff training and programs and these include various formats, such as booklets, videos, courses, folders, e-learning courses and classroom sessions specifically tailored to different business areas that require them.

Any suspect or unusual cases identified are forwarded to the Committee on Assessment of Suspicious Transactions, composed of a number of areas, which assess the need for reporting to Regulatory Bodies. The PLD/FT program is supported by the Prevention and Combat of Money Laundering and Terrorism Financing Executive Committee, which meets regularly every three months to assess work and the need for procedures aligned with the standards set by regulatory agencies and best practices locally and internationally.

Area of independent validation of models

Our "Independent Validation of Models" area is in charge of stating an independent and educated opinion on whether the internal models work in conformity with the intended purposes and the achieved results are proper for their intended use, reporting its activities to the "Committee on the Integrated Management of Risks and Capital Allocation (COGIRAC)."

Following guidelines and directives posed by the New Capital Accord – Basel II and complying with Central Bank requirements, our internal risk-management models are subject to a continuous review process known as "independent validation process" to ensure quality and appropriate responses for their goals.

Corporate security

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

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

- defining our system for data security management, based on our corporate policy for information security and a set of directives and guidelines dealing with the principles of confidentiality, integrity and availability. The objective is to protect our information assets and those of our customers. These activities are complemented by awareness and training initiatives for all our collaborators, and by assessments of data-security risks for our products, services and processes;

- our fraud-prevention and electronic-channel security areas are tasked with managing processes to detect and mitigate risks in order to prevent any financial losses or adverse effects to our image. They monitor transactions on electronic service channels and track strategic and corporate actions in order to propose solutions to managers of technical and business areas, thus enhancing security to products and electronic service channel accesses; and

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- the strategic and operating management of identity process and logical access to applications, aiming at protecting the system resources, in addition to working with the business units and technology, with the purpose of defining and restructuring automated controls and coordinating, on a corporate basis, of all actions inherent in the access management.

Credit policy

Our credit policy is focused on:

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

Our credit policy defines criteria for lending and setting operational limits. Credit decisions are made at the branch level and, if necessary, higher levels of authority including our board directors depending on the rules in our internal policy. In reviewing loan applications, our *Diretoria Executiva* also approves the models for assessment and credit processes used by our branches and departments for each type of loan.

Our transactions are diversified and target individuals and companies that show ability to pay and stay in good standing. In all cases, we aim to have them secured by appropriate collateral for risks involved, from the point of view of uses of funds and repayment periods, as well as risk ratings. The Central Bank's risk rating system has nine categories ranging from "excellent" to "very poor." In conformity with our commitment to the ongoing development of our methodologies, the credit risk rating for our clients/economic groups is based on a range of seventeen levels, of which thirteen represent accrual loans. This provides more adherence to the requirements set forth in the New Basel Accord (Basel II). For more details, see "Item 4.B. Business Overview-Regulation and Supervision-Banking regulations-Treatment of loans and advances."

The lending limits set for our branches reflect size and collateral provided for loans. However, branches 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 (score and rating);
- does not have an updated record; and
- has any significant reservation in records.

We have credit limits for each type of loan. We pre-approve credit limits for our individual and corporate customers 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 customers every 180 days. Credits extended to other customers, including individuals, small and midsized corporations, are reviewed every 90 days.

Our maximum limit of exposure per client (i.e. individuals, companies or other economic groups) is determined by client rating and the maximum exposure is up to 10% of the Bank shareholder´s equity.

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Any cases in which the maximum level of exposure per client exceeds the thresholds as set out in the table below and in which the total exposure equals or exceeds R$1.2 billion should be submitted for appreciation of the Board of Directors.

Client Rating	As a % of Shareholders´ Equity
AA1	10
AA2	9
AA3	8
A1	7
A2	6
A3	5
B1	4
B2	3
B3	2
C1	1
C2	0.7
C3	0.5
D	0.3

Our credit policy is continuously developing and as part of our risk management process, we continue to improve our credit granting procedures, including procedures to gather data on borrowers, calculate potential losses and assess applicable classifications. Additionally, we assess our institutional credit risk management in view of the recommendations by the Basel II Accord, including:

- restructuring our methodology to calculate possible losses;
- identifying and implementing changes in our reporting processes to improve our loan portfolio management;
- restructuring our information control structure; and
- assessing the organizational structure of our loan assessment practices, including analyzing the demand for technology and addressing new issues.

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Loans and advances to individual customers

For individual customers, depending on the proposed collateral, the size of the branch and suitable credit parameters, branches may authorize loans of up to R$50,000.00. If value and type of collateral are not within the limits established for approval at the branch level, an application is submitted to the Credit Department and, if necessary, higher levels of authority. The following table shows individual loan limits for approval by branch managers, depending on the value and type of collateral offered.

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

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

We use a specialized credit scoring evaluation system to analyze these loans, allowing us to build a level of flexibility and accountability, besides standardizing the procedures in the process of analyzing and deferring loans. All models are constantly monitored and revised whenever necessary. Our Credit Department has a dedicated team developing models and working on the continuous improvement of these tools.

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

The following table shows limits established for approval of loans to individuals outside the discretion of our branches:

Total Risk Amount	R$ in thousands
Decision making authority	
Credit department	up to 14,000
Credit director	up to 18,000
Executive credit committee (Daily Meeting)	up to 60,000

Executive credit committee (Plenary Meeting)	up to 2,000,000
Board of Directors	over 2,000,000

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Loans and advances to corporate customers

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

[redacted]	**R$ in thousands**	
	Loan with no bona fide guarantee	**Loan with bona fide guarantee**
Decision making authority		
Manager of very small branch [(1)]	up to 10	up to 60
Manager of small branch [(2)]	up to 20	up to 120
Manager of average branch [(3)]	up to 30	up to 240
Manager of large branch [(4)]	up to 50	up to 400
Manager of Bradesco Empresas branch [(5)]	up to 100	up to 400

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

The following table shows limits established for approval of loans to corporate customers outside the discretion of our branches:

Total Risk Amount	**R$ in thousands**
Decision making authority	
Credit department	up to 14,000
Credit director	up to 18,000
Executive credit committee (Daily Meeting)	up to 60,000
Executive credit committee (Plenary Meeting)	up to 2,000,000
Board of Directors	over 2,000,000

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

- in the "Varejo," "Prime" and "Private – Individuals" segments, we consider the individual's reputation and credit worthiness, profession, monthly income, assets (goods and real property, any liabilities or interests in companies), the bank indebtedness and history of their relationship with us, checking loans and advances for repayment dates and rates as well as and the guarantees involved;

- in the "Varejo – Corporate Customers" segment, in addition to the points above, we focus on the owners of the relevant company, as well as considering the period in business and the monthly revenues;

- in the "Empresas" (middle market) and "Corporate" segments, management capability, the company/group's positioning in the market, its size, the economic-financial evolution, cashflow capability, and business perspectives, our analysis always includes the proponent, its parent company/subsidiaries, and the type of business; and

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- this also includes analyses of social and environmental risk for projects that require customers to show compliance with social and environmental regulations and the Equator Principles, consisting of socioenvironmental criteria required as conditions for loans, which was introduced in 2002 by the International Finance Corporation (IFC), the World Bank's financial arm.

Deposit-taking activities

Our principal source of funding is deposits from Brazilian individuals and businesses. As of December 31, 2012, our total deposits were R$211.9 billion, representing 29.0% of our total liabilities.

We provide the following types of deposit and registration accounts:

- checking accounts;
- savings accounts;
- time deposits;
- interbank deposits from financial institutions; and
- accounts for salary purposes.

The following table shows total customer deposits and deposits from banks by type and source, as of the dates indicated:

As of December 31,	% of total deposits	R$ in thousands		
	2012	2012	2011	2010
From customers				
Demand deposits	17.8%	37,684,126	32,535,978	35,775,239
Savings deposits	32.6%	69,041,721	59,656,319	53,435,652
Time deposits	49.1%	104,045,463	124,128,641	102,157,837
Others	-	-	-	1,107,220
Deposits from banks				
Demand deposits	0.3%	727,647	583,017	449,671
Interbank deposits	0.2%	382,474	519,786	275,445
Total	**100.0%**	**211,881,431**	**217,423,741**	**193,201,064**

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

- Demand deposits: we are required to deposit 44.0% of the average daily balance of demand deposits, collection of receivables, payment of taxes, third party funds in transit and obligations for the provision of payment services, exceeding R$44.0 million, in the Central Bank on a non-interest-bearing basis (which will increase to 45.0% as of July 2014). In December 2012, the Central Bank authorized the use of up to 20.0% of this balance to offer financing for the acquisition of certain capital assets, trucks, and export of consumable goods, among others, subject to certain conditions. This change was aimed at enabling a larger flow of funds into the market and encouraging the economy to grow;

- Savings deposits: each week we are required to deposit in an account with the Central Bank an amount in reserves equivalent to 20.0% of the total average balance of our savings account deposits. The account bears interest annually at "TR" plus interest rate of 6.2% and Reference Rate ("TR") plus 70% of SELIC rate for funding carried out from May 4, 2012, when SELIC rate is lower than 8.5% *per annum*;

- Time deposits: we are required to deposit in an account with the Central Bank 20.0% of the amounts recorded under the following items: (a) time deposits; (b) leasing companies' CDIs; (c) currency exchange acceptance funds; (d) notes backed by debentures; (e) securities issued by the bank itself; and (f) contracts assuming liabilities related to foreign transactions in excess of R$30.0 million. The amount required is collected in cash and we earn remuneration on the amount deposited at the SELIC rate, although the balance earning remuneration may not exceed the lesser of the following: (a) the amount required less deductions stipulated in rules issued by the Central Bank; and (b) the amount required multiplied by the following percentages: (i) 50.0%, for the calculation period starting on October 15, 2012, and for the compliance period starting on October 26, 2012; (ii) 64.0% for the calculation period starting on February 10, 2014 and for the compliance periods starting February 21, 2014; (iii) 73.0% for the calculation period starting on April 14, 2014 and for the compliance periods starting April 25, 2014; (iv) 82.0% for the calculation period starting on June 9, 2014 and for the compliance periods starting June 20, 2014; and (v) 100% for the calculation period starting on August 11, 2014, and for the compliance period starting on August 22, 2014. These percentages and dates have been frequently changed by the Central Bank, and may be subject to further changes without prior notice;

- The amount required may be deposited after deduction of an amount equal to certain transactions made by banks, and this deduction is limited to 50.0% of the amount required. With this schedule, and by not remunerating a part of our time deposits, the intention of the Central Bank was to stimulate the investment by major banks in the acquisition of credit portfolios from smaller banks, since we are allowed to invest up to 50.0% of our compulsory time deposits for that purpose; and

- Short position in foreign exchange: we are required to make daily deposits amounting to 60.0% of our short position in foreign exchange, net of our long position, less the lower of the: (i) US$3 billion; or (ii) the amount corresponding to our current Tier I regulatory capital. We make cash deposits on a non-interest-bearing basis by the second business day after determining our foreign exchange position, without any exchange rate adjustment.

In addition, we are required to deposit each week in an account with the Central Bank an additional amount corresponding to (a) 11.0% on the average time deposits balance (pursuant to Circular 3,655/13) plus (b) 10.0% of the average balance of our saving account deposits. This additional amount is provided in reserves and we earn interest at the SELIC rate. It should be highlighted that rules on additional deposits have been frequently changed by the Central Bank, and may be subject to further changes without prior notice.

Present Central Bank regulations require that we:

- allocate a minimum of 34.0% of cash deposits to providing rural credit (if we do not do so, we must deposit the unused amount in a non-interest-bearing account with the Central Bank);

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

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

Savings deposits in Brazil typically only pay interest at the “TR” reference rate plus 6.2% *per annum*, or Reference Rate (“TR”) plus 70% of SELIC rate for funding carried out from May 4, 2012, if the SELIC rate is lower than 8.5% *per annum* after funds have been left on deposit for at least one calendar month by individuals or non-profit entities, and 90 days by profit-corporations. Income from individual savings accounts is exempt from income tax.

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

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

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

Other funding sources

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

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

As of December 31,	R$ in thousands		
	2012	**2011**	**2010**
Funding Sources			
Real estate credit notes	4,229,511	2,143,931	776,787
Agribusiness notes	3,894,203	2,538,970	1,699,710
Mortgage notes	826,843	1,309,705	1,277,455
Financial notes	28,220,510	27,101,075	7,801,246
Euronotes	10,761,614	4,470,662	1,659,951
Subordinated debt	34,851,714	26,910,091	26,314,946
Debentures (non-convertible)	-	-	743,127
Securities issued through securitization of payment orders and credit card receivables	3,619,412	4,066,626	3,851,489
Funding in the open market	175,530,009	149,940,436	132,999,577
Borrowings	8,111,102	17,257,442	7,989,907
Onlendings	36,075,056	35,989,495	30,206,317
Total	**306,119,974**	**271,728,433**	**215,320,512**

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

As of December 31, 2012, 2011 and 2010, funding in the open market accounted for, respectively, 57.3%, 55.2%, and 61.8%, respectively of our other funding sources. These amounts include securities attached to repurchase agreements mainly comprising Brazilian government securities and corporate debt securities. This type of operation is usually short-term and volatile in terms of volume since they are directly impacted by market liquidity.

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

We conduct onlending operations where we act as the transfer agent for development agency funds, granting credits to third parties, which are in turn funded by development organizations. BNDES, the International Bank for Reconstruction and Development or IBRD and the Inter-American Development Bank or 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.

We issued financial notes, a product that was introduced to the market at the beginning of 2010, aimed at meeting demand for long-term finance. These transactions are for individuals and companies that prefer better returns to liquidity. Longer repayment terms contribute to the desired lengthening of the repayment schedule for the banking system's liabilities, since average repayment periods have also become longer due to the growing share of housing finance and investments of the total loan portfolio.

Processing systems

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

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

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

If the public energy supply is interrupted, both centers have sufficient capacity to operate independently for 72 hours non-stop. After this period, Technology Centers can operate continuously if power generators are refueled.

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

We have intruder detection, antivirus and antispam systems designed to provide IT protection. Moreover, we continuously upgrade the security of our main software programs. We use web server digital certification and HSM 8000 cryptographic and ICSF coprocessor equipment. Periodic assessments of IT environments are made using specific tools for this purpose. An independent auditing firm tests our IT protection systems on an annual basis.

Our internet systems have a separate infrastructure, enabling different customer segments (individuals, corporate, staff) to use resources independently.

Seasonality

Generally our consumer financing business (including our credit card business, financing of goods and others) has some seasonality, with increased levels of credit card transactions and financing of goods in the end of the year and a subsequent decrease of these levels at the beginning of the year. We also have some seasonality in our collection fees at the beginning of the year, which is when taxes and other fiscal contributions are generally paid in Brazil.

Competition

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

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

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

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

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

Credit cards

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

Leasing

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

Asset management

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

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

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

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

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

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

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

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

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

Insurance, pension plans and capitalization bonds

Insurance sector

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

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

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

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

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

Pension plan sector

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

Capitalization bonds sector

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

REGULATION AND SUPERVISION

Integrated risk control

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

Principal financial institutions

As of December 31, 2012, 13 financial conglomerates operated in Brazil, consisting of public-sector commercial and multiple-service banks controlled by federal and state governments (including Caixa Econômica Federal and investment banks) and 151 financial conglomerates consisting of private-sector commercial and multiple-service banks. For Brazilian regulatory purposes, insurance companies, private pension plans and capitalization bonds providers are not considered financial institutions.

Public-sector financial institutions

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

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The principal government-controlled banks include:

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

- BNDES, a development bank wholly owned by the federal government, is the largest bank in terms of long-term loans for investments across all sections of the economy, focusing on mitigating social and regional inequality and protecting the environment; and

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

Private sector financial institutions

As of December 31, 2012, Brazil’s private-sector financial industry comprised:

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

- 58 consumer credit companies, 118 securities dealers, 151 securities and foreign exchange brokerage firms, 30 leasing companies, 12,792 investment funds and 12 savings and loans associations/ real estate financing companies.

Principal regulatory agencies

CMN

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

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

- regulating capital markets in Brazil.

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

Central Bank

The Central Bank is responsible for:

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

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

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The Central Bank supervises financial institutions by:

- setting minimum capital requirements, compulsory reserve requirements and operational limits;

- authorizing corporate documents, capital increases, acquisition of interest in new companies and the establishment or transfer of principal places of business or branches (in Brazil or abroad);

- authorizing changes in shareholder control of financial institutions;

- requiring the submission of annual and semiannual audited financial statements, quarterly revised financial statements and monthly unaudited financial statements; and

- requiring full disclosure of loans and advances and foreign exchange transactions, import and export transactions and other directly related economic activities.

CVM

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

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

Banking regulations

Principal limitations and restrictions on activities of financial institutions

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

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

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

- may not lend more than 25.0% of its reference equity to any single person or group;

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

- may not lend to or provide guarantees for:

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

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

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

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

– any entity whose management consists of the same or substantially the same members as its own executive committee; or

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

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

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Capital adequacy and leverage

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

CMN requirements differ from the Basel Accord in some respects. Among other differences, the CMN:

- requires minimum capital of 11.0% of risk-weighted assets;
- does not permit contingency reserves to be considered as capital;
- requires fixed assets in excess of limits imposed by the Central Bank to be deducted from capital;
- requires additional capital in relation to off-balance-sheet interest rate and foreign currency swap transactions and for certain loans and advances utilizing third party funds;
- when determining equity, financial institutions may deduct costs, including taxes, incurred in connection with swap transactions used to hedge short positions associated with investments outside Brazil; and
- assigns different risk weightings to certain assets and credit conversion values, including a risk weighting of 300.0% on deferred tax assets for tax loss carryforwards of income and social contribution taxes but not for those arising from other temporary differences which have a weighting of 100.0%.

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

Financial institutions are also required to maintain their reference equity at a certain level. A financial institution’s reference equity is the sum of its Tier I and Tier II capital and is used to determine its operational limits. For purposes of CMN adjustments, financial institutions may deduct costs, including taxes, incurred in connection with swap transactions to hedge short positions associated with investments abroad. In July 2008, the Central Bank issued certain rules to include the operational risk of financial institutions amongst the factors to be considered in the calculation of reference equity. In December 2009, the Central Bank established a single indicator for calculating the portion of capital to be maintained by financial institutions to cover, when needed, the operational risk for a non-financial company belonging to the conglomerate. In June 2010, the Central Bank issued rules amending the formula used to calculate required reference equity, which in practice led to higher levels of net equity being required of financial institutions and this will be in force as of 2012. The Central Bank says the purposes of this change include bolstering the robustness of financial institutions in terms of their ability to weather a global crisis. In February 2011, the Central Bank issued guidelines and a timetable for implementing the recommendations of the Basel Committee on Banking Supervision concerning capital structure and liquidity requirements (Basel III), including an initial timetable to implement recommendations regarding liquidity requirements.

In accordance with the draft rules that the Central Bank submitted to public consultation in February 2012, Brazil will follow the agreed international schedule for the gradual adoption of capital definitions and requirements over the coming years. The schedule that was originally proposed by the Central Bank was supposed to have effect from January, 2013 until January 1, 2019, but in March, 2013, CMN Resolutions No. 4,192/13, No. 4,193/13, No. 4,194/13 and No. 4,195/13 changed this timeline, so that the new requirements will become effective on October 2013, with the same end date.

Following international recommendations, and in line with current practices, the minimum capital level will be stated as a percentage of risk weighted assets. The draft rule proposes three independent requirements to be met by financial institutions: (i) Principal Capital, consisting mainly of stocks, shares and retained earnings; (ii) Tier I Capital, consisting of principal capital plus other instruments capable of absorbing losses when the institution is a going concern; and (iii) Reference Equity, consisting of Tier I Capital and other instruments to absorb losses in the case of an institution in liquidation.

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

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

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

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

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

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

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

In November 2012 the Central Bank issued guidance on the procedures for calculating Required Reference Equity.

Risk Weighting

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

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

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

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

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

(v) 50% of exposures of (a) transactions with financial and other institutions authorized to operate by the Central Bank, for which financial statements are not prepared on a consolidated basis, subject to certain requirements; (b) transactions with financial institutions based in countries in which events, such as the suspension of payment obligation on the external unilateral change of contractual terms relating to the payment of external obligations, among others, have not been verified in the last five years; (c) loan operations carried out with chambers or providers of clearing and settlement services deemed as systemically important under regulations in force, with maturity over three months; (d) loan operations carried out with chambers or providers of clearing and settlement services based abroad and subject to regulation consistent with the principles established by CPSS and IOSCO, with maturity over three months;

(e) loans secured by liens on new or used residential property, whose contracted value is up to 50% of the appraised value of the guarantee, on the credit grant date; (f) financing for the purchase of new or used residential property, secured by a first-degree mortgage, residential property, new or used, whose contract value is up to 80% of the appraised value of the guarantee on the credit grant date; (g) financing for the construction of buildings, secured by liens or first-degree mortgages, provided that the assets for appropriation method is adopted; and (h) loans granted to the FGC;

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

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

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

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

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

Reserve requirements

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

In December 2011, the Central Bank approved a circular consolidating and redefining certain rules for compulsory reserve requirements for time deposits. The main change was the inclusion of Brazilian Treasuries in the list of assets eligible for deduction from compulsory reserves for time deposits. Some provisions relating to compulsory reserve requirements against time deposits were again amended by the Central Bank in February, May, September, November, December 2012 and March 2013.

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

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

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

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Asset composition requirements

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

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

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

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

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

Repurchase transactions

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

Onlending of funds borrowed abroad

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

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

Foreign currency position

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

As of March 2005, the previously existing "Commercial" and "Floating" markets were unified under a single foreign currency exchange regime (the "Exchange Market"), in which all foreign exchange currency transactions are concentrated. The unified Exchange Market provides for settlement in foreign currency of any commitments in *reais* contracted between individuals and/or legal entities resident in Brazil and individuals or legal entities resident abroad, by submitting the relevant documentation.

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

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

(i) Consolidation of rules for foreign capital: registration of foreign direct investment, foreign credits, royalties, transfer of technology and leasing. Financial transfers from and to foreign countries will follow the general rules applicable to the Brazilian foreign exchange market, including the principles of legality, economic rationale and supporting documentation. These rules were amended several times in 2011. Additionally, the need for specific authorizations or prior statements from the Central Bank has been eliminated and there is no need to provide information that the Central Bank may obtain elsewhere;

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

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

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

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

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

In December 2009, the Central Bank issued specific rules that became effective on February 1, 2010, requiring Brazilian financial institutions to register their cross-border derivative transactions with a clearing house regulated by the Central Bank and by the CVM. Specifically, cross-border derivative transactions must: (i) be registered within 2 business days and (ii) cover details of underlying assets, values, currencies involved, terms, counterparties, means of settlement and parameters used.

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

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

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Treatment of loans and advances

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Loans and advances of up to R$50,000 may be classified by the method used by the financial institution itself or the arrears criteria described above.

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

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

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

Exclusivity in loans and advances to customers

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

Brazilian clearing system

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

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

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

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

- maintain and document criteria for measuring liquidity risks and risk management procedures;

- analyze economic and financial data to evaluate the impact of different market scenarios on the institution's liquidity and cash flow;
- prepare reports to enable the institution to monitor liquidity risks;
- identify and evaluate mechanisms for unwinding positions that could threaten the institution economically or financially and for obtaining the resources necessary to carry out such unwinds;
- adopt system controls and test them periodically;
- promptly provide the institution's management information and analysis for any liquidity risk identified, including any conclusions or measures taken; and
- develop contingency plans for handling liquidity crisis situations.

Financial institutions were positively affected by the restructuring of the Brazilian clearing system. Under the old system, in which transactions were processed at the end of the day, an institution could carry a balance, positive or negative, a situation which is no longer allowed. Payments must now be processed in real time, and since March 2013, the amounts over R$1,000 are being processed by electronic transfers between institutions with immediately available funds. If a transaction is made using checks, an additional bank fee will be charged.

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

Liquidation of financial institutions

In February 2005, the "New Bankruptcy Law" was approved, replacing the previous legislation that had been in effect since 1945. The main goal of the “New Bankruptcy Law” is to avoid viable companies being unable to honor their debt obligations. The New Bankruptcy Law seeks to do this by providing greater flexibility in plan reorganization strategies while giving creditors more guarantees. It also seeks to improve creditors' ability to recover through the judiciary system by promoting an agreement between the company and a commission comprised of creditors. The New Bankruptcy Law is not currently applicable to financial institutions, and, accordingly, Law No. 6,024/74 governing intervention in and administrative liquidation of financial institutions is still applicable to us.

Intervention

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

- suffers losses due to mismanagement, putting creditors at risk;
- repeatedly violates banking regulations; or
- is insolvent.

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

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

Administrative liquidation

The Central Bank will liquidate a financial institution if:

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

- if, upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within 90 days, or, if initiated, the Central Bank determines that the pace of the liquidation may impair the institution's creditors.

As a consequence of administrative liquidation:

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

Temporary special administration regime

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

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

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

Repayment of creditors in liquidation

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

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

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

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

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

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

Internal compliance procedures

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

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

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

Our Bylaws include a provision for an internal controls and compliance committee composed of up to 12 members appointed by our Board of Directors.

Restrictions on foreign banks and foreign investment

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

The Brazilian Constitution permits foreign individuals or companies to invest in the voting shares of Brazilian financial institutions only if they have specific authorization from the Brazilian government. However, foreign investors without specific authorization may acquire publicly traded non-voting shares of Brazilian financial institutions or depositary receipts representing non-voting shares offered abroad. Any investment in common shares would depend on government authorization. In January 2012, the Central Bank authorized Bradesco to create an ADR program for its common shares in the U.S. market. As part of this authorization, the Central Bank increased the limit of foreign interest in Bradesco's capital stock from the current 14% to 30%.

Anti-money laundering regulations, banking secrecy and financial transactions linked to terrorism

Under Brazilian anti-money laundering rules, which the Central Bank consolidated in July 2009 through Central Bank Circular No. 3,461/09, as amended by Circular 3,654/13, and subsequently in December

2010, through Circular No. 3,517/10, as amended by Circular No. 3,583/12, financial institutions must:

- keep up-to-date records regarding their customers;
- maintain internal controls and records;
- record transactions involving Brazilian and foreign currency, securities, metals or any other asset which may be converted into money;
- keep records of transactions that exceed R$10,000 in a calendar month or reveal a pattern of activity that suggests a scheme to avoid identification;
- keep records of all check transactions; and
- keep records and inform the Central Bank of any cash deposits or cash withdrawals in amounts above R$100,000.

The financial institution must review transactions or proposals whose characteristics may indicate the existence of a crime and inform the Central Bank of the proposed or executed transaction. Records of transactions involving currency or any asset convertible to money, records of transactions that exceed R$10,000 in a calendar month, and records of check transactions must be kept for at least five years, unless the bank is notified that a CVM investigation is underway, in which case the five-year obligation may be extended. Pursuant to Circular No. 3,461/09, amended by Circulars No. 3,517/10, No. 3,583/12 and No. 3,654/13, financial institutions must implement control policies and internal procedures. The policies must: (i) specify in an internal document the responsibilities of each of the organization's hierarchical levels; (ii) include the collection and registration of timely information about customers that makes it possible to identify the risks of occurrence of these crimes; (iii) define the criteria and procedures for selecting, training and monitoring the economic-financial status of the institution's employees; (iv) include a prior analysis of new products and services from the perspective of preventing these crimes; (v) be approved by the Board of Directors; and (vi) be broadly circulated internally. The procedures described herein shall be observed by our branches and subsidiaries in Brazil and abroad.

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Along with these policies, Circular No. 3,461/09 also establishes additional norms related to keeping registration information up-to-date, keeping records of politically exposed individuals (either in Brazil or abroad), records of the beginning or continuation of business relations, records of financial services and transactions, records of deposits and clearance of checks deposited in other financial institutions, the use of fund transfer instruments, pre-paid card registrations, transfers of over R$100,000 in cash, and other transactions that require special attention.

Likewise, rules to combat money laundering in international transfers were defined, including more detailed operational information requirements for payment orders, such as the name and identification document of the parties involved, address and bank account when applicable. Financial institutions shall also adopt measures to obtain information about methods and practices used by their correspondents abroad so as to prevent money laundering and terrorist financing practices, and report to government authorities whenever transactions with these characteristics are detected.

Brazilian regulations list a number of potential money-laundering transaction characteristics, such as: transactions involving amounts that are incompatible with the professional, equity and/or earnings condition of the involved parties; operations evidencing default on behalf of third parties; transactions intended to create loss or gain with no economic grounds; transactions from or to countries or territories that do not apply the recommendations sufficiently or do not cooperate with the Brazilian financial activity control agencies; transactions paid in cash; transactions the complexity and risk level of which are inconsistent with the customer's technical qualification; and transactions involving non-resident parties, trustees and companies, private banking customers and politically exposed individuals.

The CVM directed special attention to politically exposed individuals through Instruction No. 463/08 and consolidated in Central Bank Circular No. 3,461/09, which refer to individuals politically exposed who hold or held prominent public positions in Brazil or abroad during the past five years and their relatives and representatives. Such individuals include heads of state and government, senior politicians and civil servants, judges or high-ranking military officers, and leaders of state controlled enterprises companies or political parties, among others. Circular 3,654/13 expanded such list to include other members of the Judiciary, Legislative and Executive powers, as well as individuals who held or still hold relevant positions in foreign governments. Financial institutions are required to adopt certain mechanisms in order to: (i) identify the final beneficiaries of each transaction; (ii) identify whether these politically exposed individuals are involved; (iii) monitor financial transactions involving politically exposed individuals; and (iv) pay special attention to people from countries with which Brazil maintains a high number of business and financial transactions, shared borders or ethnic, linguistic or political relations.

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

Also regarding the control of politically exposed individuals' activities and in light of the 2010 Brazilian elections for President, Governors, Senators, Federal and State Representatives, in March 2010, the Central Bank enacted rules that specifically address the opening, transacting with and closing of demand accounts for funds related to financing the 2010 election campaign. Those rules seek to avoid irregular use of said funds and illegal donations.

Financial institutions must maintain the secrecy of their banking operations and services provided to their customers. Certain exceptions apply to this obligation, however, such as: the sharing of information on credit history, criminal activity and violation of bank regulations, or disclosure of information authorized by interested parties. Banking secrecy may also be breached by court order when necessary for the investigation of any illegal act. On June 9, 2011 Law No. 12,414 was enacted, governing the set-up and consultation of data with credit scoring information on individuals and companies, in order to obtain a credit history, which could be used by institutions authorized to operate by the Central Bank. The provision of information by financial institutions was regulated by Resolution No. 4,172 of December 20, 2012.

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

In October 2008, the Central Bank broadened the reach of its rules for controlling financial transactions related to terrorism, so that operations carried out on behalf of, services provided to, or access to funds, other financial assets or economic resources belonging to or directly or indirectly controlled by, the following individuals or entities were required to be immediately reported to the Central Bank: (i) members of the Al-Qaeda organization, members of the Taliban and other individuals, groups, companies or entities connected with them; (ii) the former government of Iraq or its agencies or companies located outside of Iraq, as well as funds or other financial assets that might have been withdrawn from Iraq or acquired by Saddam Hussein or by other former Iraqi government senior officials or by the closest members of their families, including companies owned by, or directly or indirectly controlled by them or by individuals under their management; and (iii) individuals perpetrating or attempting to perpetrate terrorist actions or who take part in or facilitate such acts, entities owned or directly or indirectly controlled by such individuals, as well as by individuals and entities acting on their behalf or under their command.

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

Change of independent accounting firm

Under Brazilian regulations, all financial institutions must:

- be audited by an independent accounting firm; and

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

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

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

For additional information on the auditors of the consolidated financial statements included in this annual report see “Item 16.C. Principal Accountant Fees and Services” and “Item 16.F. Change in Registrant’s Certifying Accountant.”

Auditing requirements

Because we are a financial institution and registered with the local stock exchange, we are obliged to have our financial statements audited every six months in accordance with BR GAAP. Quarterly financial information filed with the CVM is subject to review by our independent auditors. Additionally, as required by CMN Resolution No. 3,786 of September 2009, we have also to publish annual consolidated financial statements prepared in accordance with IFRS, accompanied by the opinion of an independent auditing firm.

In January 2003, the CVM enacted regulations requiring audited entities to disclose information relating to their independent accounting firm's non-auditing services provided to the entity whenever such services accounted for more than 5.0% of the amount paid to the external auditors.

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

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

Pursuant to this regulation, financial institutions having reference equity of more than R$1.0 billion, managing third party assets of at least R$1.0 billion or having an aggregate amount of third party deposits of over R$5.0 billion are also required to create an audit committee consisting of independent members. The number of members, their appointment and removal criteria, their term of office and their responsibilities must be specified in the institutions' bylaws. Our Audit Committee has been fully operational since July 1, 2004. The Audit Committee is responsible for recommending to management which independent accounting firm to engage, reviewing the company's financial statements, including the notes thereto, and the auditors' opinion prior to public release, evaluating the effectiveness of the auditing services provided and internal compliance procedures, assessing management's compliance with the recommendations made by the independent accounting firm, among other matters. Our Bylaws were revised in December 2003 to stipulate the existence of an audit committee. In May 2004, our Board of Directors approved the internal regulations for the Audit Committee and appointed its first members. In October 2006, the CMN enacted stricter requirements to be followed by the members of the Board of Directors. See "Item 16.D. Exemptions from filing requirements for Audit Committees."

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

In September 2009, the Central Bank issued rules setting criteria for auditors on the latter's preparation of reports on the quality and compliance of the internal controls systems, and on non-compliance with legal and regulatory provisions. These norms, amended in January 2010, state that in addition to their regular auditing functions, auditors must assess the following items: (i) control environment; (ii) risk identification and assessment; (iii) controls adopted; (iv) information and communication policies; (v) forms of monitoring and improvement and (vi) deficiencies identified.

Regulation of operations in other jurisdictions

We have branches and subsidiaries in several other jurisdictions, such as New York, London, Buenos Aires, Tokyo, the Cayman Islands, Hong Kong, Mexico and Luxembourg. The Central Bank supervises Brazilian financial institutions' foreign branches, subsidiaries and corporate properties, and prior approval from the Central Bank is necessary to establish any new branch, subsidiary or representative office or to acquire or increase any interest in any company abroad. In any case, the subsidiaries activities' should be complementary or related to our own principal activities. In most cases, we have had to obtain governmental approvals from local central banks and monetary authorities in foreign jurisdictions before commencing business. In all cases, we are subject to supervision by local authorities.

Asset management regulation

Asset management is regulated by the CMN and the CVM.

In August 2004, the CVM issued Rule No. 409/04 consolidating all previous regulations applicable to fixed-income asset funds and equity mutual funds. Prior to this ruling, fixed-income asset funds were regulated by the Central Bank, and equity mutual funds were regulated by the CVM.

CVM Rule No. 409/04 became effective on November 22, 2004. Since then, all new funds created are subject to its rules, while previously existing funds had until January 31, 2005 to adapt to the new regulations.

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

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

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

- invest more than ten per cent (10.0%) of their net assets in securities of a single issuer, if that issuer is (i) a publicly-held non-financial institution, or (ii) a federal, state, or municipal entity or (iii) another investment fund, except for equity funds;

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

- invest more than five percent (5.0%) of their net assets if the issuer is an individual or corporate entity that is not a publicly-held company or financial institution authorized to operate by the Central Bank; and

- in the case of investment funds or fixed-income and multimarket participation funds, more than ten percent (10.0%) of their net assets in real estate investment funds, receivables investment funds or credit rights participation funds.

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

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

- Short-term funds – These funds invest exclusively in public, federal or private bonds pegged to the SELIC rate or another interest rate, or to price indices, and have a maximum maturity of 375 days and an average portfolio period of less than 60 days. Short-term funds may use derivatives only to hedge their portfolios and may enter into repo agreements backed by federal government bonds;

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

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

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

- Forex funds – These funds have at least 80.0% of their portfolio invested in derivatives or other funds comprised of derivatives which hedge foreign currency prices;

- Foreign-debt funds – These funds have at least 80.0% of their net assets invested in Brazilian foreign-debt bonds issued by the federal government, and the remaining 20.0% in other debt securities transacted in the international market; and

- Money market funds – These funds must have an investment policy that involves several risk factors, without a commitment to concentration in any particular factor or in factors differing from the other classes stipulated in the classifications of the funds listed above.

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

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

Regulation of brokers and dealers

Broker and dealer firms are part of the National Financial System and are subject to CMN, Central Bank and CVM regulation and supervision. Brokerage and distribution firms must be authorized by the Central Bank and are the only institutions in Brazil authorized to trade on Brazil's stock exchanges and commodities and futures exchanges. Both brokers and dealers may act as underwriters for public placement of securities and engage in the brokerage of foreign currency in any exchange market.

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

Broker and dealer firms may not:

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

- collect commissions from their customers related to transactions of securities during the primary distribution;

- acquire assets, including real estate properties, which are not for their own utilization; or

- obtain loans from financial institutions, except for: (i) loans for the acquisition of goods for use in connection with the firm's corporate purpose; or (ii) loans for amounts not more than twice the firm's net assets.

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

Leasing regulation

The basic legal framework governing leasing transactions is established by Law No. 6,099/74, as amended (the "Leasing Law") and related regulations issued periodically by the CMN. The Leasing Law provides general guidelines for the incorporation of leasing companies and the business activities they may undertake. The CMN, as regulator of the Financial System, is responsible for issuing Leasing Law related regulations and overseeing transactions made by leasing companies. Laws and regulations issued by the Central Bank for financial institutions in general, such as reporting requirements, capital adequacy and leverage regulations asset composition limits and treatment of doubtful loans, are also applicable to leasing companies.

Insurance regulation

Brazilian insurance business is regulated by Decree Law No. 73/66, as amended, which created two regulatory agencies, the National Private Insurance Council, or "CNSP," and SUSEP. SUSEP is responsible for implementing and overseeing CNSP's policies and ensuring compliance with such policies by insurance companies, insurance brokers and insured individuals. Insurance companies require government approval to operate, as well as specific approval from SUSEP to offer each of their products. Insurance companies may subscribe policies only through qualified brokers.

Insurance companies must set aside reserves in accordance with CNSP criteria. Investments covering these reserves must be diversified and meet certain liquidity criteria, rules for which were consolidated by CNSP Resolution No. 226/10 solvency and security criteria. Insurance companies may invest a substantial portion of their assets in securities. As a result, insurance companies are major investors in the Brazilian financial markets and are subject to CMN rules and conditions for their investments and coverage of technical reserves.

Insurance companies may not, among other activities:

- act as financial institutions by lending or providing guarantees;
- trade in securities (subject to exceptions); or
- invest outside of Brazil without specific permission from the authorities.

Insurance companies must operate within certain retention limits approved by SUSEP pursuant to CNSP rules. These rules reflect the economic and financial situation of insurance companies and the conditions of their portfolios. Insurers must also meet certain capital requirements consolidated by SUSEP Resolution No. 222/10, 228/10 and 280 to 284/13.

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

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

The new law also places more severe restrictions on ceding risk to foreign reinsurance companies and contracting of insurance abroad. Insurance companies must reinsure amounts exceeding their retention limits.

CNSP Resolution No. 232/11 prohibited a local insurance or reinsurance company from transferring more than 20% of each policy premium to their foreign affiliates. This restriction does not apply to the guarantee business, nuclear risks and risks related to export credit, rural credit and domestic credit, which are subject to different legal requirements and regulations.

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

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

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

Health insurance

Private health insurance and health plans are currently regulated by Law No. 9,656/98, as amended, which we refer to as the "Health Insurance Law," containing general provisions applicable to health insurance companies and the general terms and conditions of agreements entered into between health insurance companies and their customers. The Health Insurance Law establishes, among other things:

- mandatory coverage of certain expenses, such as those arising from preexisting conditions;
- prior conditions for admission to a plan;
- the geographical area covered by each insurance policy; and
- the pricing criteria plans may use.

The ANS is responsible for regulating and supervising supplemental health services provided by health insurance companies pursuant to directives set forth by the Supplemental Health Council (*Conselho de Saúde Suplementar*).

Until 2002, SUSEP had authority over insurance companies, which were authorized to offer private health plans. Since 2002, pursuant to ANS regulations and supervision, only operators of private health plans may offer such plans. We created Bradesco Saúde in 1999 to fulfill this requirement.

Private pension plans

Open pension plans are subject, for purposes of inspection and control, to the authority of the CNSP and the SUSEP, which are under the regulatory authority of the Ministry of Finance. The CMN, CVM and Central Bank may also issue regulations pertaining to private pension plans, particularly related to assets guaranteeing technical reserves.

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

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

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Regulation of Internet and electronic commerce

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

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

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

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

Taxation

IOF (Tax on Financial Transactions)

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

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

IOF on foreign exchange transactions

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

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

As of December 2010, the IOF rate on forex transactions for foreign investors in the Brazilian financial and capital markets was raised from 2% to 6%. The remittance of the investment abroad is also subject to 0% of IOF.

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

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

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

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

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

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

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

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

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

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

IOF on bonds or securities transactions

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

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

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

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

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

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

- transactions carried out by financial institutions and other institutions authorized by the Central Bank as principals;

- portfolio transactions carried out by mutual funds or investment clubs;

• transactions in equity markets, including stock, futures and commodities exchanges and similar entities;

• redemptions of shares in equity funds, noting that in case the investor redeems the shares before completing the grace period for credit income, the rate is 0.5% per day over the surrender value of shares in equity funds**;**

• Certificates of Agribusiness Credit Rights – CDCA, with Letter of Agribusiness Credit - LCA, and with Certificate of Agribusiness Receivables – CRA, established by Article 23 of Law No. 11,076/04; and

• debentures pursuant to Article 52 of Law No. 6,404/76, with Real Estate Receivables Certificates mentioned in Article 6 of Law No. 9,514/97, and with Financial Letters mentioned in Article 37 of Law No.12,249/10.

IOF on loans transactions

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

IOF on insurance transactions

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

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

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

- 2.38% private health insurance business; and
- 7.38% of premiums paid, in the case of other segments of insurance.

Income and social contribution taxes on profits

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

For further information on our income tax expense, see Note 17 to our consolidated financial statements in "Item 18. Financial Statements."

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

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

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

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

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

Distributions of interest on equity paid to holders of shares, including payments to the depositary bank in respect of shares underlying ADSs or common shares ADSs, are subject to Brazilian withholding tax at a rate of 15.0%, except for payments to: (i) persons exempt and immune from tax in Brazil or (ii) persons situated in tax havens in which case, payments are subject to income tax at a rate of 25.0%. For more information on the taxation of interest on equity, see "Item 10.E. Taxation-Brazilian tax considerations-Distributions of interest on equity."

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

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

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

- 15.0% for all other transactions.

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

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

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

- for forward contracts, which provide for delivery of the assets on a set date, the difference, if positive, between the forward price and cash price on delivery date;
- with respect to forward contracts for financial settlement, the settlement amount as specified by the contract; and
- for the spot market, the sale value of shares, gold, financial assets or other securities traded therein.

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

Brazilian residents day-trading on stock, commodities or futures exchanges, or similar markets, are also subject to an additional withholding tax similar to the described above, at a rate of 1%. This tax may also be (i) deducted from the income tax levied on net monthly profit or (ii) offset with income tax due in following months (if there is any withheld tax accounted for in the balance).

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Gains on disposition of shares in Brazil by investors who reside in a jurisdiction deemed to be a "tax haven" under Brazilian law (any country that (i) does not charge income tax, (ii) charges income tax at a rate of less than 20.0% or (iii) a country whose corporate law opposes confidentiality on ownership of corporate entities) are subject to the same rates applicable to holders resident in Brazil, as previously described.

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

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

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

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

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

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

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

In December 2008, the Brazilian government created the Transition Tax Regime ("RTT") to neutralize the impact of the new accounting methods and criteria introduced in December 2008, as part of Brazil's adoption of international accounting rules. The adoption of RTT which, will be in force until the law governing the tax effects of the new accounting methods and criteria becomes effective, was optional for 2008 and 2009 but became mandatory in 2010 fiscal year, including for purposes of determining the social contribution, PIS and COFINS. We have elected to adopt the RTT from the 2008 fiscal year.

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

In cases where the creditor is a related party domiciled abroad and holds an equity interest in the Brazilian company making a payment, debt may not exceed the equivalent to twice such shareholders' interest in the total equity of the Brazilian company. In case of a related party with no shareholding interest, the limit will be equivalent to twice the total equity of the Brazilian company resident in Brazil. If there is more than one creditor, total debt owed foreign companies may not exceed the equivalent of twice the total value of the interests of all the related parties in the equity of the company resident in Brazil. If the debt is exclusively related to foreign companies that have no ownership interest in the Brazilian company, the overall limit is twice the equity of the Brazilian company. If the creditor is domiciled in a low tax jurisdiction the debt amount may not exceed 30.0% of the equity of the Brazilian company. Any amounts exceeding the limits above such limit may not be deducted for purposes of withholding income and social contributions taxes.

Also beginning in June 2010, tax deductions for any payment to a beneficiary resident or domiciled in a country considered a tax haven became subject to the following requirements in addition to others already stipulated in the legislation: (i) identification of the actual beneficiary of the person domiciled abroad; (ii) proof of the ability of the person located abroad to complete the transaction; and (iii) documented proof of payment of the respective price and of receipt of the assets, rights, or utilization of service.

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In November 2010, the Brazilian tax authorities issued a normative instruction altering the tax treatment applicable to variation in the monetary value of taxpayers' credit rights and obligations due to varying exchange rates. Under this new instrument, as of the 2011 calendar year, the election of tax regime for taxation of exchange-rate variations (i) may only be exercised in January of each calendar year and (ii) may only be altered during the fiscal year if there is "material variation in the exchange rate," as published by a Finance Ministry directive.

PIS and COFINS

Two federal taxes are imposed on the gross revenues of corporate entities: PIS and COFINS. Nonetheless, many revenues, such as dividends, equity earnings from unconsolidated companies, revenues from the sale of fixed assets and export revenues paid in foreign currency are not included in the calculation base for PIS and COFINS. Revenues earned by corporations domiciled in Brazil are subject to PIS and COFINS taxes corresponding to interest on equity.

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

Between 2002 and 2003, the Brazilian government implemented a non-cumulative collection system of PIS and COFINS taxes, allowing taxpayers to deduct from their calculation basis credits originating from certain transactions. In order to offset these credits, the rates of both PIS and COFINS were substantially increased. Subsequent to the changes made to PIS and COFINS, as of May 2004, both taxes are applicable on imports of goods and services when the taxpayer is the importing company domiciled in Brazil.

As of August 2004, PIS and COFINS rates were eliminated for financial income earned by companies subject to the non-cumulative applicability of these taxes. However, taxes charged on payments of interest on equity were maintained.

Certain economic activities are expressly excluded from the non-cumulative collection system of PIS and COFINS. Financial institutions remain subject to PIS and COFINS according to the "cumulative" method, which does not allow any credits to be discounted.

PIS is charged based on the total revenue generated by entities and is charged at a rate of 0.65% in the case of financial and similar institutions.

Before February 1999, we were not a COFINS taxpayer. In February 1999, COFINS was imposed on our gross revenues at a rate of 3.0%. After September 2003, this tax rate was increased to 4.0% for financial and similar institutions. The calculation base for COFINS is the same as that for PIS.

In July 2010, the Brazilian tax authorities introduced digital tax records for PIS and COFINS taxes. Under the new rule, financial and similar institutions must keep digital records for PIS and COFINS taxes relating to taxable events occurring as of January 2012.

Selected Statistical Information

Selected statistical data shown in this section for the years ended December 31, 2012, 2011, 2010 and 2009 are from our consolidated financial statements prepared under IFRS. The selected statistical data in this section for the year ended December 31, 2008 are from our consolidated financial statements prepared in accordance with U.S. GAAP and not shown in this annual report. The tables of selected statistical data are marked as "In accordance with IFRS" if derived from our IFRS consolidated financial statements or "In accordance with U.S. GAAP" if derived from our U.S. GAAP consolidated financial statements. Since they are prepared in accordance with different accounting criteria, the information for the year ended December 31, 2008 is not directly comparable to that for the years ended December 31, 2012, 2011, 2010 and 2009. In addition, information included under IFRS is presented in thousands of reais and information included under U.S. GAAP is presented in millions of reais which is the format under which we presented U.S. GAAP information in annual reports filed in prior years. Unless otherwise stated and except for U.S. GAAP information, the data included in this annual report is presented in thousands of reais.

We have included the following information for analytical purposes. You should read this information (for the years ended December 31, 2012, 2011 and 2010) in conjunction with "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements in "Item 18. Financial Statements."

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Average balance sheet and interest rate data

The following tables present the average balances of our interest-earning assets and interest-bearing liabilities, other assets and liabilities accounts, the related interest income and expense or similar amounts and the average real yield/rate for each period. We calculated the average balances using the month-end book balances, which include the related allocated interest.

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

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Interest-earning assets

December 31,	2012 Average balance	2012 Interest and similar income	2012 Average yield/ interest	2011 Average balance	2011 Interest and similar income	2011 Average yield/ interest	2010 Average balance	2010 Interest and similar income
	R$ in thousands, except %							
Interest earning assets								
Financial assets held for trading	89,784,000	7,831,848	8.7%	87,326,233	9,076,069	10.4%	62,407,194	6,398,66
Financial assets available for sale	66,915,243	6,434,573	9.6%	33,549,814	3,373,070	10.1%	34,888,119	3,342,99
Investments held to maturity	3,657,763	589,835	16.1%	4,510,835	360,835	8.0%	3,778,920	438,48
Assets pledged as collateral	94,667,517	9,090,234	9.6%	75,623,917	8,744,459	11.6%	70,498,746	6,862,22
Loans and advances to banks	79,159,989	6,800,239	8.6%	75,900,028	9,194,044	12.1%	64,545,465	6,059,77
Loans and advances to customers	262,855,317	48,541,218	18.5%	234,942,522	45,465,684	19.4%	194,680,442	37,765,02
Other interest earning assets								
Central Bank compulsory deposits	48,722,266	3,808,229	7.8%	59,239,456	6,112,337	10.3%	32,553,623	2,869,30
Other assets	546,918	37,540	6.9%	518,296	40,774	7.9%	494,975	35,70
Total interest earning assets	**646,309,013**	**83,133,716**	**12.9%**	**571,611,101**	**82,367,272**	**14.4%**	**463,847,484**	**63,772,18**
Non interest earning assets								
Cash and balances with banks	14,694,039	-	-	10,461,969	-	-	8,537,607	
Central Bank compulsory deposits	8,618,901	-	-	8,348,788	-	-	9,128,771	
Financial assets available for sale (shares)	7,690,050	-	-	4,162,389	-	-	3,866,314	
Non performing loans and advances to customers [(1)]	10,588,578	-	-	8,001,549	-	-	7,020,334	
Impairment of loans and advances	(20,501,971)	-	-	(17,719,137)	-	-	(16,008,981)	
Investments in associated companies and other investments	2,285,650	-	-	1,816,492	-	-	1,624,643	
Property and equipment	4,356,952	-	-	3,641,555	-	-	3,256,587	
Intangible assets and goodwill	8,716,566	-	-	6,484,479	-	-	5,325,287	
Current and deferred income tax	27,932,160	-	-	22,888,181	-	-	18,880,673	
Other assets	39,786,292	-	-	33,099,966	-	-	33,295,759	
Total non interest earning assets	**104,167,217**	**-**	**-**	**81,186,231**	**-**	**-**	**74,926,994**	
Total assets	**750,476,230**	**83,133,716**	**11.1%**	**652,797,332**	**82,367,272**	**12.6%**	**538,774,478**	**63,772,18**

[(1)] Overdue by more than 60 days.

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Interest-bearing liabilities

						R$ in thousands, except %
	2012			2011		
December 31,	**Average balance**	**Interest and similar expense**	**Average yield/ interest**	**Average balance**	**Interest and similar expense**	**Averag yield interes**
Interest bearing liabilities						
Interbank deposits	471,502	48,582	10.3%	360,575	46,693	12.9
Savings deposits	62,758,934	3,623,935	5.8%	55,515,889	3,754,755	6.8
Time deposits	117,810,860	7,551,805	6.4%	122,328,948	11,198,180	9.2
Funding in the open market	152,354,820	11,756,969	7.7%	128,494,578	13,996,866	10.9
Borrowings and onlendings	47,408,499	2,349,470	5.0%	44,962,370	5,775,844	12.8
Funds from securities issued	50,848,755	3,439,688	6.8%	28,260,014	2,490,536	8.8
Subordinated debt	32,278,136	2,884,331	8.9%	25,335,543	2,787,681	11.0
Insurance technical provisions and pension plans	107,519,858	7,985,971	7.4%	89,762,154	6,705,431	7.5
Total interest-bearing liabilities	**571,451,364**	**39,640,751**	**6.9%**	**495,020,071**	**46,755,986**	**9.4**
Non-interest-bearing liabilities						
Demand deposits	33,136,888	-	-	32,538,699	-	
Other non interest bearing liabilities	82,827,519	-	-	72,605,080	-	
Total non interest bearing liabilities	**115,964,407**	**-**	**-**	**105,143,779**	**-**	
Total liabilities	**687,415,771**	**39,640,751**	**5.8%**	**600,163,850**	**46,755,986**	**7.8**
Equity attributable to controlling shareholders	**62,463,588**	**-**	**-**	**52,424,391**	**-**	
Non-controlling interest	**596,871**	**-**	**-**	**209,091**	**-**	
Total liabilities and equity	**750,476,230**	**39,640,751**	**5.3%**	**652,797,332**	**46,755,986**	**7.2**

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Changes in interest and similar 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.

	R$ in thousands					
	2012/2011			2011/2010		
December 31,	Increase/(decrease) due to changes in					
	Average volume	**Average yield/rate**	**Net change**	**Average volume**	**Average yield/rate**	**Net change**
Interest earning assets						
Financial assets held for trading	259,247	(1,503,468)	(1,244,221)	2,588,751	88,653	2,677,404
Financial assets available for sale	3,214,552	(153,049)	3,061,503	(131,002)	161,075	30,073
Investments held to maturity	(79,120)	308,120	229,000	74,796	(152,446)	(77,650)
Assets pledged as collateral	1,978,884	(1,633,109)	345,775	525,026	1,357,211	1,882,237
Loans and advances to banks	380,113	(2,773,918)	(2,393,805)	1,182,771	1,951,496	3,134,267
Loans and advances to customers	5,223,278	(2,147,744)	3,075,534	7,791,666	(91,005)	7,700,661
Central Bank compulsory deposits	(973,944)	(1,330,164)	(2,304,108)	2,684,305	558,725	3,243,030
Other assets	2,165	(5,399)	(3,234)	1,734	3,333	5,067
Total interest earning assets	**10,005,175**	**(9,238,731)**	**766,444**	**14,718,047**	**3,877,042**	**18,595,089**
Interest bearing liabilities						
Interbank deposits	12,601	(10,712)	1,889	(14,142)	22,314	8,172
Savings deposits	456,098	(586,918)	(130,820)	506,767	283,878	790,645
Time deposits	(399,993)	(3,246,382)	(3,646,375)	2,407,129	461,677	2,868,806
Funding in the open market	2,304,237	(4,544,134)	(2,239,897)	2,237,582	1,778,022	4,015,604
Borrowings and onlendings	298,524	(3,724,898)	(3,426,374)	363,290	4,561,461	4,924,751
Funds from securities issued	1,632,252	(683,100)	949,152	1,390,238	369,855	1,760,093
Subordinated debt	678,755	(582,105)	96,650	79,254	685,849	765,103
Insurance technical provisions and pension plans	1,319,156	(38,616)	1,280,540	995,875	(373,955)	621,920
Total interest bearing liabilities	**6,301,630**	**(13,416,865)**	**(7,115,235)**	**7,965,993**	**7,789,101**	**15,755,094**

Net interest margin and spread

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

December 31,	R$ in thousands, except % 2012	2011	2010
Average balance of interest earning assets	646,609,013	571,611,101	463,847,484
Average balance of interest bearing liabilities	571,451,364	495,020,071	397,142,603
Net interest income (1)	43,492,965	35,611,286	32,771,291
Interest rate on the average balance of interest earning assets	12.9%	14.4%	13.7%
Interest rate on the average balance of interest bearing liabilities	6.9%	9.4%	7.8%
Net yield on interest earning assets (2)	6.0%	5.0%	5.9%
Net interest margin (3)	6.7%	6.2%	7.1%

(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; and
(3) Net interest income divided by average interest earning assets.

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Return on equity and assets

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

December 31,	R$ in thousands, except % and per share information		
	2012	2011	2010
Net income attributable to controlling shareholders	11,291,570	10,958,054	9,939,575
Average total assets	750,476,230	652,797,332	538,774,478
Average equity attributable to controlling shareholders	62,463,588	52,424,391	44,535,636
Net income attributable to controlling shareholders as a percentage of average total assets	1.5%	1.7%	1.8%
Net income attributable to controlling shareholders as a percentage of average equity attributable to controlling shareholders	18.1%	20.9%	22.3%
Equity attributable to controlling shareholders as a percentage of average total assets	8.3%	8.0%	8.3%
Dividends payout ratio per class of shares (1)	0.35	0.34	0.34

(1) Total declared dividends per share divided by net income attributable to controlling shareholders.

Financial assets held for trading, available for sale, investments held to maturity and assets pledged as collateral

The following table shows our portfolio of securities received under resale agreements, our trading assets, available for sale securities and investments held to maturity as of the dates indicated. The amounts below exclude our investments in associated companies. For additional information on our investments in associated companies and other investments, see Note 27 to our consolidated financial statements included in "Item 18. Financial Statements." The amounts also exclude our compulsory deposits held in Brazilian government securities, as required by the Central Bank. For more information on our compulsory deposits, see Note 19 to our consolidated financial statements included in "Item 18. Financial Statements." We state our financial assets held for trading and available for sale at market value. See Notes 2(e), 20, 21 and 22 to our consolidated financial statements included in “Item 18. Financial Statements,” for more details of our treatment of securities received under resale agreements, financial assets held for trading, available for sale and investments held to maturity.

December 31,	R$ in thousands, except %		
	2012	**2011**	**2010**
Financial assets held for trading			
Brazilian government securities	46,015,587	53,506,040	45,614,460
Corporate debt and marketable equity securities	36,221,243	24,451,335	21,008,435
Bank debt securities	18,485,686	10,823,463	4,784,402
Mutual funds	7,650,252	6,791,968	2,075,468
Derivative financial instruments	3,222,631	955,912	1,650,708
Foreign government securities	244,168	50,092	71,004
Brazilian sovereign bonds	-	18,267	29,714
Total financial assets held for trading	**111,839,567**	**96,597,077**	**75,234,191**
Financial assets held for trading as a percentage of total assets	14.0%	13.4%	12.5%
Financial assets available for sale			
Brazilian government securities	63,965,466	31,334,589	30,910,312
Corporate debt securities	10,907,129	7,450,073	4,175,012
Marketable equity securities	5,524,463	4,956,547	4,964,127
Bank debt securities	890,014	1,482,865	116,270
Brazilian sovereign bonds	273,776	24,324	13,423
Total financial assets available for sale	**81,560,848**	**45,248,398**	**40,179,144**
Financial assets available for sale as a percentage of total assets	10.2%	6.3%	6.7%
Investments held to maturity			
Brazilian government securities	3,659,576	3,490,502	3,282,968
Brazilian sovereign bonds	56,097	620,485	5,617
Foreign government securities	-	-	105,722
Total investments held to maturity	**3,715,673**	**4,110,987**	**3,394,307**

Investments held to maturity as a percentage of total assets	0.5%	0.6%	0.6%

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The following table shows our assets pledged as collateral as of the dates indicated. For additional information about our assets pledged as collateral, see Note 23 to our consolidated financial statements included in "Item 18. Financial Statements."

December 31,	in thousands of R$, except percentages	
	2012	2011