

BANK BRADESCO  
Form 20-F  
June 30, 2005

As filed with the Securities and Exchange Commission June 30, 2005

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F**

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ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2004  
Commission File Number: 1-15250

**Banco Bradesco S.A.**

(exact name of registrant as specified in its charter)

**Bank Bradesco**

(translation of registrant's name into English)

**Federative Republic of Brazil**

(jurisdiction of incorporation or organization)

**Cidade de Deus, Vila Yara, 06029-900, Osasco, SP, Brazil**

(address of principal executive offices)

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

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

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

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

**The number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2004 was:**

|             |                  |
|-------------|------------------|
| 238,351,329 | Common Shares    |
| 236,081,796 | Preferred Shares |

**Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.**

Yes No

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

Item 17 Item 18

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**PRESENTATION OF INFORMATION**

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

Item 18 of this annual report includes our audited consolidated financial statements as of and for the years ended December 31, 2002, 2003 and 2004, including the notes thereto, which have been prepared in accordance with generally accepted accounting principles in the United States, known as U.S. GAAP.

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

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

| Date              | Noon Buying<br>Rate for U.S.<br>dollars | Closing Selling<br>Rate for U.S.<br>dollars |
|-------------------|---|---|
|                   | (R\$ per US\$1.00)                      |   |
| December 31, 2002 | R\$ 3.5400                              | 3.5333                                      |
| December 31, 2003 | 2.8950                                  | 2.8892                                      |
| December 31, 2004 | 2.6550                                  | 2.6544                                      |
| June 20, 2005     | 2.3825                                  | 2.3855                                      |

As a result of recent fluctuations in the *real*/U.S. dollar exchange rate, the closing selling exchange rate at December 31, 2004 may not be indicative of current or future exchange rates. Therefore, you should not read these exchange rate conversions as representations that any such amounts have been or could be converted into U.S. dollars at those or any other exchange rates.

For your convenience, certain amounts have been converted from *reais* to U.S. dollars. These conversions have been calculated using the U.S. dollar selling rate at closing published by the Central Bank. See Item 3. Key Information Exchange Rate Information for more information regarding the exchange rates applicable to the Brazilian currency since January 1, 2000.

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

## **PART I**

### **Item 1. Identity of Directors, Senior Management and Advisers.**

Not applicable.

### **Item 2. Offer Statistics and Expected Timetable.**

Not applicable.

### **Item 3. Key Information.**

## **SELECTED FINANCIAL DATA**

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

We have presented below selected financial information prepared in accordance with U.S. GAAP as of and for the years ended December 31, 2000, 2001, 2002, 2003 and 2004. The selected U.S. GAAP financial information is derived from and should be read in conjunction with our audited consolidated financial statements prepared in accordance with U.S. GAAP provided in Item 18. The report of the independent auditors is included in this annual report.

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

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Table of Contents**Year ended December 31,**

|   | <b>2000</b>              | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b>                             |           |
|---|--------------------------|-------------|-------------|-------------|---|-----------|
|   | <b>(R\$ in millions)</b> |             |             |             | <b>(US\$ in millions)<sup>(1)</sup></b> |           |
| Net interest income   | R\$6,846                 | R\$9,493    | R\$13,467   | R\$14,999   | R\$14,804                               | US\$6,159 |
| Provision for loan losses   | (1,244)                  | (1,763)     | (2,543)     | (2,034)     | (1,429)                                 | (594)     |
| Net interest income after provision for loan losses   | 5,602                    | 7,730       | 10,924      | 12,965      | 13,375                                  | 5,565     |
| Fee and commission income   | 2,593                    | 2,866       | 2,894       | 3,463       | 4,310                                   | 1,793     |
| Insurance premiums(2)   | 3,954                    | 4,946       | 5,308       | 6,149       | 6,764                                   | 2,814     |
| Pension plan income(2)  | 339                      | 713         | 21          | 64          | 374                                     | 156       |
| Equity in earnings (losses) of unconsolidated companies(3)  | 145                      | 109         | 150         | 60          | 66                                      | 27        |
| Other non-interest income(4)  | 2,103                    | 972         | (410)       | 1,373       | 2,768                                   | 1,151     |
| Operating expenses(5)   | (5,816)                  | (6,197)     | (7,413)     | (8,586)     | (8,921)                                 | (3,711)   |
| Insurance claims  | (2,511)                  | (3,251)     | (3,614)     | (4,333)     | (4,822)                                 | (2,006)   |
| Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts | (1,265)                  | (1,847)     | (2,261)     | (3,777)     | (4,326)                                 | (1,799)   |
| Pension plan operating expenses   | (378)                    | (459)       | (370)       | (637)       | (751)                                   | (312)     |
| Insurance and pension plan selling expenses   | (645)                    | (690)       | (669)       | (762)       | (907)                                   | (377)     |
| Other non-interest expense(6)   | (1,887)                  | (2,054)     | (2,272)     | (3,323)     | (3,990)                                 | (1,662)   |
| Income before income taxes and minority interest  | 2,234                    | 2,838       | 2,288       | 2,656       | 3,940                                   | 1,639     |
| Income taxes  | (417)                    | (550)       | (161)       | (346)       | (601)                                   | (250)     |
| Change in accounting principle  |                          |             | 27          |             |   |           |
| Minority interest   | (18)                     | (18)        | (12)        | (8)         | (12)                                    | (5)       |
| Net income  | 1,799                    | 2,270       | 2,142       | 2,302       | 3,327                                   | US\$1,384 |

**Year ended December 31,**

|                          | <b>2000</b>                            | <b>2001</b>                            | <b>2002</b>                            | <b>2003</b>                            | <b>2004</b>                            |
|--------------------------|--|--|--|--|--|
|                          | <b>(R\$, except numbers of shares)</b> | <b>(R\$, except numbers of shares)</b> | <b>(R\$, except numbers of shares)</b> | <b>(R\$, except numbers of shares)</b> | <b>(R\$, except numbers of shares)</b> |
| <b>Per Share Data(7)</b> | <b>(US\$)(1)</b>                       | <b>(US\$)(1)</b>                       | <b>(US\$)(1)</b>                       | <b>(US\$)(1)</b>                       | <b>(US\$)(1)</b>                       |

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|  |             |      |             |      |             |      |             |      |           |
|--|-------------|------|-------------|------|-------------|------|-------------|------|-----------|
| Net income per share(8)(9)                   |             |      |             |      |             |      |             |      |           |
| Common                                       | R\$4.36     | US\$ | R\$5.04     | US\$ | R\$4.74     | US\$ | R\$4.78     | US\$ | R\$6      |
| Preferred                                    | 4.80        |      | 5.54        |      | 5.22        |      | 5.26        |      | 7         |
| Dividends/interest on capital per share(10)  |             |      |             |      |             |      |             |      |           |
| Common                                       | 1.87        | 0.99 | 1.88        | 0.81 | 2.09        | 0.64 | 2.80        | 0.96 | 2         |
| Preferred                                    | 2.08        | 1.09 | 2.07        | 0.89 | 2.31        | 0.70 | R3.08       | 1.06 | 2         |
| Weighted average number of outstanding share |             |      |             |      |             |      |             |      |           |
| Common                                       | 199,842,903 |      | 218,003,379 |      | 217,339,670 |      | 230,880,111 |      | 239,266,1 |
| Preferred                                    | 193,148,010 |      | 211,741,248 |      | 212,948,868 |      | 227,580,486 |      | 236,081,7 |

|  | December 31.      |            |            |            |            |                       |
|--|-------------------|------------|------------|------------|------------|-----------------------|
|  | 2000              | 2001       | 2002       | 2003       | 2004       | 2004                  |
|  | (R\$ in millions) |            |            |            |            | (US\$ in millions)(1) |
| <b>Consolidated Balance Sheet Data</b>         |                   |            |            |            |            |                       |
| <b>Assets</b>                                  |                   |            |            |            |            |                       |
| Cash and due from banks                        | R\$1,155          | R\$1,715   | R\$2,725   | R\$2,473   | R\$2,690   | US\$1,120             |
| Interest bearing deposits in other banks       | 1,299             | 2,051      | 2,379      | 5,170      | 7,976      | 3,318                 |
| Federal funds sold and securities purchased    |                   |            |            |            |            |                       |
| under agreements to resell                     | 12,328            | 11,896     | 12,674     | 26,175     | 19,435     | 8,085                 |
| Brazilian Central Bank compulsory deposits     | 5,271             | 8,232      | 16,057     | 16,690     | 20,209     | 8,407                 |
| Trading and available-for-sale securities,     |                   |            |            |            |            |                       |
| at fair value                                  | 22,814            | 29,872     | 27,549     | 43,267     | 43,197     | 17,970                |
| Securities held to maturity                    |                   |            | 4,001      | 3,265      | 4,200      | 1,747                 |
| Loans  | 39,439            | 44,994     | 52,324     | 54,795     | 63,176     | 26,282                |
| Allowance for loan losses                      | (2,345)           | (2,941)    | (3,455)    | (3,846)    | (4,063)    | (1,690)               |
| Equity investees and other investments         | 447               | 521        | 550        | 295        | 708        | 295                   |
| Premises and equipment, net                    | 2,680             | 2,727      | 2,993      | 3,106      | 2,946      | 1,226                 |
| Goodwill                                       |                   |            |            |            | 262        | 109                   |
| Intangible assets, net                         | 875               | 783        | 1,778      | 1,740      | 1,568      | 652                   |
| Other assets                                   | 7,889             | 8,445      | 10,300     | 13,200     | 14,775     | 6,145                 |
| Total assets                                   | R\$91,852         | R\$108,295 | R\$129,875 | R\$166,330 | R\$177,079 | US\$73,666            |
| <b>Liabilities</b>                             |                   |            |            |            |            |                       |
| Deposits                                       | 36,506            | 41,092     | 56,333     | 58,027     | 68,647     | 28,558                |
| Federal funds purchased and securities sold    |                   |            |            |            |            |                       |
| under agreements to repurchase                 | 12,114            | 14,037     | 7,633      | 27,490     | 16,532     | 6,877                 |
| Short-term borrowings                          | 7,018             | 8,320      | 9,639      | 7,795      | 8,272      | 3,441                 |
| Long-term debt                                 | 9,060             | 11,499     | 13,389     | 20,093     | 19,653     | 8,176                 |
| Other liabilities                              | 19,175            | 23,471     | 31,826     | 39,260     | 48,343     | 20,112                |
| Total liabilities                              | 83,873            | 98,419     | 118,820    | 152,665    | 161,447    | 67,164                |
| Minority interest in consolidated subsidiaries | 98                | 87         | 203        | 73         | 73         | 30                    |
| <b>Shareholders Equity</b>                     |                   |            |            |            |            |                       |
| Common shares(11)                              | 2,408             | 2,638      | 2,638      | 3,525      | 3,525      | 1,466                 |
| Preferred shares(12)                           | 2,338             | 2,562      | 2,562      | 3,475      | 3,475      | 1,446                 |



|  |           |            |            |            |            |            |
|--|-----------|------------|------------|------------|------------|------------|
| Capital stock                              | 4,746     | 5,200      | 5,200      | 7,000      | 7,000      | 2,912      |
| Total shareholders' equity                 | 7,881     | 9,789      | 10,852     | 13,592     | 15,559     | 6,472      |
| Total liabilities and shareholders' equity | R\$91,852 | R\$108,295 | R\$129,875 | R\$166,330 | R\$177,079 | US\$73,666 |
| Average assets(13)                         | 91,275    | 101,298    | 123,447    | 146,872    | 162,891    | 67,764     |
| Average liabilities(13)                    | 84,540    | 92,293     | 113,216    | 134,625    | 148,814    | 61,908     |
| Average shareholders' equity(13)           | 6,596     | 8,861      | 10,015     | 12,138     | R\$14,012  | US\$5,829  |

- (1) Amounts stated in U.S. dollars have been translated from Brazilian *reais* at an exchange rate of R\$2.4038 = US\$1.00, the Central Bank exchange rate of May 31, 2005. We used the exchange rate of May 31, 2005, instead of December 31, 2004, because there has been a material devaluation in the *real* U.S. dollar exchange rate since December 31, 2004. For more information, see Item 5. Operating and Financial Review and Prospects Overview Brazilian Economic Conditions. Such translations should not be construed as representation that the Brazilian *real* amounts presented have been or could be converted into U.S. dollars at that rate.
- (2) Since 2003, we classify amounts received in relation to certain private retirement plans as income from insurance premiums. Amounts related to such private retirement plans from periods prior to 2003 have been reclassified to facilitate comparison. As a result, income from pension premiums decreased and income from insurance premiums increased by R\$253 million for the period ending December 31, 2000, by R\$330 million for the period ending December 31, 2001 and by R\$327 million for the period ending December 31, 2002. These reclassifications do not affect non-interest income, net income, or shareholders' equity. The private retirement plans offer holders a guaranteed payment of benefits upon death.
- (3) For more information on the results of equity investees, see Item 5. Operating and Financial Review and Prospects and note 9 to our consolidated financial statements in Item 18.
- (4) Other non-interest income consists of trading income (losses), net realized gains on available-for-sale securities, net gain on foreign currency transactions and other non-interest income.

- (5) Operating expenses consists of salaries and benefits and administrative expenses.
- (6) Other non-interest expense consists of amortization of intangible assets, depreciation and amortization and other non- interest expense.
- (7) Per share data reflects: (a) on a retroactive basis, a split of our capital stock on December 22, 2000, in which we issued one new share for each five existing shares, (b) a reverse split of our shares at a 10,000:1 share ratio, which was approved by our shareholders on March 10, 2004 (as a result, we had 158,587,942 authorized and issued shares outstanding, no par value, as of December 31, 2003.) The shares began trading in this form on the São Paulo Stock Exchange on March 22, 2004) and (c) a split of our capital stock on December 9, 2004, in which we issued two new shares for each existing share.
- (8) For the purposes of calculating earnings per share in accordance with U.S. GAAP, preferred shares are treated in the same manner as common shares. Preferred shareholders are entitled to receive dividends per share in an amount 10% greater than the dividends per share paid to the common shareholders. For a description of our two classes of shares, see Item 10.  
Additional Information Memorandum and Articles of Incorporation.
- (9) None of our outstanding obligations are exchangeable for or convertible into equity securities. As a consequence, our diluted net income per share does not differ from our net income per share. Accordingly, our basic and diluted earnings per share are equal in all periods presented. See note 2(u) to our consolidated financial statements.
- (10) The amounts determined in US dollars were converted into reais using the exchange rate on the date such dividend was paid.
- (11) Common shares outstanding, no par value: 238,351,329 authorized and issued at December 31, 2004; 79,836,526 authorized and issued at December 31, 2003; and 719,342,690,385 authorized and issued at December 31, 2002. Data for 2003 reflects the reverse split of our shares at a 10,000:1 share ratio. Data from 2000 to 2004 reflects the split of our shares, in which we issued two new shares for each existing share.
- (12) Preferred shares outstanding, no par value: 236,081,796 authorized and issued at December 31, 2004; 78,693,936 authorized and issued at December 31, 2003; and 708,537,611,452 authorized and issued at December 31, 2002. Data for 2003 reflects the reverse split of our shares at a 10,000:1 share ratio. Data from 2000 to 2004 reflects the split of our shares, in which we issued two new shares for each existing share.
- (13) See Item 4. Information on the Company Selected Statistical Information.

Preferred shareholders are entitled to receive dividends per share in an amount 10% greater than the dividends per share paid to our common shareholders.

**EXCHANGE RATE INFORMATION**

The *real* was introduced in July 1994, and from that time through March 1995 the *real* appreciated against the U.S. dollar. In March 1995 the Central Bank introduced exchange rate policies that established a trading band within which the *real*/U.S. dollar exchange rate could fluctuate, allowing the gradual devaluation of the *real* against the U.S. dollar. Since January 1999, in response to increased pressure on Brazil's foreign currency reserves, the Central Bank has allowed the *real* to float freely.

During 1999 the *real* experienced high volatility and suffered a sharp decline against the U.S. dollar. During 2000, 2001 and 2002 the *real* continued to decline against the U.S. dollar, but during 2003 and 2004 it appreciated against the U.S. dollar. Under the current free convertibility exchange system, the *real* may undergo further devaluation or may appreciate when compared to the U.S. dollar and other currencies.

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

| Period   | Noon Buying Rate for U.S. dollars<br>R\$ per US\$1.00 |            |           |           |
|----------|---|------------|-----------|-----------|
|          | Period-End  | Average(1) | High      | Low       |
| 2000     | R\$1.9510   | R\$1.8330  | R\$1.9840 | R\$1.7230 |
| 2001     | 2.3120  | 2.3220     | 2.7880    | 1.9380    |
| 2002     | 3.5400  | 2.9420     | 3.9450    | 2.2650    |
| 2003     | 2.8950  | 3.0954     | 3.6640    | 2.8270    |
| 2004     | 2.6550  | 2.9131     | 3.2085    | 2.6510    |
| December | 2.6550  |            | 2.7800    | 2.6510    |
| 2005     |   |            |           |           |
| January  | 2.6115  |            | 2.7227    | 2.6115    |
| February | 2.5846  |            | 2.6310    | 2.5640    |
| March    | 2.6660  |            | 2.7755    | 2.6103    |
| April    | 2.5330  |            | 2.6572    | 2.5135    |
| May      | R\$2.4110   |            | R\$2.5147 | R\$2.3960 |

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

Source: Federal Reserve Bank of New York.

On June 20, 2005, the noon buying rate reported by the Federal Reserve Bank of New York was R\$2.3825 to US\$1.00.

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

| Period   | Closing Selling Rate for U.S. dollars<br>R\$ per US\$1.00 |            |           |           |
|----------|---|------------|-----------|-----------|
|          | Period-End  | Average(1) | High      | Low       |
| 2000     | R\$1.9554   | R\$1.8313  | R\$1.9847 | R\$1.7234 |
| 2001     | 2.3204  | 2.3226     | 2.8007    | 1.9357    |
| 2002     | 3.5333  | 2.9461     | 3.9552    | 2.2709    |
| 2003     | 2.8892  | 3.0964     | 3.6623    | 2.8219    |
| 2004     | 2.6544  | 2.9150     | 3.2051    | 2.6544    |
| December | 2.6544  |            | 2.7867    | 2.6544    |
| 2005     |   |            |           |           |
| January  | 2.6248  |            | 2.7222    | 2.6248    |
| February | 2.5950  |            | 2.6320    | 2.5621    |
| March    | 2.6662  |            | 2.7621    | 2.6011    |
| April    | 2.5313  |            | 2.6598    | 2.5195    |
| May      | R\$2.4038   |            | R\$2.5146 | R\$2.3784 |

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

Source: Central Bank

On June 20, 2005, the U.S. dollar selling rate reported by the Central Bank at the close of the day was R\$2.3855 to US\$1.00.

## RISK FACTORS

### Risks Relating to Brazil

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

Substantially all of our operations and customers are located in Brazil. Accordingly, our financial condition and results of operations are substantially dependent on Brazil's economy, which in the past has been characterized by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles. In addition, our operations, financial condition and the market price of the preferred shares and ADSs may also be adversely affected by changes in policy involving exchange controls, tax and other matters, as well as factors such as:

- fluctuations in exchange rates;
- base interest rate fluctuations;
- inflation; and
- other political, diplomatic, social and economic developments within and outside of Brazil that affect the country.

These and other future developments in the Brazilian economy and government policies may reduce Brazilian demand for our services or products, create uncertainty in the financial system, increase our cost of funding and contribute to the increase in our overdue loans portfolio. Any of these results could adversely affect our financial condition, results of operations and the market price of our preferred shares and ADSs.

The Central Bank determines the Brazilian base interest rate, which we refer to as the base interest rate. The base interest rate is the benchmark interest rate payable to holders of securities issued by the federal government and traded at the *Sistema Especial de Liquidação e Custodia SELIC* (Special System for Settlement and Custody, known as SELIC). During 2004, the Central Bank increased Brazil's base interest rate by a total of 1.25 percentage points, to 17.75% and during the first five months of 2005 it increased the rate further to 19.75%.

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 situation of the Brazilian economy or how the Brazilian government intervention and government policies will affect the Brazilian economy and, both directly and indirectly, our operations and revenues.

*A mismatch between our assets and liabilities denominated in, or indexed to, foreign currencies may lead to substantial losses on these liabilities, a reduction in our revenues, and a decline in the competitiveness of our lending and leasing operations.*

The Brazilian currency has periodically been devalued during the last four decades. The exchange rate between the *real* and the U.S. dollar has varied significantly in recent years. For example, the *real*/U.S. dollar exchange rate decreased from R\$2.8892 per U.S. dollar at December 31, 2003 to R\$2.6544 at December 31, 2004. In the last two years, the value of the *real* appreciated by 24.9% against the U.S. dollar, and during the first months of 2005, the value of the *real* appreciated by 9.4% resulting in



a *real*/U.S. dollar exchange rate of R\$2.4038 per U.S. dollar at May 31, 2005. At June 20, 2005, the *real*/U.S. dollar-exchange rate was R\$2.3855 per U.S. dollar.

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

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

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

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

Brazil has in the past experienced extremely high rates of inflation, with annual rates of inflation (IGP-DI) during the last fifteen years reaching as high as 1,158% in 1992, 2,708% in 1993 and 1,093% in 1994. More recently, Brazil's rates of inflation were 7.7% in 2003, 12.1% in 2004 and 1.99% for the five months ended May 31, 2005. Inflation itself and governmental measures to combat inflation have in the past had significant negative effects on the Brazilian economy. Inflation, actions taken to combat inflation and public speculation about possible future actions have also contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets. If Brazil experiences substantial inflation in the future, our costs (if not accompanied by an increase in interest rates) may increase, our operating and net margins may decrease and, if investor confidence lags, the price of our preferred shares and ADSs may fall. Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

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

Our banking, leasing, and other businesses are significantly dependent on our customers' ability to make payments on their loans and to meet their other obligations to us. If the Brazilian economy weakens because of, among other factors:

- the level of economic activity;
- devaluation of the *real*;
- inflation; or





- an increase in interest rates.

A greater portion of our customers may not be able to repay loans when due or to meet their debt service requirements, which would increase our past due loan portfolio and could materially reduce our net earnings.

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

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

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

The market price of the preferred shares and ADSs may be adversely affected by declines in the international financial markets and world economic conditions. Brazilian securities markets are, to varying degrees, influenced by economic and market conditions in other emerging market countries, especially those in Latin America, including Argentina, which is one of Brazil's principal trading partners. Although economic conditions are different in each country, investors' reaction to developments in one country can affect the securities markets and the securities of issuers in other countries, including Brazil. Since the fourth quarter of 1997, the international financial markets have experienced significant volatility, and a large number of market indices, including those in Brazil, have declined significantly.

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

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

During 2001 and early 2002 Brazil experienced a severe shortage of capacity to generate electrical energy. The crisis was due in part to the worst drought in sixty years, which caused water levels at hydroelectric plants (which account for 90% of the country's generating capacity) to fall to less than one-third of capacity, and in part to a lack of past investment in power generation. In order to avoid rolling blackouts, the Brazilian government instituted general compulsory measures which were aimed at reducing electricity consumption and which were in effect from June 2001 until February 28, 2002. Under the reduced electricity consumption rules, we were required to reduce our electricity consumption by 20%.

If the drought recurs, or if there is no additional investment in power generation, Brazil may experience another energy crisis. If so, the Brazilian government may impose similar measures to reduce

electricity consumption in the future, which could reduce our customers' ability to service their debt obligations and therefore adversely affect our operations and net earnings.

*State and municipal defaults may adversely affect the market price of the preferred shares and ADSs.*

We may be adversely affected by defaults by Brazilian state and municipal governments. In January 1999, the states of Minas Gerais and Rio Grande do Sul suspended payments on debt to Brazil's federal government and seven states requested renegotiation of their financing agreements with the federal government. Although these states subsequently reinitiated their payments, any future defaults and the perceived risks of further defaults by state and municipal governments may undermine investor confidence, have a negative effect on the Brazilian economy, or negatively impact the relevant region. If the Brazilian economy or any of the regional economies in which we operate were to be adversely affected by a default, our operations and the market price of the preferred shares and ADSs may be adversely affected.

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

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

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

- minimum capital requirements;
- compulsory reserve requirements;
- lending limits and other credit restrictions; and
- accounting and statistical requirements.

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

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

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

The Central Bank establishes the base interest rates for the Brazilian banking system. In recent years, the base interest rate has fluctuated, with a high of approximately 45% in March 1999 and a low of 15.25% at January 17, 2001. The base interest rate was 26.5% on February 19, 2003, and it remained the same until June 18, 2003. From June 2003 to December 2003, the Central Bank reduced the base interest rate by 9.5 percentage points, to 16.5%. In 2004, the Central Bank increased the base interest rate 1.25 percentage points, to 17.75% in December 2004. In 2005, the Central Bank increased the base interest



rate by two points to 19.75% in May 2005. Changes in the base interest rate may materially adversely affect our results of operations because:

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

The Central Bank uses changes in the base interest rate as an instrument for its management of the Brazilian economy, including the protection of reserves and capital flows. We have no control over the base interest rates set by the Central Bank or how often they adjust them.

*Our income before taxes and minority interest for the year ended December 31, 2000, includes a significant non-recurring gain, and so is not representative of core earnings that might be anticipated in the future.*

Our income before taxes and minority interest for the year ended December 31, 2000, includes R\$1,004 million in non-recurring gains on sales of available-for-sale securities. Accordingly, the amount of our income before taxes and minority interest for 2000 may not be representative of our future performance, particularly because the non-recurring gain represents 45% of our income before taxes and minority interest for 2000 and is not part of our core earnings that might be anticipated in the future.

The non-recurring gain on sale of available-for-sale securities resulted from our transfer of our holdings in companies operating in the mining, steel, energy, telecommunications and e-commerce sectors (which we refer to collectively as the Spin-off Interests ) to an unrelated entity through a transfer, sale and spin-off. We refer to these transactions, which we carried out in February and March 2000, collectively as the Spin-off. We carried out the Spin-off to comply with Brazilian banking regulations limiting financial institutions' ownership of non-financial entities. The assets transferred in the Spin-off were primarily available-for-sale securities.

We carried out the Spin-off in several steps. As a first step, we transferred the Spin-off Interests to Bradesplan Participações S.A., which we call Bradesplan, one of our wholly-owned subsidiaries. Bradesplan acted as a holding company for the Spin-off Interests. Bradesplan had an unrealized holding gain on its available-for-sale equity reserve of R\$1,004 million related to the securities, which we included in our consolidated financial statements as an available-for-sale reserve.

On February 29, 2000 we sold Bradesplan, including the available-for-sale securities, to our wholly-owned subsidiary Paiol Participações e Comércio Ltda., which we call Paiol, at its book value. On the same date, we spun off Paiol (including its investment in Bradesplan) to Bradespar S.A. (which we call Bradespar ) in a transaction similar to a capital distribution. We realized a holding gain of R\$1,004 million on the available-for-sale securities in connection with the Spin-off of Paiol to Bradespar. For further information about the Spin-off, see Item 4. Information on the Company The Company History Spin-off.

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

We face significant competition in all of our principal areas of operation from other large Brazilian banks and insurance companies, both public and private. Brazilian regulations raise limited barriers to market entry and do not differentiate between local or foreign commercial and investment banks and insurance companies. As a result, the presence of foreign banks and insurance companies in



Brazil, some of which have greater resources than we do, has grown and competition both in the banking and insurance sectors generally and in markets for specific products has increased. The privatization of publicly owned banks has also made the Brazilian markets for banking and other financial services more competitive.

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

- limiting our ability to increase our client base and expand our operations;
- reducing our profit margins on the banking, insurance, leasing and other services and products we offer; and
- increasing competition for foreign investment opportunities.

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

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

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

At December 31, 2004, Cidade de Deus Companhia Comercial de Participações, which we call Cidade de Deus Participações, directly held 47.95% of our common shares and Fundação Bradesco directly and indirectly held 44.38% of our common shares. As a result, these shareholders have the power to prevent a change in control of our company, even if a transaction of that nature would be beneficial to our other shareholders, as well as to approve related-party transactions or corporate reorganizations. Under the terms of Fundação Bradesco's bylaws, all of our directors, members of the *Diretoria Executiva* and departmental directors, as well as all directors and officers of Cidade de Deus Participações, serve as members of the board of trustees of Fundação Bradesco. The board of trustees has no other members. For more information on our shareholders, see Item 7. Major Shareholders and Related Party Transactions - Major Shareholders.

*Changes in reserve and compulsory deposit requirements may hurt our ability to be profitable.*

In mid-2002, the Central Bank reimposed reserve requirements that had previously been reduced. In the future, the Central Bank could increase reserve requirements or impose new reserve or compulsory deposit requirements. As of December 31, 2004, the reimposed reserve requirements required us to hold a total of R\$4.5 billion of Brazilian government securities, which we had not been required to hold before 2002. As a result, our liquidity available to make loans and other investments was reduced by that amount. In addition, we could be materially adversely affected by changes in compulsory deposit requirements because the monies held as compulsory deposits generally do not yield the same return as our other investments and deposits because:

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

Reserve requirements have been used by the Central Bank to control liquidity as part of monetary policy in the past, and we have no control over their imposition.

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

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

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

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

Marketable securities represent a material portion of our assets, and realized investment gains and losses have had and will continue to have a significant impact on our results of operations. The amounts of these gains and losses, which we record when investments in securities are sold, or in certain limited circumstances when the securities we hold are marked to market, may fluctuate considerably from period to period. The level of fluctuation depends, in part, upon the market value of the securities, which in turn may vary considerably, and our investment policies. We cannot predict the amount of realized gain or loss for any future period, and variations from period to period have no practical analytical value. Gains on our investment portfolio may not continue to contribute to net income at levels consistent with recent periods or at all, and we may not successfully realize the appreciation now existing in our consolidated investment portfolio or any portion thereof.

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

As promulgated in 1988, the Brazilian Constitution established a 12% per year ceiling on loan interest rates, including bank loan interest rates. This ceiling was not enforced, however, because the Brazilian congress did not adopt the necessary implementing legislation. In May 2003, the relevant article was revoked pursuant to a constitutional amendment.

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

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

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

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

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

*Our trading activities and derivatives transactions may produce material losses.*

We engage in the trading of securities, buying debt and equity securities principally to sell them in the near term with the objective of generating profits on short-term differences in price. These investments could expose us to the possibility of material financial losses in the future, as securities are subject to fluctuations in value, which may generate losses. In addition, we enter into derivatives transactions to manage our exposure to interest rate and exchange rate risk. Each such derivatives transaction protects against increases in exchange rates or interest rates or against decreases in such rates, but not both. If we have entered into derivatives transactions to protect against, for example, decreases in the value of the *real* or in interest rates and the *real* instead increases in value or interest rates increase, we may incur financial losses. Such losses could adversely materially affect our future net income and therefore the value of the preferred shares and ADSs. For further discussion of our market risk, see Item 11. Quantitative and Qualitative Disclosures about Market Risk. In the past four years the ratio of our trading securities to our total assets, as measured at December 31 of each year, has been as high as 22.5%, and could be greater in the future.

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

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

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

In addition, in the limited circumstances where the preferred shareholders are able to vote, holders may exercise voting rights with respect to the preferred shares represented by ADSs only in accordance with the provisions of the deposit agreement relating to the ADSs. There are no provisions under Brazilian law or under our bylaws that limit ADS holders' ability to exercise their voting rights through the depositary bank with respect to the underlying preferred shares. However, there are practical





limitations upon the ability of ADS holders to exercise their voting rights due to the additional procedural steps involved in communicating with such holders. For example, our preferred shareholders will either receive notice directly from us or through publication of notice in Brazilian newspapers and will be able to exercise their voting rights by either attending the meeting in person or voting by proxy. ADS holders, by comparison, will not receive notice directly from us. Rather, in accordance with the deposit agreement, we will provide the notice to the depositary bank, which will in turn, as soon as practicable thereafter, mail to holders of ADSs the notice of such meeting and a statement as to the manner in which instructions may be given by holders. To exercise their voting rights, ADS holders must then instruct the depositary bank how to vote the shares represented by their ADSs. Because of this extra procedural step involving the depositary bank, the process for exercising voting rights will take longer for ADS holders than for holders of preferred shares. ADSs for which the depositary bank does not receive timely voting instructions will not be voted at any meeting.

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

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

Prior to the registration of our ADS in September 2001, there was no liquid public market for our ADSs. We cannot predict whether an active, liquid public trading market for our ADS will develop any further or be sustained. Active, liquid trading markets generally result in lower price volatility and more efficient execution of buy and sell orders for investors. Liquidity of a securities market is often the function of the volume of the underlying shares that are publicly held by unrelated parties. Although ADS holders are entitled to withdraw the preferred shares underlying the ADSs from the depositary bank at any time, there is no public market for our preferred shares in the United States.

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

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

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

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

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

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

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

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

Sales of a substantial number of shares, or the belief that this may occur, could decrease the prevailing market price of the preferred shares and ADSs by diluting the shares' value. If we issue new shares or our existing shareholders sell shares they hold, the market price of the preferred shares and, by extension, of the ADSs, may decrease significantly. Such sales also might make it more difficult for us to sell preferred shares and ADSs in the future at a time and a price that we deem appropriate.

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

You will not be able to exercise the preemptive rights relating to the preferred shares underlying your ADSs unless a registration statement under the United States Securities Act of 1933 is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. Similarly, we may from time to time distribute rights to our shareholders. The depositary bank will not offer rights to you as a holder of the ADSs unless the rights are either registered under provisions of the Securities Act or are subject to an exemption from the registration requirements. We are not obligated to file a registration statement with respect to the shares or other securities relating to these rights, and we cannot assure you that we will file any such registration statement. Accordingly, you may receive only the net proceeds from the sale by the depositary bank of the rights received in respect of the shares represented by your ADSs or, if the preemptive rights cannot be sold, they will be allowed to lapse. You may also be unable to participate in rights offerings by us and your holdings may be diluted as a result.

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

Brazilian law requires that parties obtain a certificate of registration from the Central Bank in order to be allowed to remit foreign currencies, including U.S. dollars, abroad. The Brazilian custodian for the preferred shares will obtain the necessary certificates from the Central Bank for the payment of dividends or other cash distributions relating to the preferred shares or upon the disposition of the



preferred shares. If you exchange your ADSs for the underlying preferred shares, however, you may only rely on the custodian's certificate for five business days from the date of exchange. Thereafter, you must obtain your own certificate of registration or register in accordance with Central Bank and CVM rules, in order to obtain and remit U.S. dollars abroad upon the disposition of the preferred shares or distributions relating to the preferred shares. If you do not obtain a certificate of registration, you may not be able to remit U.S. dollars or other currencies abroad and may be subject to less favorable tax treatment on gains with respect to the preferred shares. For more information, see Item 10. Additional Information – Exchange Controls.

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

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

You may be adversely affected by the imposition of restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil and the conversion of Brazilian currency into foreign currencies. The Brazilian government last imposed remittance restrictions for a brief period in 1989 and early 1990. Reimposition of this type of restriction would hinder or prevent your ability to convert dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, into U.S. dollars or other currencies and to remit those funds abroad. We cannot assure you that the government will not take similar measures in the future.

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

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

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

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

## **Forward-Looking Statements**

This annual report contains forward-looking statements relating to our business that are based on management's current expectations, estimates and projections about future events and financial trends affecting our business. Words such as believe, anticipate, plan, expect, intend, target, estimate, project, predict, forecast, similar expressions are used to identify forward-looking statements. These statements are not guarantees of future performance and



involve risks and uncertainties that are difficult to predict and that may be beyond our control. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate. Therefore, actual outcomes and results may differ materially from the plans, objectives, expectations, estimates and intentions expressed or implied in such forward-looking statements.

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

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

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

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

##### **THE COMPANY**

According to Central Bank's ranking, as of December 2004, we are the largest private-sector (non-government-controlled) bank in Brazil in terms of total net worth. We provide a wide range of banking and financial products and services in Brazil and abroad to individuals, small to mid-sized companies and major local and international corporations and institutions. We have the most extensive private-sector branch and service network in Brazil, which permits us to reach a diverse customer base. Our services and products encompass banking operations such as lending and deposit-taking, credit card issuance, consortiums, insurance, leasing, payment collection and

processing, pension plans, asset management and brokerage services.



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

We are the largest Brazilian bank and largest private company in Brazil according to The Forbes Global 2000 report, published by *Forbes* magazine in March 2005.

Some of our subsidiaries rank as the largest companies in Brazil in their respective markets, according to the sources cited in parentheses below, including:

- Bradesco Seguros S.A., our insurance subsidiary, which we call Bradesco Seguros, together with its subsidiaries, in terms of insurance premiums, net worth and technical reserves (SUSEP);
- Bradesco Vida e Previdência S.A., our pension and life insurance subsidiary, which we call Bradesco Vida e Previdência, in terms of pension plan contributions, life and accident insurance premium, investment portfolios and technical reserves (SUSEP);
- Bradesco Capitalização S.A., which we call Bradesco Capitalização, and which offers certificated savings plans to the public, in terms of the amount of technical reserves (SUSEP);
- Bradesco Leasing S.A. Arrendamento Mercantil, which we call Bradesco Leasing, in terms of the present value of leasing accounts (*Associação Brasileira das Empresas de Leasing* (Brazilian Association of Leasing Companies, known as ABEL ));
- Bradesco Consórcios Ltda., which we call Bradesco Consórcios, in terms of the total number of consortium shares sold (BACEN); and
- Banco Finasa S.A., which we call Banco Finasa in terms of automobile financing loans (BACEN).

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

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

In December 2004, according to information published by the *Secretaria da Receita Federal* (the Federal Revenue Service ), we accounted for 20.2% of the total nationwide collections of a tax called the Provisional Contribution on Financial Transactions ( CPMF ). Since the CPMF is levied on virtually all Brazilian financial transactions, this statistic provides a measure of the percentage of Brazilian financial transactions that we handle.

As of December 31, 2004, we had, on a consolidated basis:

- R\$177.1 billion in total assets;
- R\$63.2 billion in total loans;



- R\$68.6 billion in total deposits;
- R\$15.6 billion in shareholders' equity;
- R\$34.3 billion in insurance claim technical reserves, pension plans, certificated savings plans and pension investment contract operations;
- R\$9.4 billion in foreign trading financing;
- 11.2 million insurance policyholders;
- 15.7 million checking accounts;
- 34.6 million savings accounts;
- 2.8 million certificated savings plan holders;
- 1,304 of Brazilian and multinational groups of affiliated companies in Brazil as corporate customers;
- a daily average of 11.0 million daily transactions, including 2.5 million in our 3,004 branches and 8.5 million through self-service outlets such as the internet and *fone fácil*;
- a nationwide network consisting of 3,004 branches, 21,822 Automatic Teller Machines ( ATMs ) and 2,301 special banking service posts and outlets located on the premises of selected corporate clients; and
- a total of six branches and six subsidiaries located in New York, the Cayman Islands, the Bahamas, Japan, Argentina and Luxembourg.

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

Our large banking network allows us to be closer to our customers, which, in turn, permits our managers to have personal and direct knowledge about our customers, economically active regions and other conditions relevant to our business. This knowledge helps us in assessing and limiting credit risks in credit operations, among other risks, as well as in servicing the particular needs of our clients. Approximately 11 million transactions are executed through our Bradesco network every day.

We organize our operations into two main areas: (1) banking services; and (2) insurance, pension plan and certificated savings plan services. See note 25 to our consolidated financial statements in Item 18 for additional segment information. The following diagram provides summary information for our two business areas at and for the year ended December 31, 2004, by segment.



As of December 31, 2004, according to the sources cited in parentheses below, we were:

- the leader among private-sector banks in savings deposits, with 19.5% of all savings accounts in Brazil and R\$68.6 billion on deposit (Central Bank);
- the largest provider of insurance and private pension plans, with R\$12.0 billion in net premiums written and revenues from private pension plans (SUSEP/ANS);
- one of the leaders in Brazilian leasing operations, with R\$1.6 billion outstanding (ABEL);
- one of the leaders in the placement of debt instruments in Brazil, having participated in 59.45% of the issuances of debt and equity securities registered with the *Comissão de Valores Mobiliários* (Securities Commission), known as the CVM, during 2004 (ANBID);
- one of the largest private-sector fund and portfolio managers in Brazil, with R\$99.6 billion in total third-party assets under management, representing 14.8% of the total Brazilian market (ANBID);
- one of the largest credit card issuers in Brazil, with 7.6 million credit cards (Visa and MasterCard) issued, and income of R\$11.5 billion from our credit card business (Visa and MasterCard);
- one of the largest debit card issuers in Brazil, with 38.8 million debit cards issued, and income of R\$9.4 billion from our debit card business (Visa);
- the leader in payment processing and collection in Brazil, with a market share of 28% (Settlement System of the Central Bank);
- a leader in investments through the purchase of consortium quotas in the real estate and automotive sector (BACEN); and
- A leader in automobile financing operations, with a market share of 20.3% (BACEN).

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

**For the Years Ended December 31,**

|   | <b>2002</b>              | <b>2003</b>      | <b>2004</b>      |
|---|--------------------------|------------------|------------------|
| <b>Banking</b>                            |                          |                  |                  |
|   | <b>(R\$ in millions)</b> |                  |                  |
| Lending income                            |                          |                  |                  |
| Housing loans                             | R\$366                   | R\$318           | R\$223           |
| Agriculture-related loans                 | 509                      | 474              | 649              |
| Leasing                                   | 402                      | 307              | 297              |
| Other loans (1)                           | 15,748                   | 11,077           | 11,643           |
| <b>Total</b>                              | <b>R\$17,025</b>         | <b>R\$12,176</b> | <b>R\$12,812</b> |
| Income from services                      |                          |                  |                  |
| Asset management fees                     | 375                      | 371              | 454              |
| Collection fees                           | 556                      | 601              | 630              |
| Credit card fees                          | 327                      | 349              | 452              |
| Fees charged on checking account services | 828                      | 1,025            | 1,225            |
| Fees for receipt of taxes                 | 158                      | 175              | 189              |
| Interbank fees                            | 254                      | 250              | 261              |
| Credit operations                         | 68                       | 159              | 118              |
| Consortium administration                 |                          | 26               | 87               |
| Other services                            | 237                      | 269              | 469              |
| <b>Total</b>                              | <b>R\$2,803</b>          | <b>R\$3,225</b>  | <b>R\$3,885</b>  |
| <b>Insurance and pension plans (2)</b>    |                          |                  |                  |
| Insurance income                          |                          |                  |                  |
| Health                                    | 2,333                    | 2,649            | 3,036            |
| Life and accident                         | 1,257                    | 1,502            | 1,615            |
| Automobile, property and liability        | 1,718                    | 1,998            | 2,113            |
| <b>Total</b>                              | <b>5,308</b>             | <b>6,149</b>     | <b>6,764</b>     |
| Pension plan income                       | R\$21                    | R\$64            | R\$374           |

(1) Includes industrial loans, financing under credit cards, overdraft loans, trade financing and foreign loans.

(2) This does not include private pension investment contracts. See Insurance, Pension Plans and Certificated Savings Plans.

We do not break down our revenues by geographic market within Brazil, and less than 10% of our revenues come from international operations. For more information on our international operations, see Banking International Banking. For a discussion of our principal capital expenditures from 2002 through December 31, 2004, see Item 5. Operating and Financial Review and Prospects Capital Expenditures.

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The following is a simplified chart of our principal material subsidiaries in the financial and insurance services businesses and our voting and ownership interest in each of them as of December 31, 2004 (all of which are consolidated in our financial statements in Item 18). With the exception of Banco Bradesco Argentina, which is incorporated in Argentina, all of these material subsidiaries are incorporated in Brazil. For more information regarding the consolidation of our material subsidiaries, see note 1 to our consolidated financial statements in Item 18.





**History**

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

***Recent Acquisitions and Joint Ventures******Acquisitions of BCN, BANEBA and Boavista***

During the period from 1997-2000, we acquired 100% of Banco de Crédito Nacional, which we call BCN, 94.0% of the shares of Banco do Estado da Bahia, which we call BANEBA and 100% of Banco Boavista S.A., which we call Boavista. We used the purchase method of accounting to account for the acquisitions of BCN, BANEBA and Boavista, which are consolidated in our U.S. GAAP consolidated financial statements on an ongoing basis from the date of their respective acquisitions. Until April 2001, Boavista's branches operated under Boavista's name, but under BCN's management. In April 2001, we transferred the branches and the related assets and liabilities of Boavista to BCN by means of a partial spin-off, which was accounted as a transfer of assets and liabilities at book value. Until January 2004, we operated BCN as a separate financial institution in order to maintain its identity, branch network and market niche. In February 2004, however, its branches, assets and related liabilities were merged into Banco Bradesco at book value. BANEBA's branches operated under BANEBA's name, but under Bradesco's management, until September 2001. In September 2001, the branches and related assets and liabilities of BANEBA were merged into Banco Bradesco at book value.

***Acquisition of BBV Banco***

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

The Central Bank approved the transaction in May 2003, and BBV Banco became our wholly-owned subsidiary on June 9, 2003 when our shareholders and BBVA's board of directors approved the exchange of BBV Banco's shares for our newly issued shares. As of May 31, 2003, BBV Banco had total assets of R\$10.3 billion, net equity of R\$2.4 billion, 439 branches and seventy-six banking posts.

In accordance with the terms of the agreement with BBVA, in June 2003, we made a one-time cash payment of R\$1,864 million to BBVA in return for 49.00% of the common shares and 99.99% of the preferred shares of BBV Banco. In addition, in exchange for the remaining 51.00% of BBV Banco's common shares and 0.01% of its preferred shares, we issued to BBVA common and preferred shares equal to 4.4% of our share capital and valued at R\$630 million according to our audited financial statements. We have included BBV Banco's results in our financial statements starting from June 1, 2003.

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



Subsequent to our acquisition of BBV Banco, BBVA increased its percentage ownership of our shares through purchases of our shares on the São Paulo Stock Exchange, known as BOVESPA. As of December 31, 2004 BBVA held 5.0% of our common shares and 5.0% of our preferred shares. For more information on BBVA, see Item 7. Major Shareholders and Related Party Transactions BBVA.

In connection with our purchase of BBV Banco, in 2003 our controlling shareholders Cidade de Deus Participações and Fundação Bradesco, which together hold 61.1% of our voting shares and which we call our

Controlling Shareholders, entered into a shareholders agreement, which we call the Shareholders Agreement, with our shareholder BBVA. Under the terms of the Shareholders Agreement, BBVA has the right to appoint one member of our board of directors so long as BBVA owns at least 3.94% of our voting capital. However, BBVA will not lose this right if its shareholding falls below this percentage threshold due to an increase in our capital stock in which our shareholders, including BBVA, are not given preemptive rights.

In addition, under the Shareholders Agreement, our Controlling Shareholders have a right of first refusal over any proposed sale by BBVA of our common shares, and BBVA has a right, which expires on the seventh anniversary of the Shareholders Agreement, to require our Controlling Shareholders to purchase some or all of BBVA's holding of our common shares, under either of two modalities of acquisition and payment. If BBVA exercises its put option, our Controlling Shareholders will pay for the shares at a price based on the average price of our common shares on BOVESPA. If the Controlling Shareholders cease to control us, the put option will expire thirty days after the change in control.

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

#### *Other Acquisitions and Joint Ventures in 2002, 2003 and 2004*

In January 2002, we entered into a strategic partnership with Ford Credit Holding Brasil Ltda. The partnership enables us to provide vehicle funding and leasing services originated by Ford Comércio e Serviços Ltda. to the clients of the Ford dealership network in Brazil. Pursuant to the arrangement, we acquired all the capital stock of Ford Leasing S.A. Arrendamento Mercantil, which we call Ford Leasing, an automobile leasing company. We also acquired the consumer loan portfolio of Banco Ford S.A., which we call Banco Ford, a bank owned by Ford Motor Company that provided financing for sales made through the Ford dealership network. Banco Finasa S.A. (formerly known as Continental Banco S.A.), which we call Banco Finasa, which specializes in promoting sales of various financial products, provides customer service to customers of the Ford dealership network.

In January 2002, we acquired control of Banco Mercantil de São Paulo S.A., known as Banco Mercantil, and its controlled companies. Banco Mercantil was a 67-year-old financial institution that in 2001 had 220 branches in Brazil, three branches abroad and 162 banking posts in Brazil. At December 31, 2001 its assets totaled R\$8,391 million, under accounting practices adopted in Brazil. The transaction was concluded in March 2002. In the transaction we acquired 90.1% of the voting capital and 74.2% of nonvoting capital of Banco Mercantil for R\$1,324 million, and through a series of additional transactions converted Banco Mercantil into a wholly-owned subsidiary of Bradesco. In May 2003, the branches, assets and liabilities of Banco Mercantil were transferred to Banco Bradesco at their book value.



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In January 2002, we acquired control of Banco do Estado do Amazonas S.A. BEA, which we call BEA, through a bidding process. At December 31, 2001, BEA had thirty-six branches and forty-nine banking posts and R\$560 million in total assets, under accounting practices adopted in Brazil. We purchased 89.5% of BEA's voting capital and 87.5% of its nonvoting capital, for a purchase price of R\$182.9 million. In June 2002, BEA transferred its branches, assets and liabilities to Bradesco at book value.

In January 2002, we signed an agreement with Deutsche Bank S.A., which we call Deutsche Bank, in order to acquire Deutsche Bank Investimentos DTVM S.A., its securities brokerage subsidiary, which as of December 31, 2001 had a total of R\$2.2 billion in assets under management. We acquired Deutsche Bank Investimentos DTVM S.A. on February 14, 2002. We and BRAM Bradesco Asset Management S.A. DTVM manage these assets with the assistance of a consulting committee formed by professionals of Bradesco and Deutsche Bank.

In February 2002, we entered into an agreement to acquire 100% of the shares of Banco Cidade S.A. and its controlled companies, which we call Banco Cidade. This transaction was concluded on June 2002, at a cost of R\$385.4 million. On June 21, 2002, Banco Cidade's branches, assets and liabilities were merged into BCN at book value.

In November 2003, we signed an agreement with the controlling shareholders of Banco Zogbi S.A. to acquire all of its capital and all the capital of its controlled companies for R\$650 million. The Zogbi Institutions have been engaged for over forty years in financing activities, including in the areas of consumer, personal, credit card and vehicle credits. The Zogbi Institutions had, as of September 30, 2003, total assets of R\$833 million, credit operations valued at R\$520 million and a net worth of R\$335 million. On February 4, 2004, this transaction was approved by the Central Bank.

In February 2004, we acquired control of Banco do Estado do Maranhão S.A. BEM, which we call BEM, in its privatization by the government through a share auction. On December 31, 2003, BEM had seventy-six branches and 125 ATMs, and its assets totaled R\$766 million. In the transaction we acquired 89.96% of BEM's capital, for R\$78 million. In October 2004, the assets and liabilities were transferred to Bradesco at book value. Between March 2004 and June 2004, we acquired the remaining interest in BEM from its former minority shareholders for R\$9.0 million.

With the exception of our acquisition of BBV Banco, now Banco Alvorada, none of our acquisitions made since January 1998 has been significant as measured in accordance with U.S. GAAP.

As part of our efforts to restructure our corporation to improve our competitive edge and increase our productivity by decreasing operational, managerial and legal expenses, (1) in April 2003, BEA was merged into Banco Baneb, and was subsequently dissolved; (2) in March 2004, BCN merged into Banco Alvorada and transferred all of its assets and liabilities to Banco Alvorada at book value and BCN was subsequently dissolved, (3) in October 2004, Banco Zogbi was merged into Banco Finasa and subsequently dissolved; (4) in December 2004, BANEb was spun off, then transferred all of its assets and liabilities to Bradesco Vida e Previdência and Banco Alvorada, and BANEb was subsequently dissolved; and (5) on March 10, 2005, we increased our ownership interest in Bradesco Seguros S.A. to 100% by the acquisition of the shares of Bradesco Seguros prior held by minority shareholders.

### *Postal Service Correspondent Offices*

Bradesco offers its products and renders its services throughout Brazil, together with the Empresa Brasileira de Correios e Telégrafos (ECT), the government owned postal company, which we refer to as

the Postal Service, through correspondent offices operating under our trademark Banco Postal (Postal Bank). Through our service contract dated September 24, 2001 with the Postal Service, we have exclusive rights to offer banking services at more than 7,500 locations, some of which we own and others which we rent from the Postal Service and which we refer to as correspondent offices.

On March 25, 2002, we commenced performing these banking operations at our first correspondent office in the state of Minas Gerais, and as of December 31, 2004, we had successfully opened 5,383 new correspondent offices in Postal Service locations located in 4,700 Brazilian municipalities, serving more than 2.8 million new accounts and conducting over 22 million monthly transactions. 1,700 of these correspondent offices were installed in new markets, which brought direct and indirect benefits to over 18 million people previously living on the frontier of the Brazilian financial system.

The Postal Bank performs nearly all of the same services performed by one of our traditional branches. In addition to Postal Bank services performed at the correspondent offices, we have also opened outlets located on the premises of selected corporate clients, including retail networks, supermarkets, drug stores and bakeries, to provide even more access to banking services. These outlets receive bills and statement payments (e.g., water, energy light, telephone, etc.) at their offices.

The banking services at our correspondent offices are provided by employees of the Postal Service and, in the case of our other outlets, their respective employees, each of whom has received training from Bradesco. We, however, retain control over all decisions with respect to the opening of bank accounts for, and granting credit to, our customers at these locations.

#### *BUS Serviços de Telecomunicações Joint Venture*

In December 2000, we entered into a telecommunications joint venture agreement with Unibanco - União de Bancos Brasileiros S.A., known as Unibanco, and Portugal Telecom S.A., known as Portugal Telecom, and two of Unibanco's affiliates. In order to implement the transactions contemplated in the agreement, we and Unibanco transferred our respective corporate telecommunications infrastructures to BUS - Serviços de Telecomunicações S.A., which we call BUS, by means of a capital contribution, and then contributed our holdings in BUS to a holding company, which we call BUS Holding, which became our majority-owned and controlled subsidiary, and accordingly its financial results were thereupon consolidated with our own.

Under the joint venture agreement, the parties also agreed that BUS would provide Unibanco and us with telecommunications services under service agreements for five years. In consideration for the right to acquire the shares of BUS and the direct and indirect benefits of the service agreements, Portugal Telecom, through a subsidiary, made to BUS Holding an initial payment of R\$548 million, of which R\$335 million corresponds to our ownership share of BUS Holding. The transaction is reflected on our audited financial statements as from December 31, 2001 and will continue to be reflected in our financial statements through December 31, 2005. In December 2000, as part of the transaction, we purchased common (voting) shares of Portugal Telecom for a total amount of R\$50 million, and in February 2001, a subsidiary of Portugal Telecom acquired a stake in BUS Holding by paying an amount in *reais* equivalent to U.S.\$23 million.

In June 2001, we and Unibanco caused BUS Holding to transfer 19.9% of the common shares and 100% of the preferred (non-voting) shares of BUS to a subsidiary of Portugal Telecom. BUS became the operator of our and Unibanco's respective corporate telecommunications networks on July 1, 2001. The transaction was completed in 2002, with the approval of ANATEL, the transfer of the remaining 80.1% of the common shares of BUS to the Portugal Telecom subsidiary and the liquidation of BUS Holding.



*Other Strategic Alliances*

In November 2004, we entered into an exclusive operational agreement with Casas Bahia, the leading Brazilian retailer. The operational agreement is valid for three years and has a potential trading volume of R\$1 billion per year, to finance Casas Bahia's new consumer credit program, *Crédito Direto ao Consumidor* (CDC).

In December 2004, we and Lojas Salfer, one of the largest Brazilian retail furniture and electronic retail chains, reached an operational and strategic agreement to finance new sales made by Lojas Salfer. The agreement maintains the existing relationship with and terms of financing that Lojas Salfer has been offering to its more than 1.1 million clients at its forty-seven store locations. Under this agreement we will provide the funding and Lojas Salfer will continue to manage the credit and collection relationship with its clients and will assume all financing risks. The agreement has no set expiration date and may constitute an additional credit portfolio (*carteira de crédito adicional*) of R\$1.6 billion in the next few years for Bradesco. We have not had any disbursements under this agreement.

In December 2004, we and Banco BMC reached an exclusive operational agreement on credit right transfers of up to R\$2 billion. This partnership involves payroll committed personal lending contracts addressed to beneficiaries, mostly retired citizens and pensioners, of *Instituto Nacional do Seguro Social* (Brazilian Social Security Institute), which we refer to as the INSS. The agreement is valid for a three-year term, and permits minimum monthly disbursements of R\$50 million. This agreement provides Banco BMC with a consistently available line of credit for its long-term financing needs, and, as a result, makes other resources available to finance medium-sized companies its core business. We have not had any disbursements under this agreement.

Also in December 2004, we and Banco Cruzeiro do Sul reached an operational agreement on credit right transfers of up to R\$4 billion. This partnership involves payroll committed personal lending contracts addressed to INSS beneficiaries. The agreement is valid for a three-year term, and permits minimum monthly disbursements of R\$100 million. Banco Cruzeiro do Sul is a pioneer in payroll committed credit operations and has operations in twenty-one states, with 194 accords, at all three levels of public administration—federal, state and municipal. We have not had any disbursements under this agreement.

In December 2004, we and Banco Bonsucesso reached an exclusive operational agreement on credit right transfers up to R\$4 billion. This partnership involves payroll committed personal lending contracts addressed to INSS beneficiaries. The agreement is valid for a three-year period, and permits minimum monthly disbursements of R\$100 million. Banco Bonsucesso was the second institution to reach a committed credit agreement with the INSS and has been active for five years in this segment, with accords signed with thirteen state governments and more than 100 municipalities in Brazil. We have not had any disbursements under this agreement.

In January 2005, as part of our strategy to expand individual loans, we entered into an operational agreement of up to R\$7.2 billion with PanAmericano, a Silvio Santos Group financial company. This partnership involves payroll committed personal lending contracts addressed to INSS beneficiaries. PanAmericano has expertise in offering personal lending to pensioners through its 130 branches in Brazil and 200 banking correspondents. We have not had any disbursements under this agreement.

On February 4, 2005, we reduced our participation interest in Companhia Siderúrgica Belgo-Mineira (Belgo Mineira) by selling 315,000,000 of the common shares that we held in the company. We retained a 3.44% indirect interest in Belgo-Mineira capital stock with voting rights and 1.89% of its total capital.



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

We acquired control of Bradesco Seguros, previously Atlântica Companhia Nacional de Seguros, in 1983. Between 1983 and 2004, Bradesco Seguros acquired interest in ten other entities through joint ventures and acquisitions. Bradesco Seguros currently maintains six subsidiaries to comply with regulatory requirements. These acquisitions and joint ventures, as well as the formation of these new entities, have enabled Bradesco Seguros to develop into one of the leading insurers in Brazil. In 1998, Bradesco Seguros incorporated Bradesco International Health Service, a subsidiary in Miami, which assists our clients who are receiving medical treatments abroad.

### **Contact Information**

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

### **Business Strategy**

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

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

With more than 70,000 employees, a wide network of distribution channels, which include our branches, outlets, Postal Bank services performed at correspondent offices and ATM machines, we intend to provide a broader list of retail banking services to our clients. We are focused on increasing our business volume, acting as full service commercial bank, both investment bank and corporate bank, and expanding our "private banking" business segment.

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

Furthermore, we intend to play an important role in each business segment and to be recognized by our clients as the performance and efficiency leader in the financial sector.

We understand that the success of a financial sector enterprise depends not only on the number of clients but also requires highly capable, well-trained and dedicated personnel with strict work discipline standards. In line with this understanding, our growth plans are not limited to increasing our client base but are also focused on continuously improving our products and channels of distribution. Additionally, we believe that the basis for the development of our business is investing in the training and professional development of our employees and creating a cooperative and friendly environment where our employees can develop life-long careers.

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

The key elements of our business strategy are to:

- expand through organic growth;
- build on the business model of a large banking institution with a major insurance subsidiary, which we call the Bank-Insurance Model, in order to maintain our profitability and consolidate our leadership in the insurance sector;
- increase revenues, profitability and shareholder value by strengthening our loans operations, our core business, and expanding new products and services;
- maintain our commitment to technological innovation;
- build profitability and shareholder return through improvement of the efficiency index;
- maintain acceptable risk levels in our operations; and
- expand through strategic alliances and selective acquisitions when advantageous.

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

The growth of the Brazilian economy has been sustained over recent months and has produced strategic opportunities for growth in the financial and insurance industries, mainly due to increases in business volume. We plan to take advantage of these opportunities to increase our revenue, build profitability and maximize shareholder value by:

- capitalizing on the opportunity in the Brazilian market to capture new customers with underserved credit and financial needs, in addition to competing for a small stratum of customers in upper income brackets;
- expanding our financial services distribution channels by means of developing new products, using nontraditional means, such as the expansion of our credit cards and store credit cards offered through alliances with the stores and the rendering of services through the Postal Bank;
- taking advantage of our existing distribution channels, including our traditional branch network and newer Internet access technologies, to identify demand for new products;
- using our customer base to offer our products and services more widely and to increase the average number of products used per checking account from 4.6 as of December 2004 to an average of 5.0 products per checking account by December 2005;
- using our branch-based systems aimed at assessing and monitoring our clients' use of our products so as to channel them to the proper selling, delivery and trading platforms; and
- developing diverse products tailored to the needs of both our existing and potential clients.



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

Our goal is to have our customers look to us first for all their banking, insurance and pension needs. We believe that we are in an especially good position to capitalize on the synergies among banking, insurance, pension and other financial activities, since we are able to sell our traditional banking, insurance and pension products through our branch network and through our Internet distribution services.

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

- maintaining our existing policy of careful evaluation of vehicle insurance risks and declining insurance in cases where such risks are too high;
- aggressively marketing our products; and
- maintaining acceptable levels of risk in our operations through a strategy of:
  - prioritizing insurance underwriting opportunities according to the risk spread (the difference between the income expected under an insurance contract and the actuarially determined amount of claims likely to be paid under that contract);
  - entering into hedging transactions, so as to avoid mismatches between the actual rate of inflation on the one hand and provisions for interest rate and inflation adjustments in long-term contracts on the other;
  - entering into reinsurance agreements with well-known reinsurers through the IRB to reduce exposure to large risks; and
  - if the IRB is privatized, taking advantage of our position as a holder of 21% of the total shares of the IRB and engaging in the reinsurance business through partnerships with well-known reinsurers.

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

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

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

- expanding our financial services and products that are distributed outside of the conventional branch environment, such as our credit card businesses, in order to capitalize on changes in consumer behavior in the consumption of financial services;
- continuing to expand our pension and asset management revenues; and
- continuing to build our base of high-income clients by offering a wide range of personalized products and services with the goal of enhancing our asset management services.

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

The development of efficient means of reaching customers and processing transactions is a key element of our goal to expand our profitability and to capitalize on opportunities for organic growth. Recently, we decided to strengthen this strategy by modifying our technological standards in order to maintain our leadership in technological innovation, and we established a task force aimed at improving the public's perception of the technology we use. We believe that technology offers unparalleled opportunities to reach our customers in a cost-efficient manner. We are committed to being at the forefront of the bank automation process by creating opportunities for the Brazilian public to reach us through the Internet. We expect to continue to increase the number of clients and transactions handled over the Internet through techniques such as:

- continuing to install Internet access stations, known as WebPoints, in public places, enabling clients to reach our Internet banking system whether or not they have access to a personal computer;
- expanding our mobile banking service, which we call Bradesco Mobile Banking, which allows customers to conduct their banking business over the Internet with compatible cellular handsets; and
- providing Pocket Internet Banking for hand-held devices and personal digital assistants or PDAs that allow our clients to check their savings and checking account information, review recent credit card transactions, make payments, transfer funds and obtain information relating to our services.

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

We intend to improve on our already high levels of efficiency by:

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

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

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

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

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

**Banking**

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

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

Our diverse customer base includes individuals and small, midsize and large companies in Brazil. Historically we have cultivated a stronger presence among the broadest segment of the Brazilian market, consisting primarily of middle- and low-income individuals. During the 1990s, we reached out to corporations and high-net-worth individuals to complement our traditional market. Since 1999, we have built our corporate department, which serves our corporate clients who have annual revenues of R\$180 million or more, and a private banking department, which serves individual clients who have minimum liquid assets of R\$1.0 million. In 2002, we created the Bradesco Empresas Department, which is responsible for corporate clients that have an annual income of between R\$15 and R\$180 million, with the goal of expanding our business in the middle corporate market sector. In May 2003, we launched Bradesco Prime, a new division of Bradesco that offers services to individual clients who either have an income of at least R\$4,000 per month or have R\$50,000 available for immediate investment.



The following diagram shows the breakdown of our banking activities as of December 31, 2004:



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

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

|  | 2002      | 2003              | 2004     |
|--|-----------|-------------------|----------|
|  |           | (R\$ in millions) |          |
| Income statement data:   |           |                   |          |
| Net interest income(1)   | R\$10,436 | R\$10,034         | R\$9,861 |
| Provision for loan losses  | (2,543)   | (2,034)           | (1,429)  |
| Non-interest income(1)   | 2,304     | 4,041             | 6,370    |
| Non-interest expense   | (8,630)   | (10,424)          | (11,418) |
| Income before taxes and minority interest(1)   | 1,567     | 1,617             | 3,384    |
| Taxes on income  | 22        | 24                | (457)    |
| Accounting adjustment  | 27        |                   |          |
| Income before minority interest (1)  | 1,616     | 1,641             | 2,927    |
| Minority interest  | (9)       | (6)               | (8)      |
| Net income   | 1,607     | 1,635             | 2,919    |
| Balance sheet data:  |           |                   |          |
| Total assets   | 106,115   | 134,767           | 144,796  |
| Selected results of operations data:   |           |                   |          |
| Interest income:   |           |                   |          |
| Interest on loans  | 17,027    | 12,176            | 12,812   |
| Interest on securities   | 3,031     | 1,895             | 1,496    |
| Interest on federal funds sold and securities purchased                                |           |                   |          |
| under agreements to resell   | 2,947     | 3,861             | 2,738    |
| Interfinancial deposits  | 285       | 315               | 132      |
| Compulsory deposits with the Central Bank of Brazil                                    | 2,058     | 1,459             | 1,542    |
| Others   | 32        | 62                | 73       |
| Interest expense:  |           |                   |          |
| Interest on deposits   | (4,824)   | (6,401)           | (5,008)  |
| Interest on federal funds purchased and securities sold under agreements to repurchase | (2,051)   | (2,855)           | (2,390)  |
| Interest on short-term borrowings and on long-term debt                                | (8,069)   | (478)             | (1,534)  |
| Fee and commission income  | 2,803     | 3,225             | 3,885    |

(1) Income from customers outside of the banking segment  
***Deposit-taking Activities***

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

- checking accounts, which do not bear interest;



- investment deposit accounts which we have offered to our customers since October 2004, due to a change in law, and which permit financial transactions to be made without CPMF charges;
- traditional savings accounts, which currently earn the Brazilian reference rate, the *taxa referencial*, known as the TR, plus 6.17% in annual interest;
- time deposits, which are represented by *certificados de depósito bancário* (Bank Deposit Certificates, or CDBs ), and earn interest at a fixed or floating rate; and
- deposits from financial institutions, which are represented by *certificados de depósito interbancário* (Interbank Deposit Certificates, or CDIs ), and which earn the interbank deposit rate.

At December 31, 2004, we had 15.7 million checking accounts, with 14.7 million individual account holders, 965 thousand corporate account holders and 34.6 million savings accounts. As of December 31, 2004, deposits (excluding deposits from financial institutions) totaled R\$68.6 billion. At that date, we had a 19.5% share of the Brazilian savings deposit market, according to Central Bank information.

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

|                                       | December 31,                          |        |           |        |           |        |
|---------------------------------------|---------------------------------------|--------|-----------|--------|-----------|--------|
|                                       | 2002                                  |        | 2003      |        | 2004      |        |
|                                       | (R\$ in millions, except percentages) |        |           |        |           |        |
| Deposits from Customers               |                                       |        |           |        |           |        |
| Demand deposits                       | R\$13,374                             | 23.7%  | R\$12,912 | 22.3%  | R\$15,384 | 22.4%  |
| Brazilian currency                    | 12,837                                | 22.7   | 12,647    | 21.8   | 15,155    | 22.1   |
| Foreign currency                      | 537                                   | 1.0    | 265       | 0.5    | 229       | 0.3    |
| Savings deposits                      | 20,731                                | 36.8   | 22,140    | 38.1   | 24,783    | 36.1   |
| Brazilian currency                    | 20,731                                | 36.8   | 22,140    | 38.1   | 24,783    | 36.1   |
| Term deposits/certificates of deposit | 22,202                                | 39.4   | 22,944    | 39.5   | 28,460    | 41.5   |
| Brazilian currency                    | 19,574                                | 34.7   | 19,003    | 32.7   | 26,246    | 38.3   |
| Foreign currency                      | 2,628                                 | 4.7    | 3,941     | 6.8    | 2,214     | 3.2    |
| Total deposits from customers         | 56,307                                | 99.9   | 57,996    | 99.9   | 68,627    | 100.0  |
| Deposits from financial institutions  | 26                                    | 0.1    | 31        | 0.1    | 20        | -      |
| Total                                 | R\$56,333                             | 100.0% | R\$58,027 | 100.0% | R\$68,647 | 100.0% |

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

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

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

***Credit Operations***

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

|  | <b>December 31,</b>     |                  |                  |
|--|-------------------------|------------------|------------------|
|  | <b>2002</b>             | <b>2003</b>      | <b>2004</b>      |
|  | <b>(in R\$ million)</b> |                  |                  |
| <b>Loans outstanding by product type:</b>  |                         |                  |                  |
| Consumer credit operations   | R\$9,302                | R\$11,365        | R\$16,282        |
| Real estate financing  | 1,627                   | 1,512            | 1,370            |
| Loans from <i>Banco Nacional de Desenvolvimento Econômico e Social</i> ( BNDES ) | 7,848                   | 7,226            | 7,219            |
| Other local corporate loans  | 12,309                  | 13,930           | 16,124           |
| Agricultural credit  | 3,922                   | 4,404            | 6,034            |
| Leasing  | 1,506                   | 1,364            | 1,626            |
| Credit cards   | 1,164                   | 1,373            | 1,289            |
| Import and export financings   | 9,154                   | 9,048            | 9,423            |
| Other foreign loans  | 3,151                   | 2,429            | 1,588            |
| Other public sector loans  |                         |                  | 15               |
| <b>Total</b>   | <b>49,983</b>           | <b>52,651</b>    | <b>60,970</b>    |
| Non-performing loans   | 2,341                   | 2,144            | 2,206            |
| <b>Total</b>   | <b>R\$52,324</b>        | <b>R\$54,795</b> | <b>R\$63,176</b> |

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

|                       | <b>December 31,</b> |             |             |
|-----------------------|---------------------|-------------|-------------|
|                       | <b>2002</b>         | <b>2003</b> | <b>2004</b> |
| <b>Borrower size:</b> |                     |             |             |
| Largest borrower      | 1.6%                | 1.5%        | 1.4%        |
| 10 largest borrowers  | 9.3                 | 10.1        | 8.9         |
| 20 largest borrowers  | 14.9                | 15.3        | 13.0        |
| 50 largest borrowers  | 25.5                | 24.4        | 20.7        |
| 100 largest borrowers | 33.3%               | 31.6%       | 26.4%       |

***Consumer Credit Operations***

We provide a significant volume of personal loans to individual customers, which diminishes the impact of any one loan on the performance of our portfolio and helps build customer loyalty. Such loans consist primarily of:

- short-term loans, extended by our branches to holders of our checking accounts and, within certain limits, through our ATM network, and which have an average maturity of seven months and on which interest accrues at an average rate of 3.5% per month as of December 31, 2004;
- automobile financing loans, which have an average maturity of nine months and on which interest accrues at an average rate of 2.0% per month as of December 31, 2004; and
- overdraft loans on checking accounts, which are, on average, repaid in one month and which carry interest rates varying from 7.5% to 8.1% per month as of December 31, 2004.

We also provide revolving credit facilities and traditional term loans. At December 31, 2004, we had outstanding advances, overdrafts, automobile financings, consumer loans and revolving credit loans in an aggregate amount of R\$16.3 billion, representing 25.9% of our credit portfolio as of that date. On the basis of loans outstanding at that date, we had a 14.4% share of the Brazilian consumer loan market, according to information published by the Central Bank.

### *Real Estate Financing*

At December 31, 2004, we had 34,241 residential mortgage loans outstanding, or 22.6% of all units financed by the civil construction sector, according to information published by the Central Bank. On December 31, 2004, the aggregate outstanding amount of our residential mortgage loans amounted to R\$1.4 billion, representing 2.1% of our credit portfolio.

Our residential mortgage financings are made by either the *Sistema Financeiro Habitacional*, which we call the SFH, or the *Carteira Hipotecária Habitacional*, which we call the CHH. Loans from both portfolios are made at annual interest rates that vary between 12% to 16% plus TR. Residential loans from the SFH have stated maturities between five to fifteen years; residential loans from the CHH typically have maximum maturities of fifteen years and are subject to greater interest rates than SFH loans.

Our loans to individuals to help with the completion of construction projects have a stated maturity of up to twelve months and a repayment period lasting up to ten years. Payments are made on a floating-rate basis of TR plus 12% per year for SFH loans.

We also extend financing to corporate customers under the SFH. These loans, which are for construction purposes, typically have a maturity of up to twenty-four months and repayment begins within two years after the formal conclusion of construction. We make these loans on a floating-rate basis of TR plus 14% per year during the construction stage for SFH loans and TR plus 16% per year after construction has been completed for CHH loans.

Central Bank regulations require us to provide an amount of residential real estate financing equal to at least 65% of the balance of our savings accounts. Amounts that can be used to satisfy this requirement include, in addition to direct residential real estate loans, mortgage notes, charged-off residential real-estate loans, and other financings, all as specified in guidelines issued by the Central Bank. At December 31, 2004, we were in compliance with the legal minimum requirement. We generally do not finance more than 60% of the purchase price or the market value of a property, whichever is lower.

We currently hold 10% of the voting capital of *Companhia Brasileira de Securitização*, also known as CIBRASEC. CIBRASEC is a special purpose vehicle controlled by several Brazilian financial institutions that is engaged in the securitization of housing loans.

### *On-lending of BNDES Loans*

The Brazilian government has a program to provide government-funded long-term loans with below-market interest rates to sectors of the economy that it has targeted for development. Under this program, we borrow funds from either (1) Banco Nacional de Desenvolvimento Econômico e Social, also known as BNDES, which is a Brazilian development bank wholly owned by the federal government, or (2) *Agência Especial de Financiamento Industrial* FINAME, also known as FINAME, the equipment financing subsidiary of BNDES. We then on-lend these funds to borrowers in targeted sectors of the economy. We determine the spread on the loans based on the borrowers credit. The on-lending, which is





at our risk, is always secured. For a discussion of our BNDES Loans, see note 14 to our consolidated financial statements.

According to BNDES, we are the biggest private bank on-lender of BNDES loans, which we lend primarily to small corporate customers in the industrial sector. Our on-lending portfolio was R\$7.2 billion on December 31, 2004, representing 11.4% of our credit portfolio at that date and, during the same period, BNDES on-lending portfolio reached R\$5.5 billion.

#### *Other Corporate Lending*

We provide traditional loans for the ongoing needs of our corporate clients. We had approximately R\$16.1 billion of outstanding corporate loans, accounting for approximately 25.5% of our credit portfolio at December 31, 2004. We offer a range of loans to our Brazilian corporate clients, including:

- short-term loans of twenty-nine days or less;
- working capital loans to cover our customers' cash needs;
- guaranteed checking accounts;
- revolving credit lines;
- discounting of trade receivables; and
- merchandise financing.

These lending products generally bear an interest rate of between 2.0% and 6.5% per month.

#### *Agricultural Credit*

We extend loans to the agricultural sector, which are financed in installments deposited in full as required by the Central Bank, as well as our own resources. At December 31, 2004, we had outstanding 73,831 agricultural loans totaling R\$6.0 billion, representing 9.5% of our credit portfolio. In accordance with Central Bank regulations, we extend loans using funds from our compulsory deposits at a fixed rate, which was 8.75% per annum at December 31, 2004. The maturity of these loans generally matches the cycle of the corresponding crop and the principal becomes due at the time the crop is sold. As security for such loans, we generally obtain a mortgage on the land where the activity being financed is conducted.

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

#### *Micro Credit*

We extend micro credit to low-income persons and small companies, in accordance with Central Bank regulations requiring that banks direct a portion of their cash deposits to such credit transactions. We began extending such micro credits in August 2003. At December 31, 2004, we had 791,188 micro credit loans outstanding, totaling R\$278.9 million and representing 0.4% of our credit portfolio.



In accordance with Central Bank regulations, the loans have a maximum effective interest rate of 2% per month. The relevant CMN regulations mandate that the maximum amount loaned to any borrower be limited to R\$600 for individuals and R\$1,000 for small companies.

### *Leasing Operations*

According to ABEL – Associação Brasileira das Empresas de Leasing, as of December 31, 2004, the value of our outstanding leases was one of the largest among private leasing operations in Brazil, as measured by the discounted present value of the leasing portfolio. In addition, the aggregate discounted present value of the leasing portfolios of leasing companies in Brazil on December 31, 2004 was R\$14.0 billion, of which we had a market share of 11.9% .

On December 31, 2004, we held 28,365 outstanding leases with an aggregate value of R\$1.6 billion, representing 2.6% of our credit portfolio. The size of our leasing portfolio was R\$1.6 billion (under approximately 57,000 contracts) at December 31, 2002 and R\$1.4 billion (under approximately 30,000 contracts) at December 31, 2003.

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

Most of our leases are financial (as opposed to operational) leases, and our leasing operations primarily involve the leasing of cars, trucks, material handlers, aircraft and heavy machinery. In 2004, 57.5% of our outstanding leases were automobile leases, as compared to 68.7% for the Brazilian leasing market as a whole.

As of December 31, 2004, we conducted our leasing operations through our primary leasing subsidiary, Bradesco Leasing and Banco Finasa.

In July 2004, BancoCidade Leasing Arrendamento Mercantil S.A. merged into Banco Alvorada S.A., and in September 2004, Bradesco BCN Leasing merged into Bradesco Leasing (formerly known as Potenza Leasing).

We obtain funding for our leasing operations primarily through the issuance of debentures and notes in the domestic and international markets, and through borrowing foreign currency-denominated funds, which we borrow in the international markets for the specific purpose of on-lending such funds in Brazil. At December 31, 2004, Bradesco Leasing had R\$625 million of debentures outstanding in the domestic market, in the form of subordinated notes, which mature in 2008.

### *Terms of Leasing Agreements*

Financial leases represent a source of medium- and long-term financing for Brazilian customers. Under Brazilian law, the minimum term of financial leasing contracts is twenty-four months for transactions with respect to goods with an average life of five years or less, and thirty-six months for transactions with respect to goods with an average life greater than five years. There is no legally imposed maximum term for leasing contracts. At December 31, 2004, the remaining average maturity of contracts in our lease portfolio was eighteen months.

Through our leasing companies, we retain legal title to each asset until the final installment (including any agreed residual value) due under the lease is paid by the lessee. Our lease contracts are typically structured to spread payments on the agreed residual value through the life of the contract. We

generally repossess the leased asset if a lessee is in default and require both a 30% down payment and maintenance by the lessee of full insurance on the leased asset.

### *Credit Cards*

We issued Brazil's first credit cards in 1968, and as of December 31, 2004, we were one of the largest independent credit card issuers in Brazil, having issued 7.6 million credit cards, corresponding to 14.6% of the approximately fifty-two million credit cards issued in Brazil, according to information published by Visa and MasterCard. We offer Visa and MasterCard credit cards to our existing customers as well as to potential clients with no previous relationship with us. As of December 31, 2004, our credit cards were accepted in over twenty million commercial and service establishments in more than 130 countries. As of that date, 96% of our credit card customers were individuals, of whom 83% were our clients with automatic debit of their checking accounts.

We earn revenues from our credit card operations through:

- issuance fees and annual fees;
- processing fees;
- interest on credit card balances and advances;
- interest on cash advances through ATMs; and
- interest on cash advances to cover future payments owed to establishments that accept Visa credit cards.

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

- credit cards restricted to use within Brazil;
- credit cards accepted nationwide and internationally;
- credit cards directed toward high-net-worth customers, such as Gold and Platinum Visa and MasterCards and Infinite Visa cards;
- cards which combine the features of a credit card (known as Visa Fácil) and a debit card (known as Visa Electron). Holders of these cards can use them to carry out traditional banking transactions as well as to purchase goods. These cards have lower credit limits and are directed to lower-income customers;
- chip-embedded credit cards, which allow holders to use passwords instead of signatures;
- corporate credit cards accepted nationwide and internationally;
- co-branded credit cards, which we offer through partnerships we have with traditional companies, such as airlines, newspapers, magazines, automobile companies and others; and
- affinity credit cards, which we offer through civil associations, such as sport clubs and non-governmental organizations.



- Mini Bradesco Visa credit cards, which are 43% smaller than traditional cards;
- Cred Mais credit cards for employees of our payroll processing clients, which have more attractive revolving credit fees; and
- private label credit cards, which exclusively target retail clients in efforts to leverage the loyalty of our business and individual clients.

As of December 31, 2004, we had more than seventy-three partners with whom we offered co-branded, affinity and private label credit cards. Offering credit cards through these partnerships is a component of our customer relation strategy, allowing us to offer these credit card customers banking products such as savings accounts, mutual funds and insurance.

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

|                  | December 31,                      |                         |                                   |                         |                                   |                         |
|------------------|-----------------------------------|-------------------------|-----------------------------------|-------------------------|-----------------------------------|-------------------------|
|                  | 2002                              |                         | 2003                              |                         | 2004                              |                         |
|                  | Number of<br>cards<br>outstanding | % of<br>total<br>number | Number of<br>cards<br>outstanding | % of<br>total<br>number | Number of<br>cards<br>outstanding | % of<br>total<br>number |
| Visa             | 5,592,474                         | 92%                     | 6,513,996                         | 92%                     | 7,056,789                         | 93%                     |
| MasterCard       | 450,341                           | 7                       | 475,645                           | 7                       | 547,935                           | 7                       |
| American Express | 30,431                            | 1                       | 32,311                            | 1                       | 0                                 | 0                       |
| Diners           | 3,171                             | 0                       | 0                                 | 0                       | 0                                 | 0                       |
| Private Label    | 0                                 | 0                       | 0                                 | 0                       | 16,851                            | 0                       |
| <b>Total</b>     | <b>6,076,417</b>                  | <b>100%</b>             | <b>7,021,952</b>                  | <b>100%</b>             | <b>7,621,575</b>                  | <b>100%</b>             |

Our credit card billing totaled R\$11.5 billion during 2004, an increase of 15.6% over 2003.

#### *Debit Cards*

We began issuing debit cards in 1981 under the name Bradesco Instantâneo. In 1999, we began converting all our Bradesco Instantâneo debit cards into new cards called Bradesco Visa Electron cards. Customers who hold Bradesco Visa Electron debit cards can use them to make purchases at establishments and obtain advances at the BDN network in Brazil and the Visa Plus network worldwide. The amount paid is withdrawn from the cardholder's Bradesco account, eliminating the inconvenience and bureaucracy of a check. We charge affiliated establishments a commission fee of 1.6% on each Visa Electron transaction. The total income from debit cards totaled R\$9.4 billion in 2004, a 51.2% increase from 2003, due to the expansion of our customer base and increased use of debit cards by our existing customers, as a result of the convenience they offer over checks.

During the last quarter of 2004, Bradesco launched the CDC Visa Electron, which allows our debit cardholders to pay for purchases in up to twelve installments, with a daily pre-approved credit of R\$4 billion.

Visa Vale, a company incorporated to comply with the government initiated Workers Food Plan (Programa de Alimentação ao Trabalhador ( PAT )), and in which we have a 31.13% participation interest, has issued more than one million debit cards for payment of food and meals, according to information from the PAT.

***Receivables Payment and Human Resource Management Solutions******Receiving and Payment Solutions***

In Brazil, the majority of consumers pay their bills in person at bank branches or at ATMs. In order to meet the cash management needs of our clients, both in the public and private sectors, we offer many electronic solutions for receipt and payment management, supported by a vast network of branches, banking correspondents and electronic channels, all of which aim to improve the speed and security of the transfer of resources and information. These electronic solutions include: (a) the collection of payments from past-due bills, (b) providing on-line management of cash payments made at our branches, and (c) the electronic payment of taxes. In addition to these electronic solutions, we offer services to facilitate our clients' business development and provide tailor-made solutions for our clients' banking problems.

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

We also earn revenues through the payment of taxes on collection services and payment processing services, as well as upon transfers of funds received until their availability to the beneficiary. Our receipt processing services contribute to the productivity and results of our other businesses.

***Charging***

In 2004, we processed 854.1 million payments, with a total value of R\$812.5 billion, and in 2003, we processed 729.9 million payments, with a total value of R\$695.0 billion.

***Collection***

In 2004, we processed 248.1 million tax payments, utility bills and payments to beneficiaries of the social security system, with a total value of R\$140.8 billion. In 2003, we processed 221.4 million payments, with a total value of R\$116.5 billion that included:

- R\$19.4 billion, during 2004, in electricity, water, gas and telephone bills, of which 33.6% was paid through automatic debit of checking and savings accounts;
- R\$98.7 billion, during 2004, in tax collection.

***Check-Custody Services***

As of December 31, 2004, we had 195,345 post-dated check custody service accounts totaling R\$3.9 billion. At the same period in 2003, we had 176,226 post-dated check custody service accounts totaling R\$2.6 billion. Post-dated checks are a means of term payment frequently used in Brazil, particularly in the retail and supermarket sectors. During the same period last year we had 176,226 accounts in a total of R\$2.6 billion. Under this system, customers pay for merchandise and services with future dated bank checks, which the seller deposits on an agreed upon date, effectively allowing payment over a long term. We offer clients who use our check-custody service various alternatives for receiving advances using such instruments, such as discounting a check or accepting it as collateral for working capital loans.





*Suppliers and Taxes Payment*

We offer our corporate clients electronic payment services, which allow them to make payments and financing transfers to their suppliers and creditors, as well as pay taxes and public utility bills on-line. As of December 31, 2004, more than 288,000 companies were using these services. In 2004, we processed 111.1 million payments and transfers, totaling R\$401.5 billion in value, compared to 80.5 million payments and transfers, totaling R\$302.1 billion in value during 2003. In 2004, R\$22.7 billion was paid to INSS beneficiaries, representing 19.5% of the total number of beneficiaries in that year.

*Administrative Services and Human Resource Solutions*

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

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

We have been among the leaders in domestic debt and equity underwriting in Brazil for more than ten years. On December 31, 2004, according to ANBID, we were ranked:

- third in originations of transactions, with R\$237.0 million in equity transactions and R\$2.5 billion in debt transactions; and
- third in placement of securities, with a total of R\$239.6 million in equity transactions and R\$2.4 billion in debt transactions.

During 2004, we coordinated R\$12.5 billion in equity and debt transactions, representing 59.45% of the issuances registered with the CVM. In 2003, we coordinated public issuances of equity and debt securities in the Brazilian market totaling R\$4.8 billion, corresponding to 47.9% of all transactions registered with the CVM.

In 2004, we coordinated the following initial public offerings: Braskem S.A. (R\$1.1 billion), CPFL Energia S.A. (R\$940.0 million) and Bradespar S.A. (R\$1.0 billion). In addition, we coordinated a secondary offering for Weg S.A. (R\$320.0 million). We also coordinated various debt issuances, including: Braskem S.A. (R\$1.2 billion), Suzano Bahia Sul Papel e Celulose (R\$500.00 million), Telecomunicações de São Paulo S.A. - Telesp. (R\$1.5 billion), Klabin S.A. (R\$314.0 million) and the Public Offering of Notes issued by Empresa Brasileira de Telecomunicações S.A. Embratel (R\$1.0 billion).

In 2003, we were the lead manager in the issuance of R\$1.8 billion of notes by CPFL Energia S.A. and in the issuance of R\$700.0 million of notes by Telesp Celular Participações S.A., known as Telesp Celular. We also acted as co-manager in the structuring and distribution of US\$150.0 million of Euro Medium Term Notes issued by Telesp Celular.

Since 1999, we have had to increase the volume of underwriting transactions we handle in order to achieve profitability in this area since our profit margins have decreased due to increased competition, especially from other large private Brazilian and foreign banks. For a more detailed description of the competition we face, see *Competition*.

#### *Advisory Services*

In 2004, we offered our customers investment advisory services in connection with various specialized transactions, including credit investment funds, mergers and acquisitions, project financings, privatizations and corporate restructurings, which together totaled R\$3.7 billion. During 2003, we offered such advisory services on transactions totaling R\$4.7 billion in value.

#### *Brokerage and Trading Services*

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

During 2004, Bradesco Corretora traded more than R\$16.5 billion on BOVESPA and, according to BOVESPA, was ranked ninth in Brazil in terms of total trading volume.

In addition, during 2004, Bradesco Corretora traded approximately 2.9 million futures, swaps, options and other contracts, with a total value of approximately R\$315.8 billion, on the *Bolsa de Mercadorias e Futuros* (the Brazilian Mercantile and Futures Market, which we call the BM&F). According to the BM&F, in 2004, Bradesco Corretora was ranked 27th in the Brazilian market, in terms of the number of options, futures and swaps contracts executed. In 2003, Bradesco Corretora traded approximately 2.0 million futures, swaps, options and other contracts, with a total value of approximately R\$244.7 billion, on the BM&F, and, according to the BM&F, was ranked 24th in the Brazilian market. The decrease in ranking is largely attributable to our clients' increasing use of the BM&F's direct settlement system, introduced at the end of 2001, which allows participants to clear their trades directly with the BM&F, without using institutions such as Bradesco Corretora.

In November 2002, Bradesco Corretora entered into a partnership with the Market for Latin-American Stocks in euros, known as Latibex, on the Madrid Stock Exchange in Spain, to provide Brazilian investors direct access to Latibex. Bradesco Corretora's connection to the Latibex trading system allows it to buy and sell securities of Latin American companies on the Madrid Stock Exchange directly, without having to rely on a counterpart or other representative in Spain.

Bradesco Corretora has seventeen brokers covering retail investors and assisting our branch managers, nine brokers dedicated to Brazilian and foreign institutional investors and eight brokers dedicated to the BM&F. Bradesco Corretora has fifteen traders on the floor of BM&F. Our branch managers are charged with the task of marketing the services that Bradesco Corretora offers.

Bradesco Corretora offers its clients the ability to trade securities via the Internet through its ShopInvest service. In 2004, trading through ShopInvest totaled R\$1.4 billion, corresponding, according to BOVESPA, to 2.8% of all transactions carried out via the Internet on BOVESPA. In 2003, trading through ShopInvest totaled R\$960.1 million, corresponding to 4.5% of all transactions carried out via the Internet on BOVESPA during that time.



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

*Administrative, Depositary and Custodial Services*

Through our infrastructure and specially trained personnel, we offer our clients custodial services for titles and securities, portfolio administration services, bookkeeping for shares, receivables, debentures and mutual funds, and administration of Depositary Receipt (DR) programs, and Brazilian Depositary Receipts (BDR) programs. These services have received a total of eight ISO 9001:2000 certifications.

As of December 31, 2004:

*Book-entry assets*

- our system for registered shares had 164 companies, with a total of 2.5 million shareholders, participating;
- our system for registered debentures had thirty-nine companies, with a total market value of R\$18.2 billion, participating;
- our system for registered quotas had seventeen mutual funds, with a market value of R\$1.1 billion, participating;
- we administered two BDR registered programs, with a market value of R\$247.7 million;

*Custody and Accounting*

- our custodial services clients (funds, portfolios, receivables, DR and mutual funds) had total assets in custody of R\$141.2 billion;
- we acted as custodian for nine DR registered programs, with a market value of R\$30.4 billion; and
- 647 mutual funds and portfolios, with a total net worth of R\$225.3 billion, used our controllership services.

*International Banking*

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

- in New York City, our branch and Bradesco Securities Inc., our subsidiary brokerage firm, which we call Bradesco Securities U.S. ;
- in the Cayman Islands, four branches, including one branch of BCN, one branch of Boavista and one branch of Banco Mercantil, as well as our subsidiary Cidade Capital Markets Ltd., which we call Cidade Capital Markets ;

- in the Bahamas, a branch of Boavista and Boavista Banking Limited, our subsidiary, which we call Boavista Bahamas ;
- in Argentina, Banco Bradesco Argentina S.A., our subsidiary, which we call Bradesco Argentina ;
- in Luxembourg, Banco Bradesco Luxembourg S.A., our subsidiary, which we call Bradesco Luxembourg ; and
- in Japan, Bradesco Services Co. Ltd., our subsidiary, which we call Bradesco Services Japan.

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

### *Revenues from Brazilian and Foreign Operations*

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

|                      | December 31,       |               |                    |               |                    |               |
|----------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
|                      | 2002               |               | 2003               |               | 2004               |               |
|                      | R\$ in<br>millions | %             | R\$ in<br>millions | %             | R\$ in<br>millions | %             |
| Brazilian operations | R\$35,810          | 98.5%         | R\$35,464          | 99.0%         | R\$37,228          | 98.0%         |
| Foreign operations   | 547                | 1.5           | 361                | 1.0           | 777                | 2.0           |
| <b>Total</b>         | <b>R\$36,357</b>   | <b>100.0%</b> | <b>R\$35,825</b>   | <b>100.0%</b> | <b>R\$38,005</b>   | <b>100.0%</b> |

### *Foreign Branches and Subsidiaries*

Our foreign branches and subsidiaries are principally engaged in sourcing funds in the international markets to provide us with credit lines to extend to our customers, who are generally Brazilian companies seeking external trade financing. Bradesco Luxemburg also provides services to the private banking segment. With the exception of Bradesco Services Japan, our branches also take deposits in foreign currency from corporate and individual clients and extend credit to Brazilian and non-Brazilian clients. The total assets of the foreign branches, excluding transactions between related parties, were R\$14.9 billion as of December 31, 2004.

Our foreign branches periodically issue debt securities. In addition to short-term financing obtained from international banking institutions for foreign trade financing, our foreign branches, together with our head office in Brazil, raised US\$1.46 billion during 2004 through public and private placements of medium-term and long-term securities. The securities have maturities of one to ten years. During 2004, there was low demand for foreign currency indexed loans among Brazilian companies. Therefore, despite overwhelming acceptance of our commercial paper program in international stock markets, these resources were not significantly used by us in 2004, as compared to 2003 when we issued approximately US\$2.8 billion of commercial paper. Our access to the international capital markets through the issuance of debt instruments diversifies our sources of foreign currency-denominated funding.

Like most Latin American companies, our access to funding through such issuances and our ability to diversify our

sources of foreign-currency denominated funding are, and will continue to be, subject to domestic and international market conditions and investors' and international lenders' perception of emerging-market risks.

**Bradesco Argentina.** With a view to expanding our operations in Latin America, in December 1999, we established our subsidiary Bradesco Argentina with an initial capitalization of R\$54.0 million. Bradesco Argentina's general purpose is to extend financing, largely to Brazilian companies established in Argentina and, to a lesser extent, to Argentinean companies doing business with Brazil. At December 31, 2004, its total assets were R\$49.2 million.

**Boavista Bahamas.** We acquired Boavista Bahamas as part of our acquisition of Banco Boavista in October 2000. At December 31, 2004, its total assets were R\$307.9 million.

**Bradesco Luxembourg.** In January 2002, we acquired Mercantil Luxemburgo. In April 2002, we acquired Banque Banespa International S.A. of Luxembourg and changed its name to Banco Bradesco Luxembourg S.A. In September 2003, we merged Banco Bradesco Luxembourg S.A. and Mercantil Luxemburgo under the name of Banco Bradesco Luxembourg S.A. At December 31, 2004, this subsidiary's total assets were R\$877.4 million.

**Bradesco Services Japan.** In October 2001, we incorporated Bradesco Services Japan to provide specialized services to the Brazilian community in Japan, including remittances to Brazil and advice regarding investments within Brazil. At December 31, 2004, its total assets were R\$1.1 million.

**Bradesco Securities U.S.** Bradesco Securities U.S., our wholly-owned subsidiary, is a broker dealer in the United States. Its focus is on facilitating the purchase and sale of shares, primarily in the form of ADRs. The company is also authorized to deal with bonds, commercial paper and deposit certificates, among other securities, and to provide investment advisory services. Currently, we have more than ninety ADR programs for Brazilian companies that trade on the New York Stock Exchange. In order to leverage our brokerage transactions abroad, Bradesco Securities, Inc. increased its capital by US\$20 million in May 2003. At December 31, 2004, Bradesco Securities Inc. had assets in the amount of R\$60.4 million.

**Cidade Capital Markets.** In February 2002, Bradesco, through BCN, acquired Cidade Capital Markets in Grand Cayman, as part of our acquisition of its parent company Banco Cidade. At December 31, 2004, our subsidiary Cidade Capital Markets had R\$82.5 million in assets.

### *Bank Operations in the United States*

In January 2004, the United States Federal Reserve Bank granted us permission to operate as a financial holding company in the United States. As a result, we are permitted to operate in the United States market, directly or through a subsidiary, and, among other things, may sell insurance, provide underwriting services, assist with private placements, portfolio management and merchant banking services and manage mutual fund portfolios. We have not begun to offer these services in the United States yet, and we can offer no assurances regarding when or whether we will offer such services, or that such operations will be profitable.

### *Foreign Trade Financing*

Our Brazilian foreign trade activities consist primarily of financing export and import transactions. We provide foreign currency payments on behalf of the importer directly to the exporters, linked to the receipt of a local currency payment from the importer. Exporters usually receive an advance



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in local currency upon the closing of the export contract, in exchange for an assignment of a foreign currency receivable due on the contract maturity date. Financings of imports done prior to the shipment of the goods are called *Adiantamento Sobre Contrato de Câmbio*, (Advances on Exchange Contracts, or ACC), whereby the funds obtained are used in the production of the goods that will be exported. Financings done after the shipment of the goods, when the exporter is awaiting payment, are called *Adiantamento Sobre Contrato de Exportação* (Advances on Export Contracts, or ACE). Other types of financings for exports include pre-payment of exports, BNDES-EXIM on-lending, and advance discounts.

Our foreign trade portfolio is funded primarily by credit lines with correspondent banks. We maintain relationships with various North American, European, Asian and Latin American financing institutions for this purpose, relying on our network of approximately 1,000 correspondent banks around the world, eighty-five of whom had granted credit lines to us at the end of 2004.

By December 31, 2004, the costs associated with the financing of exports had reached their lowest levels in recent years, twenty-five basis points above LIBOR for the period of 180 days, and forty basis points above LIBOR for 360 days. In comparison to 2003, financing costs were approximately twenty-five basis points lower in 2004, demonstrating a substantial improvement in the international market's perception of Brazilian risk.

In addition to traditional credit lines from banks, we have a R\$300 million commercial paper program in the United States amended in June 2004, which matured in June 2005.

At December 31, 2004, the balance of our export financing transactions was R\$8.2 billion and the balance of our import financing transactions was R\$1.2 billion. The volume of our foreign exchange contracts for exports reached US\$20.0 billion, a 29.7% increase over 2003. During 2004, the volume of our foreign exchange contracts for imports reached US\$7.4 billion, a 28.4% increase over 2003. Based on Central Bank information, during 2004, we were the largest source of Brazilian export financing, with a market share for foreign exchange contracts for exports of 21.0%. In addition, our market share for foreign exchange contracts for imports was 13.1%, based upon information provided to us by the Central Bank.

The following table sets forth the composition of our foreign trade portfolio (excluding non-performing loans) at December 31, 2004:

|  | December 31, 2004 |
|--|-------------------|
|  | (R\$ in millions) |
| <b>Export Financing</b>                        |                   |
| Advances on Exchange Contracts (ACCs)          | R\$3,021          |
| Advances on Export Contracts (ACEs)            | 1,499             |
| Pre-payment of exports                         | 2,834             |
| On-lending of funds via BNDES/EXIM             | 756               |
| Other  | 71                |
| Total Export Financing                         | 8,181             |
| <b>Import Financing</b>                        |                   |
| Foreign-exchange-denominated import financings | 744               |
| Withdrawal discounted from import              | 498               |

|                        |       |
|------------------------|-------|
| Total Import Financing | 1,242 |
|------------------------|-------|

|                                      |                 |
|--------------------------------------|-----------------|
| <b>Total Foreign Trade Portfolio</b> | <b>R\$9,423</b> |
|--------------------------------------|-----------------|

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*Other Foreign Exchange Products*

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

- purchasing and selling of travelers' checks and foreign currencies;
- cross border money transfers;
- collecting import receivables;
- cashing checks that are denominated in foreign currency; and
- structuring transactions such as receivables securitizations.

*Private Banking Services*

Bradesco Private Banking offers its high net worth individual clients (those who have liquid assets in excess of R\$1 million), a range of services, including domestic and foreign investment advice, tax and financial advice and strategies for achieving the client's financial goals.

*Asset Management*

We manage assets for:

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

At December 31, 2004, we had R\$99.6 billion in total assets under management, representing 14.8% of Brazil's market share, including R\$98.1 billion managed by Bradesco Asset Management and R\$1.5 billion in third party funds related to the management, custodial and accounting services of BEM DTVM.

At December 31, 2004, we offered 507 funds and 105 portfolios to over 2.7 million investors. We also offer a range of fixed asset, floating rate, money-market and other funds. However, we do not currently offer any investments in hedge funds.

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

|                                    | <b>Distribution of Assets<sup>(1)</sup><br/>as of December 31,</b> |                  |               |
|------------------------------------|--|------------------|---------------|
|                                    | <b>2002</b>  | <b>2003</b>      | <b>2004</b>   |
|                                    | <b>(R\$ in millions)</b>   |                  |               |
| <b>Mutual Funds</b>                |  |                  |               |
| Fixed income                       | R\$43,517  | R\$69,784        | R\$83,441     |
| Variable income                    | 1,583  | 2,710            | 2,812         |
| Third party share funds            | 369  | 1,294            | 5,067         |
| Total                              | 45,469   | 73,788           | 91,320        |
|                                    |  |                  |               |
|                                    | <b>Distribution of Assets<sup>(1)</sup><br/>as of December 31,</b> |                  |               |
|                                    | <b>2002</b>  | <b>2003</b>      | <b>2004</b>   |
|                                    | <b>(R\$ in millions)</b>   |                  |               |
| <b>Managed Customer Portfolios</b> |  |                  |               |
| Fixed income                       | 6,257  | 6,728            | 5,922         |
| Variable income                    | 2,902  | 2,305            | <u>2,321</u>  |
| Third party share funds            | 522  | 196              | 77            |
| Total                              | 9,681  | 9,229            | 8,320         |
| <b>Total</b>                       | <b>R\$55,150</b>   | <b>R\$83,017</b> | <b>99,640</b> |

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

|              | <b>As of December 31,</b> |                |               |                |               |                |
|--------------|---------------------------|----------------|---------------|----------------|---------------|----------------|
|              | <b>2002</b>               |                | <b>2003</b>   |                | <b>2004</b>   |                |
|              | <b>Number</b>             | <b>Clients</b> | <b>Number</b> | <b>Clients</b> | <b>Number</b> | <b>Clients</b> |
| Mutual Funds | 424                       | 2,246,992      | 505           | 2,758,298      | 507           | 2,683,514      |
| Portfolios   | 80                        | 80             |               | 415            |               | 371            |

|              |     |           |     |           |     |           |
|--------------|-----|-----------|-----|-----------|-----|-----------|
|              |     |           | 126 |           | 105 |           |
| <b>Total</b> | 504 | 2,247,072 | 631 | 2,758,713 | 612 | 2,683,885 |

We market our asset management products through our network of branches, our telephone banking services and our Internet-based investment site ShopInvest. We are continuously working to improve the composition of our investments, through intense commercial analysis, as well as diversification of our funds in order to better serve our clients.

### *Consortia*

In Brazil, persons or entities that wish to acquire certain goods can form a group, known as a consortium, in which the members pool their resources to assist each other with the purchase of certain consumer goods. The purpose of a consortia is to acquire goods, and Brazilian law forbids the formation of consortia for investment purposes.

In December 2002, our subsidiary Bradesco Consórcios initiated the sale of consortium memberships, known as quotas, to Bradesco employees. This service became available to our customers in January 2003. On December 31, 2004, Bradesco Consórcios registered total sales of over 150,000 quotas, with a total billed amount of approximately R\$4.3 billion and a net profit of R\$45.5

million. Since May 2004, Bradesco Consórcios has been the leader in the real estate segment, and since December 2004, it has also been the leader in the vehicle segment. Bradesco Consórcios acts as the administrator for the consortia, which are formed to purchase real estate and vehicles.

### **Insurance, Pension Plans and Certificated Savings Plans**

The diagram below shows the principal elements of our insurance, pension plans and certificated savings plans segment as of December 31, 2004.

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

|   | As of and for the year ended December 31, |                 |                 |
|---|---|-----------------|-----------------|
|   | 2002                                      | 2003            | 2004            |
|   | (R\$ in millions)                         |                 |                 |
| <b>Income statement data:</b>   |   |                 |                 |
| Net interest income(1)  | R\$3,021                                  | R\$4,959        | R\$4,937        |
| Non-interest income(1)  | 5,684                                     | 7,020           | 7,794           |
| Non-interest expense  | (7,989)                                   | (10,949)        | (12,201)        |
| Income before taxes and minority interest(1)  | 716                                       | 1,030           | 530             |
| Taxes on income   | (173)                                     | (364)           | (138)           |
| Income before minority interest(1)  | 543                                       | 666             | 392             |
| Minority interest   | (3)                                       | (2)             | (4)             |
| Net income(1)   | 540                                       | 664             | 388             |
| <b>Balance sheet data:</b>  |   |                 |                 |
| Total assets  | 23,678                                    | 32,441          | 40,840          |
| <b>Selected results of operations data:</b>   |   |                 |                 |
| Insurance premiums:   |   |                 |                 |
| Life insurance premiums   | 1,257                                     | 1,502           | 1,615           |
| Health insurance premiums   | 2,333                                     | 2,649           | 3,036           |
| Automobile, property and casualty insurance premiums  | 1,718                                     | 1,998           | 2,113           |
| <b>Total</b>  | <b>R\$5,308</b>                           | <b>R\$6,149</b> | <b>R\$6,764</b> |
| Pension plan income   | 21  | 64              | 374             |
| Interest income from insurance, pension plans, certificated savings plans and pension investment contracts                | 3,021                                     | 4,959           | 4,937           |
| Changes in technical provisions for insurance, pension plans, certificated savings plans and pension investment contracts | (2,261)                                   | (3,777)         | (4,326)         |
| Insurance claims  | (3,614)                                   | (4,333)         | (4,822)         |
| Pension plan operating expenses   | (370)                                     | (637)           | (751)           |

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(1) Income from customers outside the segment.

**Insurance**

We offer insurance products through a number of different entities, all of which are controlled or managed by our subsidiary Bradesco Seguros. Bradesco Seguros was the largest insurer in Brazil in 2004 based on total revenues and

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



### *Health Insurance*

Health insurance insures policyholders for medical expenses. We offer our private health assistance plans through our subsidiary Bradesco Saúde S.A., which we call Bradesco Saúde. At December 31, 2004, Bradesco Saúde had 2.5 million health insurance policyholders and dental plan holders, including both holders who obtained their insurance through their corporate employers and holders who obtained it on an individual basis. Almost 12,000 companies in Brazil have health insurance policies underwritten by Bradesco Saúde, including thirty-two of the country's 100 largest companies.

Bradesco Saúde currently has one of the largest health insurance networks in Brazil. As of December 31, 2004, it included approximately 9,300 laboratories, 9,300 specialized clinics, 18,500 physicians, 3,000 hospitals, 1,100 dental clinics and 5,700 dentists located throughout the country.

### *Life Insurance*

Bradesco Seguros offers its term life insurance through its subsidiary Bradesco Vida e Previdência, which had, at December 31, 2004, 6.7 million life insurance policyholders and was ranked first in Brazil in the number of individuals insured, according to information published by SUSEP.

### *Automobile, Property and Liability Insurance*

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

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

At December 31, 2004, Bradesco Auto/RE had 1.1 million automobile and 819,848 property and casualty insurance policyholders. Bradesco Auto/RE was ranked first in Brazil in the number of insured vehicles and the number of property and casualty insurance policies, according to information published by SUSEP. Bradesco Auto/RE insures over one hundred of the largest companies in the country.

### *Sales of Insurance Products*

We sell our insurance products through exclusive brokers in our branch network, as well as through other, non-exclusive brokers throughout Brazil. Bradesco Seguros pays the brokers' fees on a commission basis. At December 31, 2004, 31,595 brokers offered our insurance policies to the public. We also offer certain automobile, health, property and casualty insurance products directly through our website.

### *Pricing*

The costs of medical care, as well as the frequency of claims drive pricing for individual health insurance policies in Brazil. The same factors affect the pricing of group health insurance, although pricing varies depending on the number of insured individuals and the particular geographic region, in accordance with actuarial analysis.



Pricing for life insurance is based on traditional actuarial tables and regulations published by SUSEP, as the regulatory authority. Pricing takes the characteristics of the product into consideration, such as channels of distribution, acceptance policies, profit margin, fees and taxes.

Pricing for personal automobile insurance is influenced by the frequency and degree of severity of an individual's claims, and takes into consideration various other factors, such as the location of the vehicle and its specific characteristics. In accordance with market practice, as of April 2004 we consider a client's profile in the pricing of automobile insurance.

The profitability of personal automobile insurance is largely dependent on the prompt identification and correction of the disparity between premium levels and expected claim costs. Premiums charged for vehicle damage coverage reflect the value of the insured automobile and, accordingly, premium levels partially reflect the volume of new automobile sales. The number of policyholders increased 0.2% in 2004 in relation to 2003.

Pricing in the property and casualty insurance business is driven by claim frequency and average claim amount, as well as the specific characteristics of the insured party's location. Individual insurance policies take into account a respective individual's risk factors, which are evaluated, in part, by guidelines published by the IRB.

#### *Reinsurance*

Brazilian regulations set retention limits on the amount of risks insurance companies may underwrite. Pursuant to the regulations, Bradesco Seguros reinsures with the IRB any risks it underwrites in excess of the retention limits, which are generally risks of losses on insured goods and liability risks. In addition, when Bradesco Seguros reinsures risks with the IRB, it may assist the IRB in entering into reinsurance agreements with international reinsurers in connection with those risks.

Bradesco Seguros reinsured approximately R\$548 million in insurance risks with the IRB in 2004. Although the IRB is liable for any risks it reinsures, Bradesco Seguros remains primarily liable as the direct insurer on all reinsured risks. The Bradesco Seguros owns 21% of the total capital stock of the IRB, which represents 42% of its total capital stock.

#### *Pension Plans*

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

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

During the first quarter of 2002, Bradesco Vida e Previdência began selling VGBL *Vida Gerador de Benefício Livre*, which we refer to as VGBL, a pension investment contract that allows



holders to redeem accrued policy value monthly over time or in one lump sum after a date chosen by the participant. As of December 31, 2004, Bradesco Vida e Previdência accounted for 45.5% of VGBL sales in Brazil, according to ANAPP.

As of December 31, 2004, Bradesco Vida e Previdência accounted for 36.9% of the open-end pension plan and VGBL market based on contributions, and 47.1% of assets under management, according to ANAPP.

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

Our revenues from pension plan management have risen by an average of 32.6% per year over the past five years, in large part due to increased sales of our services through our branch network.

We manage pension plans covering more than 1.5 million participants, 82.1% of whom are members of individual plans, and the remainder of whom are individual members of corporate plans. Corporate plans account for 32.7% of our technical reserves.

Under VGBL, PGBL and FAPI plans, participants are allowed to make contributions either in installments or in lump-sum payments. Participants in pension plans may deduct the amounts contributed to PGBL and FAPI by up to 12% of the participant's complete taxable income. According to applicable law, the redemption and the benefits realized are subject to a withholding tax. Companies in Brazil can establish VGBL, PGBL and FAPI plans for the benefit of their employees. As of December 31, 2004, Bradesco Vida e Previdência managed R\$9.1 billion in VGBL, R\$5.4 billion in PGBL plans and R\$332 million in FAPI plans.

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

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

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

Bradesco Vida e Previdência earns revenues primarily by charging:

- monthly service fees based on (1) in the case of funds that guarantee a minimum return, a percentage of the contributions to the plan and the retention of any return on the invested amount in excess of the inflation rate plus 6% per annum and (2) in the case of plans that do

not guarantee a minimum return, a percentage of the contributions to the plan and the management fee or part of the fee; and

- from death-benefit plans, fees based on the estimated positive difference between the plan's claim experience and the actuarial hypotheses on which contributions are calculated.

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

Bradesco Capitalização offers our clients' certificated savings plans with the option of making either one contribution or monthly payments. Each certificated savings plan has a nominal value from R\$7.00 to R\$1,000.00 and earns interest at a rate of TR plus 0.5% per month over the nominal value. From time to time, we have drawings at which some holders of the certificated savings plans win cash prizes of up to R\$2 million. The certificated savings plans are redeemable by the holder after twelve months. As of December 31, 2004, we had 31.8 million certificated savings plans outstanding and 2.8 million clients.

Bradesco Capitalização was the first private certificated savings plan company in the country to receive the ISO 9002 Certification, granted by Fundação Vanzolini. In December 2002 it was updated to ISO 9001:2000 Certification. Bradesco Capitalização was the first company in the sector to receive a brAA national rating from Standard & Poor's, which is its current rating.

### **Treasury Activities**

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

### **Distribution Channels**

We have the largest private-sector banking network in Brazil. In 2004, as a result of a series of mergers, we closed forty-eight of our branches. Our branch network is complemented by alternative distribution channels such as special banking service posts on the premises of selected companies, ATMs, telephone banking services and Internet banking. In introducing new distribution systems, we have focused on enhancing our security as well as increasing efficiency.

In addition, in order to foster stronger ties with our corporate clients, we established an additional 239 banking service posts on the premises of selected corporate clients during 2004 and 216 banking service posts in 2003, reaching a total of 2,301 special banking service posts and outlets as of December 31, 2004. We offer the same products and services at these special posts as we offer in our branches.

For information on our international branches as of December 31, 2004, see Item 4. Information on the Company The Company International Banking.

We also offer banking services in 5,383 Brazilian post offices and through our correspondent offices. For further information about this project, see History Recent Important Acquisitions and Joint Ventures.

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

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

***Bradesco Retail***

Bradesco Retail provides banking services to the population at large, mainly assisting individuals with monthly incomes of up to R\$4,000, and companies with annual revenues of up to R\$15 million. Currently, Bradesco Retail has more than 2,700 branches and more than 2,300 other service locations and more than 15 million clients carry out millions of daily transactions at these locations. We reward our biggest customers in this segment by providing them with personalized services.

***Bradesco Corporate***

Bradesco Corporate was created in 1999 and targets companies which have annual revenues of more than R\$180 million. We currently have 119 relationship managers offering a range of traditional as well as tailor-made products to these customers.

Bradesco Corporate is ISO 9001:2000 certified, and provides exclusive customer service specialists for our corporate customers. In addition, we offer international partnership opportunities through UFJ-Japan, BBVA-Spain, BES-Portugal. We were the first Brazilian bank to carry out an operational agreement through a strategic alliance with UFJ Bank, enabling approximately 300,000 Brazilian residents in Japan to access our banking services from abroad.

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

- **Agribusiness** We provide assistance throughout the production chain for agricultural related businesses, searching for solutions directly related to the needs of the companies in this industry, as well as offering traditional products and services;
- **Asian Desk** We offer Asian clients in Brazil financial solutions in connection with their investments in Japan and the rest of Asia.
- **Euro Desk** We assist large clients in Spain and in Brazil by exploring synergies for businesses operating in Europe, United States and Latin America.

***Bradesco Companies***

Bradesco Companies was created in 2002 and is focused on a corporate clientele, with annual revenues of R\$15 million to R\$180 million, through sixty-six exclusive branches throughout Brazil.

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

The Bradesco Companies team has 362 relationship managers, each certified by the Certification Program of ANBID, who focus on an average of twenty-five to thirty economic groups each, representing 17,319 companies in various industries.





*Bradesco Private Banking*

Bradesco Private Banking was created in 2000 to manage our relationships with high net worth individuals. We seek to create optimal, tailor-made financial solutions for each high net worth client, and assist with asset allocation, tax and estate planning. Bradesco Private Banking was the first private banking institution in Brazil to be awarded an ISO 9001:2000 Certification.

*Bradesco Prime*

Bradesco Prime was created in May 2003 to provide traditional and specialized products and services to individuals with monthly incomes of at least R\$4,000 or investments worth at least R\$50,000. The 1,023 managers working at Bradesco Prime are professionals who are constantly assessing and considering the financial needs of the 206,175 clients in this segment.

Bradesco Prime attempts to co-ordinate commercial relationships for customers within this segment by providing branches for the exclusive use of these customers and by ensuring that our relationship managers deal with a small portfolio of clients, specifically tailoring their services to the customers' needs. In addition to a variety of products and services, Bradesco Prime offers its clients membership in the *Conta Prime Bradesco*, an allegiance program that attempts to develop, by offering increased benefits, relationships between our clients and Bradesco.

We currently have a network of 177 exclusive branches in the Bradesco Prime segment, located throughout Brazil, with 147 exclusive branches in spaces shared with the retail segment and thirty separate branches. Additionally, clients may:

- use exclusive sites on our website;
- receive specialized assistance from our call center; and
- have access to branches and ATMs throughout Brazil.

Bradesco Prime offers:

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

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

*Branch System*

The principal distribution channel for our banking services is our branch network. In addition to offering retail banking services, the branches serve as a distribution network for all of the other products and services we offer to our customers, including our payment processing and collection services, our private banking services and our asset management products. We market our leasing services through channels operated by our branch network, as well as directly through our wholly-owned subsidiary Bradesco Leasing. Bradesco Corretora and Bradesco Consórcios also market brokerage, trading and



consortium services through our branches. Bradesco Vida e Previdência sells its products on a commission basis through 8,102 independent agents nationwide, most of whom are based in our facilities.

We sell our insurance products and pension plan products through exclusive brokers based in our network of bank branches, non-exclusive brokers throughout Brazil, all of whom are compensated on a commission basis, and through our website. At December 31, 2004, 31,595 non-exclusive brokers offered our insurance policies to the public. Our certificated savings plans are offered through our branches, the Internet, customer services and external distribution channels.

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

|                                   | 2002                                     | 2003  | 2004  |
|-----------------------------------|--|-------|-------|
|                                   | (percentage of total sales, per product) |       |       |
| <b>Insurance products</b>         |  |       |       |
| Sales through the branches        | 29.4%                                    | 37.4% | 38.5% |
| Sales outside the branches        | 70.6                                     | 62.6  | 61.5  |
| <b>Pension plan products</b>      |  |       |       |
| Sales through the branches        | 85.8                                     | 72.1  | 85.4  |
| Sales outside the branches        | 14.2                                     | 27.9  | 14.6  |
| <b>Leasing products</b>           |  |       |       |
| Sales through the branches        | 97.0                                     | 96.6  | 91.2  |
| Sales outside the branches        | 3.0                                      | 3.4   | 8.8   |
| <b>Certificated savings plans</b> |  |       |       |
| Sales through the branches        | 94.9                                     | 89.8  | 89.7  |
| Sales outside the branches        | 5.1%                                     | 10.2% | 10.3% |

### ***Processing***

We have two data processing centers, with twenty-four large-scale computers and 918 medium scale computers. All of our branches and ATMs have telecommunications services capable of exchanging data with any one of the two data processing centers. This system processes all of our transactions, as well as, those of our other affiliates.

### ***Internet and Telephone Access***

Our clients may access their monthly statements as well as consult their transaction records through a variety of electronic or telephone methods: ATMs, *fone fácil* and the internet.

### ***ATM***

Our ATM network is distributed in strategic locations throughout the country and consists of 21,822 ATMs (including 19,239 ATMs which operate during the weekends and holidays), which handle an average of 5.3 million transactions each day. We are in the process of replacing old ATMs and currently replace approximately 400 old machines with new machines each month.



### ***Internet Services***

We offer our clients 445 different services through our website (255 services for individuals and 190 for corporations). During 2004 we served 6.4 million clients and registered 281 million banking transactions through our Internet banking services.

Through ShopInvest, the first Internet stock trading service in Brazil, investors, regardless of whether they are our clients, may easily conduct their transactions in a secure environment. ShopInvest provides investors with complete and accurate information about the financial markets, which allows the investor to make appropriate and informed investment decisions. As of December 31, 2004, ShopInvest had more than 1 million registered users and carried out approximately 1.1 million transactions valued at a total amount of R\$5.9 billion. ShopInvest offers investors the opportunity to invest in fifteen mutual funds.

We offer 112 WebPoints Internet access stations. WebPoint allows customers who do not own a computer to access the Internet.

ShopCredit allows individuals and corporate entities to fund lines of credit and financing. In 2004, ShopCredit registered approximately 11.4 million transactions valued at R\$276.2 million.

Through Bradesco Net Empresa, a website for corporate entities, our clients can transfer funds between bank accounts and make payments or conduct other banking transactions, among other services. As of December 31, 2004, we had registered 284,230 participating companies and approximately 22.4 million transactions were carried out over Bradesco Net Empresa.

### ***Telephone Service***

With our easy phone service, our clients may conduct their banking activities by telephone at any time without having to visit a branch or an ATM. Our 1,492 customer service center telephone operators at our centers in São Paulo and Osasco service our commercial banking as well as credit card clients. In 2004, we responded to 240.7 million calls, corresponding to transactions with an aggregate value of R\$5.5 billion. Our customer service center was the first in the banking sector to receive a ISO9001:2000 certificate of quality.

Customers may use our telephone customer service center to access a wide range of products and services, including to:

- check account balances and the status of transactions;
- transfer funds between accounts, including to other banks;
- pay bills;
- apply for loans or credit cards;
- execute and manage their investments;
- purchase certificated savings plans; and
- invest in private pension plans.



## **Capital Expenditures**

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

## **Risk Management**

### ***Risk Management Area***

Our risk management area is fully independent from our management and is responsible for assuring control over and monitoring of market risks, including credit and operational risks. Our risk management area monitors the procedures we have in place to prevent money laundering and it is also responsible for coordinating our efforts to comply with the Central Bank regulations related to the Basel Committee on Banking Supervision's new capital accord (Basel II) and Section 404 of the Sarbanes-Oxley Act.

In 2004, we extended our risk analysis procedures to our subsidiaries, including Bradesco Vida e Previdência, Bradesco Saúde, Bradesco Seguros, BRAM and Bradesco Capitalização. As a result, all of our risk management activities are supervised by, and in some cases carried out by, our risk management area.

### ***Market Risk Management***

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

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

We have adopted a conservative policy regarding market risk exposure: Risk limits, what we deem Value at Risk are defined by senior management, and compliance is monitored daily by an area which is independent from portfolio management. The Value at Risk methodology has an accuracy level of 97.5% and is based upon statistical and economic studies conducted by us which we validate daily using back testing techniques. In addition, we perform a daily sensitivity analysis to measure the effect of the movement of Brazilian interest rates and foreign exchange coupon curves (interest spread paid above the foreign exchange variation) on our portfolio.

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

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

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

We have focused our efforts on the adoption of advanced credit risk models that are used to assess the risks inherent in all the components of the credit process. The credit risk models that we have

adopted are in line with best international practices, as well as the recommendations of the Basel Capital Accords.

The Executive Credit Risk Committee was created in 2004 and is responsible for assuring the strategic management of our credit portfolio transactions, through monthly meetings with our management.

In addition, the Executive Credit Risk Committee is responsible for:

- the implementation of the system used to calculate projected and unexpected losses and corresponding capital allocation in accordance with Basel II requirements;
- the back testing of models used to assess credit portfolio risks;
- the optimization of the management systems designed to meet the requirements of the present customer and departments segmentation approach, with an emphasis on decision making and credit portfolio management;
- periodic monitoring of the major events of default of loan agreements, through individual analysis of our clients credit history and recovery estimates made by the principally involved areas (commercial, credit and recovery); and
- continuously revising and restructuring our internal processes for monitoring credit risk, review of organizational structures and improving our information technology capacities in this area.

### ***Operating Risk Management***

Operating risks are those events which affect our customers or our business operations and which could occur as a result of the business interruption, system failure, error, omission, fraud or external event.

We manage operating risks based on methodologies and tools designed to permit, among other benefits, a decrease in unsubscribed regulatory capital and potential operating loss events. Our policies emphasize a corporate culture focused on risk management at all corporate levels and the establishment of ongoing procedures used to monitor our potential degree of risk exposure.

We have prepared an action plan designed to achieve full compliance with the ten principles of good operating-risk-management practice established by Basel II and Central Bank regulatory requirements. In this regard, we have instituted a specific management system for streamlining risk management information which is designed to monitor and properly comprehend operating loss events, facilitating an in-depth assessment of such events based on either management or accounting controls.

Our goal is to implement the Advanced Model Approach of Operational Risk Management developed by the Basel Committee. We believe that the application of the Advanced Model Approach will allow us to allocate less resources to reserve capital and increase our competitive advantage as a result of improved operating efficiencies and decreased losses.



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

We are continuously developing policies, systems and internal controls to mitigate potential losses generated by our risk exposure and to strengthen our existing corporate governance policies. We have also adopted additional methodologies and criteria for identification, classification, evaluation and monitoring of risks. The dedicated staff we have working solely in this area and the investments in technology and training of our personnel that we have made have allowed us to create internal controls and compliance management that is effective and consistent with international standards. We are currently adjusting these policies in order to comply with Section 404 of Sarbanes-Oxley Act.

Our Internal Control Area is a unit of the Risk Management and Compliance Department and is responsible for the preparation and disclosure of technical instructions, criteria and procedures related to internal controls and compliance. It reports directly to our Chief Executive Officer and provides periodic status reports to the Audit Committee and the Board of Directors.

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

- Implementation of an internal controls system based on the twenty-five Internal Control Principles defined by the Basel Committee and the methodology of the Committee of Sponsoring Organizations (COSO). The implementation of this system has strengthened the procedures we follow to mitigate risks and has assisted our compliance with regulatory requirements, including Section 404 of the Sarbanes-Oxley Act;
- Our compliance agents are responsible for the identification, classification, evaluation and monitoring of risks and controls, as well as for the elaboration of tests of adherence and plans of action, in accordance with the standards established by the Internal Controls Area;
- Implementation of SPB (Brazilian Payments System) management, designed to guarantee the efficiency of the system, which transmits electronic messages between our banks and all the entities comprising this system. In addition, we have an SPB Systems Contingency Plan which has been developed to ensure that system failures are kept to a minimum;
- The TED (Online Cash Transfers) validation system designed to reduce operating risks generated by the unauthorized transfer of funds from the Bradesco Group, providing a greater level of security and reliability in transactions;
- Implementation of measures to prevent and combat money laundering in conformity with best corporate governance practices. These measures are reviewed during regular staff training programs. We are also constantly improving the technology we use to monitor financial movement in order to prevent our company from becoming involved in transactions or situations which could be, directly or indirectly, related to money laundering crimes, defined in Law 9613/98; and
- Implementation of Information Security Management, a series of measures comprised mainly of controls and a security policy designed to protect customer and corporate information. We have a formal structure, with specific objectives and responsibilities, for defining, maintaining and improving information security in the corporate environment. The following policies are adopted in relation to customer information:
  - Information is gathered legally and with the customers' knowledge;
  -

Information transmitted to us is stored integrally and securely and undergoes no modification and access is restricted to authorized personnel only;

- Information is only used for purposes which have been properly approved by the Organization; and
- Customer information is never disclosed to third parties, except upon legal or judicial determination.

## *Credit*

Our credit policy is focused on:

- ensuring the safety, quality and liquidity levels of our assets;
- maintaining flexibility and profitability in our credit operations; and
- minimizing the risks inherent to credit operations.

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

We diversify our business among a large number of individuals, companies and economic groups that demonstrate an ability to meet their credit obligations and support those obligations with adequate collateral. In evaluating loans, we consider the reasons for each requested credit, the value and term of the credit and the risk classification the credit would receive under our classification system. Our risk rating system divides the level of risk into nine categories ranging from excellent to uncollectible, based on financial and economic considerations such as the credit profile and payment capacity of the borrower. See Regulation and Supervision Bank Regulations Treatment of Overdue Debts.

We require credit approvals for both individual and corporate loans. The approvals are made at various levels of our organization, ranging from the manager of the local bank to our Executive Credit Committee. Our branches have defined limitations on their authority to grant credits, based on the size of the branch and the size of the proposed loan. However, they may not approve an application for credit from any borrower:

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

We have credit limits for each type of loan. We pre-approve credit limits to our individual and corporate clients and presently extend credits to the public sector only under very limited circumstances.

In all cases, funds are only advanced once the appropriate body has approved the line of credit. We review the credit limits of our large corporate clients at least every 180 days. Credits extended to other customers, including individuals, small and midsize corporations, are reviewed at least every ninety days.

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

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

- restructuring our methodology for calculating expected losses;
- identifying and implementing changes in our reporting processes to improve our management of our credit portfolio;
- redesigning our structure for information management; and
- evaluating the organizational structure of our credit evaluation practices, including a review of the demands on our technology, and addressing any issues found.

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

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

|                                  | Range of loan approval authority |                     |
|----------------------------------|----------------------------------|---------------------|
|                                  | Un-Collateralized loan           | Collateralized loan |
| <b>Decision-making authority</b> | <b>(R\$ in thousands)</b>        |                     |
| Manager of very small branch(1)  | R\$0 to 5                        | R\$0 to 10          |
| Manager of small branch(2)       | 0 to 10                          | 0 to 20             |
| Manager of average branch(3)     | 0 to 15                          | 0 to 30             |
| Manager of large branch(4)       | 0 to 20                          | 0 to 50             |

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

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

We use a specialized credit scoring evaluation system to analyze these loans, allowing us to build a level of flexibility into our decision-making process while maintaining consistent credit risk standards.

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

If the branch manager is not authorized to approve the requested loan, the decision is submitted to a higher level of our credit department. The following table sets out the range within which each decision-making authority approves loans to individuals above R\$50,000, irrespective of the type of credit support:

| Decision-making authority                             | Amount of loan     |          |
|---|--------------------|----------|
|   | Minimum            | Maximum  |
|   | (R\$ in thousands) |          |
| Credit department                                     | R\$51              | R\$8,000 |
| Credit director                                       | 8,001              | 10,000   |
| Daily credit committee                                | 10,001             | 35,000   |
| Executive credit committee                            | 35,001             | 100,000  |
| Executive credit committee with approval by President | Over 100,000       |          |

### ***Corporate Credit Operations***

For corporate customers, depending on the proposed credit support and the size of the relevant branch, loans of up to R\$400,000 are approved at the branch level. As with loans to individuals, if the credit support offered is not within the limits established by the Executive Credit Committee for approval at the branch level, the approval of the loan is submitted to the Credit Department.

The following table sets out the range within which branch managers may approve corporate loans, depending on the amount and the type of credit support offered:

| Decision-making authority             | Range of loan approval authority |                     |
|---------------------------------------|----------------------------------|---------------------|
|                                       | Un-Collateralized loan           | Collateralized loan |
|                                       | (R\$ in thousands)               |                     |
| Manager of very small branch(1)       | R\$0 to 10                       | R\$0 to 60          |
| Manager of small branch(2)            | 0 to 20                          | 0 to 120            |
| Manager of average branch(3)          | 0 to 30                          | 0 to 240            |
| Manager of large branch(4)            | 0 to 50                          | 0 to 400            |
| Manager of Bradesco Company branch(5) | 0 to 100                         | 0 to 400            |

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

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

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

| Decision-making authority                             | Amount of loan     |          |
|---|--------------------|----------|
|   | Minimum            | Maximum  |
|   | (R\$ in thousands) |          |
| Credit department                                     | R\$401             | R\$8,000 |
| Credit director                                       | 8,001              | 10,000   |
| Daily credit committee                                | 10,001             | 35,000   |
| Executive credit committee                            | 35,001             | 100,000  |
| Executive credit committee with approval by President | Over 100,000       |          |

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

- a financial and economic analysis of the client, taking into consideration the prospective borrower's ability to generate cash, cash flow and liquidity, level of indebtedness, profitability and quality of assets;
- our evaluation of the trends and prospects of the sector in which it operates based on the macroeconomic context;
- our economic and financial projections of the company's capacity (net income and cash generation) to meet future obligations, based on our research and visits to the company;
- an analysis of company data based on criteria analogous to those we use for evaluating loans to individuals; and
- qualitative information regarding the company, its management and the market in which it operates.

### ***Processing Systems***

Our principal computer facilities are located in our two operations centers in Osasco and Alphaville (Barueri), in the state of São Paulo. Our critical systems can be covered from either of the operations centers in the event one is shut down or experiences a malfunction. To date, neither of the operations centers has been shut down or experienced any material malfunction. To ensure the continuity of our operations in case of power outages, our Osasco operations center has the energy capacity to be self-sufficient for fifty-six hours, and our Alphaville (Barueri) operations center has the energy capacity to be self-sufficient for sixty-five hours. If we have sufficient access to fuel, we have the capacity to provide ourselves with electricity indefinitely.



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

Our principal source of funding is deposits from Brazilian individuals and businesses. At December 31, 2004, our total deposits were R\$68.6 billion, representing 42.5% of our total liabilities.

We provide the following types of deposit accounts:

- checking accounts;
- deposit accounts for investments;
- savings accounts;
- time deposits; and
- deposits from financial institutions.

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

|                                    | December 31,                          |                  |                  | % of total<br>deposits |
|------------------------------------|---------------------------------------|------------------|------------------|------------------------|
|                                    | 2002                                  | 2003             | 2004             | 2004                   |
|                                    | (R\$ in millions, except percentages) |                  |                  |                        |
| <b>From customers</b>              |                                       |                  |                  |                        |
| Demand deposits                    | R\$13,374                             | R\$12,912        | R\$15,384        | 22.4                   |
| Savings deposits                   | 20,731                                | 22,140           | 24,783           | 36.1                   |
| Time deposits                      | 22,202                                | 22,944           | 28,460           | 41.5                   |
| <b>From financial institutions</b> | 26                                    | 31               | 20               | -                      |
| <b>Total</b>                       | <b>R\$56,333</b>                      | <b>R\$58,027</b> | <b>R\$68,647</b> | <b>100.0%</b>          |

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

**Demand Deposits and deposit accounts for investments:** We are required to deposit 45% of the average daily balance of our demand deposits and deposit accounts for investment in excess of R\$44 million with the Central Bank on a non-interest bearing basis.

**Savings deposits:** We are required to deposit, in an account with the Central Bank, an amount in cash equivalent to 20% of the average aggregate balance of our savings account deposits during the prior week. The account bears interest annually at TR plus interest rate of 6.17% .

Time deposits: We are required to deposit with the Central Bank, in the form of federal securities, 15% of the average daily balance of our time deposits in excess of R\$30 million, less an additional R\$300 million. The securities bear interest in accordance with market rates.

In addition, we are required to deposit an additional amount equal to (a) 8% of the average aggregate balance of our time and demand account deposits during the prior week plus (b) 10% of the average aggregate balance of our saving account deposits during the prior week, to the extent that the

percentages in (a) and (b) are applicable to the balance of our deposits exceeding R\$100 million. This additional amount is deposited in an account with the Central Bank that bears interest at the SELIC rate.

Present Central Bank regulations require that we:

- allocate a minimum of 25% 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% of checking deposits received to micro credit transactions; and
- allocate a minimum of 65% of the total amount of deposits in savings accounts to finance residential real estate or housing construction. Amounts that can be used to satisfy this requirement include direct residential real estate financings, mortgage notes, charged-off residential real-estate or housing construction loans and certain other financings, all as specified in guidance issued by the Central Bank.

Savings deposits in Brazil typically only pay interest on a floating basis of TR plus 0.5% per month after funds have been left on deposit for at least one calendar month by individuals and not-for-profit entities and ninety days by corporations. Interest earned on individual savings accounts is free from income tax.

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

Cash deposits, investment deposits, savings accounts, term deposits, mortgage notes, letters of credit, and notes we issue are guaranteed by the Credit Guarantee Fund, known as FGC, up to R\$20,000 per client, in the event of a bank's liquidation.

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

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

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

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

|   | December 31,      |                  |                  |
|---|-------------------|------------------|------------------|
|   | 2002              | 2003             | 2004             |
|   | (R\$ in millions) |                  |                  |
| <b>Funding Sources</b>  |                   |                  |                  |
| Import/export   | R\$7,741          | R\$6,034         | R\$5,340         |
| BNDES/FINAME  | 7,000             | 7,556            | 8,357            |
| Leasing obligations   | 443               | 449              | 333              |
| Capital markets   |                   |                  |                  |
| Domestic  | 7,633             | 27,490           | 16,532           |
| Euronotes   | 2,077             | 3,290            | 1,619            |
| Mortgage-backed securities                                      | 369               | 1,017            | 674              |
| Subordinated notes  | 3,322             | 4,995            | 5,973            |
| Securitization of credit card payment<br>orders and receivables |                   | 2,599            | 2,655            |
| Commercial paper  | 1,884             | 1,761            | 2,920            |
| Other   | 192               | 187              | 54               |
| <b>Total</b>  | <b>R\$30,661</b>  | <b>R\$55,378</b> | <b>R\$44,457</b> |

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

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

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

### Property, Plant and Equipment

As of December 31, 2004, we owned 863 properties and leased 2,192 properties throughout Brazil, and six properties abroad, all of which we used for the operation of our branches and performance of our business. We own the real property where our head office is located, in Cidade de Deus, Osasco, São Paulo Brazil. Substantially all of our leased property is leased under renewable contracts with terms of an average of twelve years.

### Seasonality

We believe that seasonality does not materially affect our businesses.

## Competition

We face significant competition in all of our principal areas of operation, as the Brazilian markets for financial and banking services are highly competitive. At December 31, 2004, there were 139 multiple-service banks providing a full range of commercial banking, consumer finance, investment banking and other services, twenty-four commercial banks, twenty-one investment banks, and numerous brokerage, leasing, savings and loan and other financial institutions in Brazil. For a discussion of the

risks related to competition, see Item 3. Key Information Risk Factors Risks relating to Bradesco and the Brazilian Banking Industry The increasingly competitive environment in the Brazilian banking and insurance industries may negatively affect our business prospects.

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

### ***Banking***

In commercial banking, we compete for individual and corporate customers with other large Brazilian banks. Our primary banking competitors are Banco do Brasil, Banco Itaú, Unibanco and Banco Santander. The Brazilian banking industry has undergone some consolidation in recent years through acquisitions and privatization. For example, in 2003 Banco ABN AMRO Real acquired control of Banco Sudameris, becoming the sixth largest bank in Brazil in terms of assets, according to the Central Bank.

The Brazilian banking industry has also been facing increasing competition from foreign banks in recent years. Besides Banco Santander, certain large United States, European and Asian banks, including Citibank, BankBoston, ABN AMRO and Hong Kong and Shanghai Banking Corporation, known as HSBC, are currently operating in Brazil. Other foreign banks could enter into the Brazilian market and increase its competitiveness. Foreign banks can also participate in the privatization process. As of December 31, 2004, foreign banks held approximately 18.2% of the total assets in the Brazilian financial system.

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

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

### ***Credit Cards***

The Brazilian credit card market is highly competitive, with approximately 52 million credit cards issued as of December 31, 2004. Our primary competitors are Credicard, Banco do Brasil, Banco Itaú and Unibanco. Management believes that the primary competitive factors in this area are interest rates, annual fees, card distribution network and the relative benefits the cards offer.

Other competition for credit cards exists in the form of post-dated checks, a popular means of term payment in Brazil in which customers pay for merchandise and services with future dated bank

checks, effectively allowing payment in installments over a longer term. Because of their convenience and growing acceptance, we believe that credit cards will gradually replace post-dated checks.

### *Leasing*

In general, the Brazilian leasing market is dominated by companies affiliated with vehicle and equipment producers (such as HP and IBM) and large banks (such as Banco Itaú, Banco Safra, ABN AMRO and Banco do Brasil). We currently enjoy certain competitive advantages, as we have the largest branch network among our private sector competitors. In addition, our size allows us to fund our leasing activities at more favorable rates, leading to lower interest rate charges for our customers.

### *Asset Management*

The Brazilian asset management industry has grown significantly in recent years. In 2004, we obtained significant amounts from pension plan funds (PGBLs and VGBLs) and also through a retail fund (Bradesco FAQ Hiperfundo DI). Until the mid-1990s, the asset management industry was dominated by commercial banks offering fixed-income funds to their retail bank customers. However, banks moved their asset management areas to independent legal entities, such as BRAM, in order to segregate their asset management and treasury operations to comply with banking regulations. Other companies specializing in asset management, generally affiliated with foreign banks, have been established in Brazil in recent years. As a result, competition in the asset management industry has increased dramatically since 1995. Our primary competition in this sector includes Banco do Brasil, Banco Itaú and Unibanco.

### *Insurance, Pension Plans and Certificated Savings Plans*

#### *Insurance*

Bradesco Seguros faces increased competition from a number of Brazilian and multinational corporations in all of its insurance operations.

As of December 31, 2004, our primary competitors were Sul América Cia. Nacional de Seguros, Itaú Seguros S.A., Unibanco AIG Seguros S.A., Porto Seguro Cia. de Seguros Gerais, Banco do Brasil Seguros and Caixa Seguradora S.A., which represent in the aggregate approximately 44% of the total premiums generated in the market, pursuant to information from SUSEP and ANS. Although national companies underwrite the majority of the insurance business, we also face competition from local and regional companies primarily in the health insurance segment where they are able to operate at a lower cost or specialize in providing coverage to particular risk groups.

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

We believe that the principal competitive factors in this area are price, perceived financial stability, name recognition and service. At the branch level, we believe that competition is primarily based on the level of service, including claims handling, the level of automation and the development of long-term relationships with individual agents. We believe that our ability to distribute insurance products through our branch network gives us a competitive advantage over most other insurance





companies. Because most of our insurance products are offered through our retail bank branches, we benefit from certain cost savings and marketing synergies compared with our competitors. This cost advantage could become less significant over time, however, as other large private banks begin using their own branch networks to offer insurance products through dedicated agents.

### *Pension Plans*

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

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

Bradesco Vida e Previdência is currently the leader of the pension plan market, accounting for 47.1 % of assets under management in the sector as of December 31, 2004, according to ANAPP.

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

### *Certificated Savings Plans*

The certificated savings plan market became more competitive beginning in 1994 as exchange rates became more stable and levels of inflation were reduced. As of December 31, 2004, Bradesco Capitalização was second in the industry ranking, with 20.6% of the market based on technical revenues and 22.0% based on provisions, according to SUSEP.

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

## **REGULATION AND SUPERVISION**

### **Principal Financial Institutions**

As of December 31, 2004, fourteen public sector commercial and multiple-service banks controlled by federal and state governments and 149 commercial and multiple-service banks owned by the private sector operated in Brazil. For purposes of Brazilian regulations, insurance companies, private pension plans and certificated savings plan providers are not considered financial institutions.

### *Public Sector Financial Institutions*

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

foreign financial groups.

The primary government-controlled banks include:

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

### ***Private Sector Financial Institutions***

As of December 31, 2004, private sector financial institutions operating in the Brazilian financial sector included:

- 149 commercial and multiple-service banks providing a full range of commercial banking, investment banking (including securities underwriting and trading), consumer financing and other services including fund management and real estate finance;
- 21 investment banks engaged primarily in specialized credit operations and securities underwriting and trading; and
- 46 consumer credit companies, 138 securities dealerships, 186 brokerage companies, 51 leasing companies, 5,218 investment funds and mutual funds and 18 savings associations and real estate credit companies.

The 149 commercial and multiple-service banks operating in Brazil on December 31, 2004 included 65 banks controlled by Brazilian individuals and entities, 53 banks controlled by foreign persons and entities, and 31 banks, which were jointly controlled by Brazilian and foreign persons and entities.

### **Principal Regulatory Agencies**

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

#### ***The CMN***

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

- regulating credit operations engaged in by Brazilian financial institutions;
- regulating the issuance of Brazilian currency;



- supervising Brazil's reserves of gold and foreign exchange;
- determining Brazilian saving, foreign exchange and investment policies; and
- regulating the Brazilian capital markets.

### ***The Central Bank***

The Central Bank is responsible for:

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

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

The Central Bank supervises financial institutions by:

- setting minimum capital requirements, compulsory reserve requirements and operational limits;
- having the power to authorize corporate documents, capital increases and the establishment or transfer of principal places of business or branches (in Brazil or abroad);
- having the power to authorize shareholder changes of control of financial institutions;
- requiring the submission of annual and semi-annual audited financial statements, quarterly revised financial statements and monthly unaudited financial statements; and
- requiring full disclosure of credit and foreign exchange transactions, import and export transactions and other related economic activities on a daily basis.

### ***The CVM***

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

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

## **Bank Regulations**

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

Under the Banking Reform Law, a financial institution operating in Brazil:

- may not operate without the prior approval of the Central Bank and, in the case of foreign banks, authorization by presidential decree;
- may not invest in the equity of any other company above the regulatory limits;
- may not lend more than 25% of its adjusted net worth to any single person or group;
- may not own real estate, except for its own use; and
- may not extend credits to or guarantee transactions of:
  - any individual that controls the institution or holds, directly or indirectly, more than 10% of its share capital;
  - any entity that controls the institution or with which it is under common control, or any officer, director or member of the fiscal council of such entity, or any immediate family member of such individuals;
  - any entity that, directly or indirectly, holds more than 10% of its shares (with some exceptions);
  - any entity that it controls or of which it directly or indirectly holds more than 10% of the share capital;
  - any entity whose board of executive officers is made up of the same or substantially the same members as its own executive committee; or
  - its executive officers and directors (including their immediate families) or any company controlled by its executive officers and directors or their immediate families or in which any of them, directly or indirectly, holds more than 10% of the share capital.

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

### *Capital Adequacy and Leverage*

Brazilian financial institutions are subject to a capital measurement and standards methodology based on a weighted risk asset ratio. The framework of such methodology is similar to the international framework for minimum capital measurements as adopted in the Basel Accord. The Basel Accord requires banks to have a ratio of capital to risk-weighted assets of a minimum of 8%. At least half of total capital must consist of Tier I capital. Tier I, or core, capital includes equity capital less certain intangibles. Tier II capital includes asset revaluation reserves, general loan loss reserves and subordinated debt, subject to some limitations. Tier II capital is limited to the amount of Tier I capital.

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

- (a) requires minimum capital of 11% of risk-weighted assets;
- (b) does not permit contingency reserves to be considered as capital;





- (c) imposes a deduction from capital corresponding to fixed assets held in excess over limits imposed by the Central Bank;
- (d) requires an additional amount of capital with respect to off-balance sheet interest rate and foreign currency swap transactions as well as with respect to certain credit transactions utilizing third party resources; and
- (e) assigns different risk weights to certain assets and credit conversion amounts, including a risk weighting of 300% on tax credits relating to income and social contribution taxes.

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

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

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

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

- it must be previously approved by the Central Bank;
- it cannot be secured or guaranteed by the issuer or any of its related parties;
- its payment must be subordinated to the payment of other liabilities of the issuer in case of dissolution;
- it cannot be redeemed by action of the holder;
- it must have a clause allowing postponement of the payment of interest or redemption in case they would cause the issuer to fail to comply with minimum levels of adjusted net worth or other operational requirements;
- it must be nominative;
- when issued abroad, it must contain a clause of choice of venue; and
- it must have a minimum term of five years before redemption or amortization.

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

*Reserve Requirements*

The Central Bank imposes compulsory reserve and related requirements upon Brazilian financial institutions from time to time. The Central Bank uses reserve requirements as a mechanism to control the liquidity of the Brazilian financial system. Historically, the reserves imposed on demand deposits, savings deposits and time deposits have accounted for substantially all amounts required to be deposited with the Central Bank. For a summary of the current compulsory reserve requirements applicable for demand deposits, savings deposits, and time deposits, see Item 4. Information on the Company The Company Funding Deposit-taking Activities.

The total consolidated exposure of a financial institution in foreign currencies and gold cannot exceed 30% of its adjusted net worth. In addition, if its exposure is greater than 5% of its adjusted net worth, the financial institution must hold additional capital at least equivalent to 50% of the exposure.

In the past the Central Bank has imposed on other types of transactions certain compulsory deposit requirements that are no longer in effect, and could reimpose these requirements or impose similar restrictions in the future. For more information on Central Bank restrictions see Item 3. Key

Information Risk Factors Risks Relating to Bradesco and the Brazilian Banking Industry.

As of August 2003, we have been required to direct a portion of our cash deposits to credit transactions that benefit the low-income population and small companies. The relevant CMN regulations mandate that these credit transactions have the following characteristics:

- the maximum amount per transaction loaned to any borrower is limited to R\$600 for individuals and R\$1,000 for small companies;
- the effective maximum interest rate cannot exceed 2% per month;
- the commission for providing the credit is limited to 2% in the case of transactions with individuals and 4% in the case of transactions with companies; and
- the term of the transactions cannot be less than 120 days.

*Asset Composition Requirements*

Brazilian financial institutions may not allocate more than 25% of their adjusted net worth to loans (including guarantees) with the same client (including its parent, affiliates and subsidiaries) or in securities of any one issuer, and may not act as underwriter (excluding best efforts underwriting) of securities issued by any one issuer representing more than 25% of their adjusted net worth.

Permanent assets (defined as property and equipment other than commercial leasing operations, unconsolidated investments and deferred assets) of Brazilian financial institutions may not exceed 50% of the their adjusted net worth.

*Repurchase Transactions*

Repurchase transactions are subject to operational capital limits based on the financial institution's shareholders equity, as adjusted in accordance with Central Bank regulations. A financial institution may only hold repurchase transactions in an amount up to 30 times its adjusted net worth. Within that limit, repurchase operations involving

private securities may not exceed twice the amount of adjusted net worth. Limits on repurchase operations involving securities backed by Brazilian

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

#### *On-lending of Funds Borrowed Abroad*

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

#### *Foreign Currency Position*

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

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

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

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

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

The Central Bank currently does not impose limits on the commercial and floating rate exchange combined long positions (i.e., where the aggregate amount of the purchases of foreign currency is greater than the amount of the sales) of institutions authorized to operate in the Exchange Market. Banks may hold combined short positions (i.e., when the aggregate amount of purchases of foreign currency is less than the amount of sales) in the Exchange Market up to a certain proportion of the amount of their adjusted shareholders' equity. If a bank's combined long position in the Exchange Market is more than US\$6.0 million on any given day, then the bank is required to deposit the excess amount with the Central Bank.

*Interest Rates*

As promulgated in 1988, the Brazilian Constitution established a 12% per year ceiling on loan interest rates, including bank loan interest rates. This ceiling was not enforced, however, because the Brazilian Congress did not adopt the necessary implementing legislation. In May 2003, the relevant article was revoked pursuant to a constitutional amendment.

*Treatment of Overdue Debts*

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

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

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

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

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

Collections of doubtful loans are classified as follows, based on the percentage of expected loss:

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

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

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

Financial institutions must make monthly loan loss provisions to match contingencies. In general, banks review the loan classifications annually. However, a review is made every six months in the case of transactions that are extended to a single client or economic group whose aggregate amount exceeds 5% of the financial institution's adjusted net worth. A past due loan is reviewed monthly.

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

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

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

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

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

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

(1) Banks must write off any loan six months after they are initially classified as H.

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

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

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

#### *Pre-2000 Regulations and Policies*

The current system of classification of loans into nine risk categories entered into effect in March 2000. Prior to March 2000, the Central Bank required all Brazilian banks to classify non-performing loans as either in arrears or defaulted. Loans in arrears were loans on which payment of principal or interest was more than sixty days overdue. When a loan was classified as in arrears, we were required to provide for 20% of the loan amount as a provision for potential loss if the loan was fully secured by collateral, 50% if the loan was partially secured by collateral and 100% if the loan was not secured. Defaulted loans were loans which were at least 360 days past due if fully secured by collateral, 180 days past due if they were partly secured by collateral or sixty days past due if the loan was not secured. Depending on the value and type of security, loans may have been deemed to be in default at an earlier date. When a loan moved into the defaulted category, we were required to make a provision of 100% of the loan amount. Loans entered into by financial institutions with the public sector borrowers were considered to be in default sixty days after falling into arrears. We were required to make a 100% provision for export financings twenty days (in case of pre-export financing) and thirty days (in case of post-shipment financing) after the financing became overdue.

Our internal policies were in fact more stringent, since we considered any loan as non-performing if it was sixty days overdue.





During the period when a loan was due and unpaid, we only recognized interest as income for the first sixty days it was in arrears and, thereafter, when actually received.

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

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

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

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

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

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

Financial institutions were directly affected by a restructuring of the Brazilian system of payments. Under the old system, in which transactions were processed at the end of the day, institutions could carry a balance, positive or negative, which is no longer allowed. Payments must now be processed in real time, and amounts over R\$5,000 can be covered by checks only if an additional bank fee is paid.



Such amounts may be covered by direct electronic transfers between institutions without being subject to an additional fee.

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

### **Liquidation of Financial Institutions**

In February 2005, the New Brazilian Bankruptcy Law 11.101/05 was enacted, revoking the previous regime under Decree-Law 7661/45, which had been in effect since 1945. The main goal of the new bankruptcy law is to prevent the liquidation of viable companies which are incapable of fulfilling their debit obligations. The new bankruptcy law seeks to do that by providing greater levels of flexibility to design reorganization strategies while increasing safeguards for secured creditors. It also seeks to improve creditors' ability to recover through the judiciary system. The current provisions of the new bankruptcy law are not applicable to financial institutions, and as a result, Law 6.024/74 governing the intervention into, and administrative liquidation of financial institutions is still applicable to us.

### ***Intervention***

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

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

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

Intervention may not exceed twelve months. During the intervention period, the institution's liabilities for overdue obligations, for obligations contracted prior to the intervention, which have not yet matured, and for deposits are suspended.

### ***Administrative Liquidation***

The Central Bank will liquidate a financial institution if:

- the institution's economic or financial situation is at risk, particularly when the institution ceases to meet its obligations as they fall due, or upon the occurrence of an event that could indicate a state of bankruptcy;
- management makes a serious violation of banking laws, regulations or rulings;
- the institution suffers a loss which subjects its unprivileged and unsecured creditors to severe risk; or
- if, upon revocation of the authorization to operate, the institution does not initiate ordinary liquidation proceedings within ninety days, or if initiated, the Central Bank determines that the pace of the liquidation may harm the institution's creditors.



As a consequence of administrative liquidation:

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

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

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

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

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

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

The FGC is a deposit insurance system that guarantees a maximum amount of R\$20,000 of deposit and certain credit instruments held by a customer against a financial institution (or against member financial institutions of the same financial group). The liability of the participating institutions is limited to the amount of their contributions to the FGC, with the exception that in limited circumstances if FGC payments are insufficient to cover insured losses, the participating institutions may be asked for extraordinary contributions and advances. The payment of unsecured credit and customer deposits not payable under the FGC is subject to the prior payment of all secured credits and other credits to which specific laws may grant special privileges.

**Internal Compliance Procedures**

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

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

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

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

**Restrictions on Foreign Banks and Foreign Investment**

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

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

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

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

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

The financial institution must review transactions or proposals whose characteristics may indicate the existence of a crime and inform the Central Bank of the proposed or executed transaction. The records referred to in (c), (d) and (e) must be kept for at least five years.

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

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

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

All financial institutions must:

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

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

A March 2002 amendment to the Brazilian Corporate Law gave the members of our Board of Directors that are appointed by our preferred shareholders or our minority common shareholders veto rights over the appointment or removal of our independent accounting firm. For more information regarding appointment of directors see Item 10. Additional Information Memorandum and Articles of Incorporation Organization Voting Rights.

### **Auditing Requirements**

Because we are a financial institution registered with the domestic stock exchanges, we are obligated to have our financial statements audited every six months in accordance with accounting practices adopted in Brazil. Quarterly financial information filed with the CVM is subject to review by our independent accountants.

In January 2003, the CVM approved regulations requiring audited entities to disclose information relating to an independent accounting firm's non-auditing services whenever such services represent more than 5% of the external auditors' compensation.

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

In May 2003, the CMN passed new regulations on auditing matters applicable to all Brazilian financial institutions, which were revised in November 2003 and January 2004. Under these regulations,



we are required to appoint a member of our management to be responsible for the follow-up and supervision of compliance with the accounting and auditing requirements set forth in the legislation.

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

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

### **Asset Management Regulation**

Asset management is regulated by the CMN and the CVM.

In August 2004, the CVM issued a rule (CVM Rule 409/2004) consolidating all previous regulations applicable to fixed income assets funds and variable income mutual funds. Prior to this ruling, fixed income assets funds were regulated by the Central Bank, and variable income mutual funds were regulated by the CVM. CVM Rule 409/2004 became effective on November 22, 2004. Since then, all new funds created are subject to its rules, while previously existing funds had until January 31, 2005 to enter into compliance with the new regulation.

Pursuant to the provisions of the new CVM rule, our investment funds must keep their assets invested in securities and operational assets that are available in the financial and capital markets. These securities, operational assets and all other assets which comprise the fund s portfolio (except for interest in investment funds or in Mercosur), must be registered directly with specific custody deposit accounts, opened in the name of the fund. Such accounts must be held within registration and clearance systems authorized by the Central Bank, or within certain custody institutions authorized by the CVM.

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

- more than 10% of their net worth invested in securities of a single issuer, if that issuer is (1) a non-financial institution, a controlling shareholder, a subsidiary or an affiliate thereof, (2) a federal, state, or municipal entity or (3) another investment fund;
- more than 20% of their net worth invested in securities issued by a financial institution (including the fund manager), or any of its controlling shareholders, subsidiaries and affiliates;
- in the case of fixed income assets investment funds and the money market, more than 10% of their net worth invested in a real estate investment fund, a receivables investment fund or investment funds that invests in other receivables investment funds;



Investment funds are classified based on their portfolios and may be classified as:

- **Short term Funds** These funds invest exclusively in public, federal or private bonds, which are pegged to SELIC (or another interest rate) or to a price index and have a maximum maturity of 375 days and an average portfolio period of less than 60 days. Short-term funds may use derivatives only to hedge their portfolios and can enter into transactions in connection with public federal bonds;
- **Reference Funds** These funds have (1) at least 80% of their net worth invested solely or together in (a) bonds issued by the Brazilian National Treasury and/or the Brazilian Central Bank or (b) fixed income securities of issuers having low credit risk, (2) at least 95% of their portfolio composed of financial assets which directly or indirectly have similar restrictions and (3) may only use derivatives in connection with transactions that attempt to hedge cash positions. Additionally, the name of the fund shall identify its development index based on the financial assets structure of its portfolio.
- **Fixed Income Funds** - These funds have at least 80% of their portfolios invested in directly in derivatives or funds that are composed of derivatives of fixed income assets;
- **Stock Funds** These funds have at least 67% of their portfolios invested in shares listed and traded on either over-the-counter markets or stock exchanges;
- **Exchange Funds** These funds have at least 80% of their portfolios invested in derivatives, or other funds comprised of derivatives, which hedge foreign currency price fluctuations;
- **Foreign Debt Funds** These funds have at least 80% of their net worth invested in Brazilian foreign debt bonds, and the remaining 20% in other permissible international credit bonds;
- **Money market** The money market addresses foreseeable risks without exclusively committing its funds under any special conditions or limitations.

In June 2005, a new law was enacted allowing open pension plans and insurance companies to, effective as of January 1, 2006, create, trade and manage investment funds with segregated assets, in connection with private pension plans or life insurance annuities. In the case of an investor's demise, the fund's beneficiaries will have the option to either redeem the shares of the fund or to receive a benefit on a continuous basis, in accordance with the relevant pension plan or life insurance policy.

Open pension plans and insurance companies will be allowed to adapt the existing private pension plans and life insurance annuities contracted until December 31, 2005 to the new structure of investment funds. These new funds are still subject to further regulations to be developed by the Central Bank, CVM and SUSEP.

### **Broker Dealer Regulation**

Broker and dealer firms are part of the national financial system and are subject to CMN, Central Bank and CVM regulation and supervision. Brokerage firms must be chartered by the Central Bank, and are the only institutions in Brazil authorized to trade on Brazil's stock, mercantile and futures exchanges. Both brokers and dealers may act as underwriters in the public placement of securities and engage in the brokerage of foreign currency in any exchange market.

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

Broker and dealer firms may not:

- with limited exceptions, execute operations that may be qualified as the granting of loans to their clients, including the assignment of rights;
- collect commissions from their constituents related to transactions of securities during the primary distribution;
- acquire assets which are not for their own utilization; or

- obtain loans from financial institutions, except for (a) loans for the acquisition of goods for use in connection with the firm's corporate purpose or (b) loans the amount of which do not exceed two times the firm's net worth.

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

## **Regulation of Internet and Electronic Commerce**

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

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

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

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

## **Regulation of Operations in Other Jurisdictions**

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

## **Taxation**

### ***Tax on Financial Transactions***

The *Imposto Sobre Operações Financeiras*, known as IOF, is a tax on foreign exchange, securities, credit and insurance transactions. The Minister of Finance sets the rates of the IOF tax, subject to a 25% ceiling set forth by law. The tax is withheld by the financial institution involved.

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

- the conversion into Brazilian currency of foreign loans with a term of less than 90 days, on which the IOF tax is levied at 5%;



- foreign exchange transactions for the acquisition of goods with credit cards, in which case the rate is 2% of the amount of the transaction.

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

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

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

- 0%, in the case of reinsurance or export credit-related transactions, the international transportation of goods, rural insurance or premiums designated to fund life insurance plans containing life coverage; or
- 2% of premiums paid, in the case of private health insurance;
- 4% (from September 1, 2004 to August 31, 2005), 2% (from September 1, 2005 to August 31, 2006) and 0% (after September 1, 2006) of premiums paid, in case of life insurance and similar policies, for personal and labor accidents, except for policies having premiums intended to pay for life insurance plans with over living coverage that are subject to no rates; and
- 7% of premiums paid, in the case of other types of insurance.

IOF is also assessed on gains realized in transactions with terms of less than 30 days consisting of the sale, assignment, repurchase or renewal of fixed-income investments or the redemption of shares of financial investment funds, variable income funds or investment pools. For more information on financial investment funds and variable income funds see Regulation and Supervision Asset Management Regulation. The maximum rate of IOF payable in such cases is 1% per day and decreases with the length of the transaction, reaching zero for transactions with maturities of at least 30 days, except that the rate for the following types of transactions is currently 0%:

- transactions carried out by financial institution and other institutions chartered by the Central Bank as principals;
- transactions carried out by mutual funds or investment pools themselves;
- transactions carried out in the equity markets, including those performed in stock, futures and commodities exchanges and similar entities; and
- redemptions of shares in equity funds.

***CPMF***

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

CPMF is collected on any checking account entry relating to funds kept in the country, with certain limited exceptions, creating an incentive for clients to reduce their transactions in the financial system and to limit their use of short-term investments. Transactions carried out in the stock market are exempt from the CPMF. Financial institutions are exempted from the CPMF on financial transactions entered into in the course of their business. The CPMF rate can be modified at any time by the Brazilian government, but cannot exceed 0.38%. The government raised the CPMF rate from 0.30% to 0.38% in March 2001.

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

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

Federal income tax includes two components, a federal income tax known as IRPJ, and a social contribution tax on taxable profits, which is known as the Social Contribution Tax. In turn, the federal income tax includes two components, a federal income tax at a rate of 15% and an additional income tax at a rate of 10%. The federal income tax is assessed at a combined rate of 25% of adjusted net income. The Social Contribution Tax is assessed at a rate of 9% of adjusted net income. Prior law provided that, as of January 1, 2003, the rate of the Social Contribution Tax would be reduced to 8%. However, in December 2002, the federal government decided to maintain the Social Contribution Tax rate at 9% indefinitely.

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

Companies are taxed based on their worldwide income rather than on income produced solely in Brazil. As a result, profits, capital gains and other income obtained abroad by Brazilian entities are computed in the determination of their net profits. In addition, profits, capital gains and other income obtained by foreign branches or income obtained from subsidiaries or foreign corporations controlled by a Brazilian entity are computed in the calculation of an entity's profits, in proportion to its participation in such foreign companies' capital. The Brazilian entity is allowed to deduct any income tax paid abroad, up to the amount of Brazilian income taxes imposed on such income. Reciprocal treatment between Brazil and the country where the profit or gain is obtained is required in order for this rule to apply. Effective January 1, 2002, profits (including retained profits from previous years) realized by a Brazilian entity from controlled or affiliated companies are taxed as of the date of the Brazilian entity's year-end balance sheet, unless such retained profits are paid or made available to the Brazilian entity before the date of its year-end balance sheet, in which case the profits are taxed at the time they are paid or become available.



Prior to January 1, 2002, profits realized by an entity in Brazil from a branch or agency were taxed as of the date of the Brazilian entity's year-end balance sheet, and profits from a controlled or affiliated company were taxed as of the date such amounts were paid or made available to the Brazilian company as dividends or otherwise.

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

- 50% of net income (before taking such distribution and any deductions for income taxes into account) for the year in respect of which the payment is made, as measured in accordance with accounting practices adopted in Brazil; or
- 50% of retained earnings for the year prior to the year in respect of which the payment is made, as measured in accordance with accounting practices adopted in Brazil.

Distributions of interest on capital paid to holders of preferred shares, including payments to the depositary bank in respect of preferred shares underlying ADSs, are subject to a Brazilian withholding tax at a rate of 15%, except for payments to persons who are exempt from tax in Brazil or to persons situated in tax havens. In the latter case, payments are subject to tax at a rate of 25%. For more information on the taxation of interest on capital see Item 10. Additional Information Taxation Brazilian Tax Considerations Distributions of Interest on Capital.

Net deferred income tax assets include Brazilian net operating losses. Losses carried forward are available for offset during any year up to 30% of annual taxable income. No time limit is currently imposed on the application of net operating losses to offset future taxable income.

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

- 20% if the transaction is day-traded on a stock exchange; and
- 15% for all other transactions.

As of January 1, 2005, gains earned in all transactions carried out on stock and future markets (except for day-trades, which remain subject to the withholding tax mentioned above) are subject to a withholding income tax of 0.005% as follows:

- With respect to the futures market, the sum of the daily adjustments, if positive, refined by the closing balance, before or upon its term;
- With respect to the options market, the result, if positive, of the sum of the paid and received premiums for the same day;

- With respect to term contracts, which provide for delivery of assets on a set date, the difference, if positive, between the price on the delivery date and the cash price on the closing date;
- With respect to term contracts having solely a financial component, the amount of the closing as specified by the contract; and
- With respect to the spot market, the amount of the sale of shares, gold or other securities traded on that market.

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

Gains realized on any disposition of preferred shares in Brazil by non-Brazilian holders who reside in a jurisdiction that under Brazilian law is deemed to be a tax haven (any country that (i) does not impose income tax, (ii) that imposes income tax at a rate of less than 20% or (iii) a country whose corporate law establishes confidentiality regarding the shareholders of corporate entities) are subject to the same rates applicable to Brazilian holders, as described above.

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

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

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

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

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

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

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

PIS and COFINS underwent significant changes during the last three years. These changes occurred because the Brazilian government decided to implement a non-cumulative collection system in respect of both taxes, allowing taxpayers to determine their calculation basis by discounting credits that originate from certain transactions. In order to offset these discounts, the rates of both taxes were



substantially increased. Pursuant to the changes made to PIS and COFINS, as of May 2004, both taxes are applicable to goods and services imported from foreign countries by a company located in Brazil.

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

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

PIS is charged based on the total revenue generated by entities and is charged at a rate of 0.65% in the case of financial institutions.

Until January 1999, we were not subject to COFINS. Since February 1, 1999, COFINS has been imposed on our gross revenues at a rate of 3%. After September 1, 2003, this tax rate increased to 4% for financial institutions. The calculation base for COFINS is the same as that for PIS. From January 1, 1999 to December 31, 1999, we were allowed to offset an amount corresponding to one third of the payments of COFINS against the social contribution tax on taxable profits.

### **Leasing Regulation**

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

### **Insurance Regulation**

The Brazilian insurance system is governed by two regulatory agencies, the National Private Insurance Council, which we call the CNSP, and SUSEP. SUSEP is responsible for implementing and overseeing the CNSP's policies and ensuring compliance with such policies by insurance companies, insurance brokers and insured persons. Insurance companies require government approval to operate, as well as specific approval from SUSEP to offer each of their products. Insurance companies may sell policies only through qualified brokers.

Insurance companies must set aside technical reserves, funds and reserves in accordance with CNSP criteria. The investments backing up the technical provision must be diversified. A substantial portion of the assets in which insurance companies can invest in are securities. As a result, insurance companies are major investors in the Brazilian financial markets and are subject to a series of rules and conditions imposed by the CMN regarding the investment of technical reserves.

Insurance companies are prohibited from:

- acting as financial institutions by extending credit and issuing guarantees;



- trading in securities (subject to exceptions); or
- investing outside of Brazil, without specific permission from the relevant authorities.

Insurance companies must operate within technical limits set forth by SUSEP pursuant to rules established by the CNSP. The rules take into account the economic and financial situation of the insurance companies, the technical conditions of their respective portfolios and the results of their operations with IRB – Brasil Resseguros S.A.

A bill to privatize the reinsurance segment is currently being discussed in the Brazilian Congress. The bill establishes a transitional process to be adopted over a period of four years. According to the bill's provisions, during the first two years following the enactment of the bill, 60% of the reinsurance business must be transacted with Brazilian reinsurance companies. During the next two years, this percentage would decrease to 40%.

Additionally, if passed in its current form, the bill could result in SUSEP assuming the supervision of the reinsurance market which is currently exercised by the IRB, in addition to supervising. Insurance companies must reinsure an amount with the IRB equal to the amount of their liabilities that exceed the applicable technical limit on liabilities.

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

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

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

## **Health Insurance**

Private health insurance and health plans are currently regulated by Law No. 9,656, of July 4, 1998, as amended, which we refer to as the Health Insurance Law, which determines the general provisions applicable to health insurance companies and the general terms and conditions of agreements entered into between health insurance companies and their customers. The Health Insurance Law establishes, among other things:

- mandatory coverage of certain expenses, such as those arising from preexisting conditions;
- the conditions precedent for admission to a plan;
- the geographical area covered by each insurance policy; and
- the pricing criteria plans may use.

The ANS is responsible for regulating and supervising supplemental health services provided by health insurance companies pursuant to directives set forth by the *Conselho de Saúde Suplementar* (the Supplemental Health Council).

Prior to December 31, 2001, insurance companies were able to offer private health assistance plans pursuant to SUSEP regulations and subject to its supervision. Starting in 2002 and pursuant to ANS



regulations and subject to its supervision, only operators of private health assistance plans may offer such plans. We created Bradesco Saúde in 1999 to fulfill this requirement.

### **Private Pension Plans**

Open pension plans are subject, for purposes of inspection and control, to the authority of the CNSP and the SUSEP, which are under the regulatory authority of the Ministry of Finance. The CMN, CVM and Central Bank may also issue regulations pertinent to private pension plans, particularly with respect to technical reserves.

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

In June, 2005, a new law was enacted to allow open pension plans and insurance companies to create, trade and operate investment funds with segregated assets. Such new law is slated to enter into effect on January 1, 2006. For more information, see Item 4. Information on the Company Asset Management Regulation .



**SELECTED STATISTICAL INFORMATION**

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

**Average Balance Sheet and Interest Rate Data**

The following table presents the average balances of our interest-earning assets and interest bearing liabilities, other assets and liabilities accounts, the related interest income and expense amounts and the average *real* yield/rate for each period. We calculated the average balances using the daily book balances, which include the related allocated interest.

We show liabilities in two categories: local and foreign currencies. Local currency balances represent liabilities expressed in *reais*, while foreign currency balances represent liabilities denominated in foreign currencies, primarily the U.S. dollar. We did not break out asset balances into domestic and international currencies as substantially all of our assets are denominated in *reais*.

We excluded non-performing loans from loans in determining average assets and liabilities, and classified them as non-interest-earning assets. Cash received on non-performing loans during the period are included in interest income on loans. We do not consider these amounts significant.

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

Additionally, fees received from various loan commitments are included in interest income on loans. We do not consider these amounts significant.

|  | December 31, 2002 |               |             | December 31, 2003 |               |             | December 31, 2004 |               |       |
|--|-------------------|---------------|-------------|-------------------|---------------|-------------|-------------------|---------------|-------|
|  |                   |               | Average     |                   |               | Average     |                   |               | Av    |
|  | Average           | Interest      | yield/rate  | Average           | Interest      | yield/rate  | Average           | Interest      | yield |
|  | balance           |               | (%)         | balance           |               | (%)         | balance           |               | (%)   |
| (R\$ in millions, except %)  |                   |               |             |                   |               |             |                   |               |       |
| <b>Interest-earning assets(1)</b>                                      |                   |               |             |                   |               |             |                   |               |       |
| Loans  | R\$49,590         | R\$17,025     | 34.3%       | R\$51,039         | R\$12,176     | 23.9%       | R\$55,230         | R\$12,812     |       |
| Federal funds sold and securities purchased under agreements to resell | 10,322            | 2,947         | 28.6        | 19,487            | 3,861         | 19.8        | 18,628            | 2,738         |       |
| Trading assets   | 19,537            | 3,595         | 18.4        | 27,077            | 5,932         | 21.9        | 34,039            | 5,330         |       |
| Available-for-sale securities(2)                                       | 3,045             | 487           | 16.0        | 3,147             | 397           | 12.6        | 5,682             | 408           |       |
| Securities held to maturity  | 5,295             | 1,954         | 36.9        | 3,088             | 482           | 15.6        | 4,528             | 659           |       |
| Interest bearing deposits in other banks                               | 2,154             | 296           | 13.7        | 4,651             | 347           | 7.5         | 3,226             | 161           |       |
| Other interest-earning assets  |                   |               |             |                   |               |             |                   |               |       |
| Central Bank compulsory deposits                                       | 8,149             | 2,058         | 25.3        | 11,988            | 1,459         | 12.2        | 13,070            | 1,542         |       |
| Other assets   | 340               | 32            | 9.4         | 985               | 62            | 6.3         | 858               | 73            |       |
| <b>Total interest-earning assets</b>                                   | <b>98,432</b>     | <b>28,394</b> | <b>28.8</b> | <b>121,462</b>    | <b>24,716</b> | <b>20.3</b> | <b>135,261</b>    | <b>23,723</b> |       |
| <b>Non-interest-earning assets(3)</b>                                  |                   |               |             |                   |               |             |                   |               |       |
| Cash and due from banks  | 2,746             | -             | -           | 2,895             | -             | -           | 2,869             | -             |       |
| Central Bank compulsory deposits                                       | 3,371             | -             | -           | 4,499             | -             | -           | 4,261             | -             |       |
| Available-for-sale securities  | 1,772             | -             | -           | 1,625             | -             | -           | 1,320             | -             |       |
| Non-performing loans   | 2,282             | -             | -           | 2,172             | -             | -           | 1,904             | -             |       |
| Allowance for loan losses  | (3,360)           | -             | -           | (3,919)           | -             | -           | (4,005)           | -             |       |
| Investment in unconsolidated companies                                 |                   |               |             |                   |               |             |                   |               |       |
| and other investments  | 552               | -             | -           | 177               | -             | -           | 502               | -             |       |
| Premises and equipment   | 3,176             | -             | -           | 2,795             | -             | -           | 3,026             | -             |       |
| Goodwill   | -                 | -             | -           | -                 | -             | -           | 240               | -             |       |
| Intangibles assets   | 2,340             | -             | -           | 1,064             | -             | -           | 1,654             | -             |       |
| Other assets   | 12,136            | -             | -           | 14,102            | -             | -           | 15,859            | -             |       |

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|  |                   |                  |             |                   |                  |             |                   |                  |
|--|-------------------|------------------|-------------|-------------------|------------------|-------------|-------------------|------------------|
| Total non-interest-earning assets  | 25,015            | -                | -           | 25,410            | -                | -           | 27,630            | -                |
| <b>Total assets</b>  | <b>R\$123,447</b> | <b>R\$28,394</b> | <b>23.0</b> | <b>R\$146,872</b> | <b>R\$24,716</b> | <b>16.8</b> | <b>R\$162,891</b> | <b>R\$23,723</b> |
| <b>Interest bearing liabilities</b>  |                   |                  |             |                   |                  |             |                   |                  |
| Deposits from banks  |                   |                  |             |                   |                  |             |                   |                  |
| Domestic(3)  | 223               | 36               | 16.1        | 657               | 111              | 16.9        | 90                | 14               |
| Total  | 223               | 36               | 16.1        | 657               | 111              | 16.9        | 90                | 14               |
| Savings deposits   |                   |                  |             |                   |                  |             |                   |                  |
| Domestic(3)  | 19,033            | 1,585            | 8.3         | 20,680            | 2,038            | 9.9         | 22,499            | 1,654            |
| Total  | 19,033            | 1,585            | 8.3         | 20,680            | 2,038            | 9.9         | 22,499            | 1,654            |
| Time deposits  |                   |                  |             |                   |                  |             |                   |                  |
| Domestic(3)  | 18,392            | 2,936            | 16.0        | 20,629            | 4,123            | 20.0        | 21,871            | 3,241            |
| International(4)   | 2,955             | 252              | 8.5         | 3,601             | 112              | 3.1         | 3,288             | 86               |
| Total  | 21,347            | 3,188            | 14.9        | 24,230            | 4,235            | 17.5        | 25,159            | 3,327            |
| Federal funds purchased and securities sold under agreements to repurchase | 9,670             | 2,051            | 21.2        | 15,486            | 2,855            | 18.4        | 18,070            | 2,390            |
| Borrowings   |                   |                  |             |                   |                  |             |                   |                  |
| Short-term   |                   |                  |             |                   |                  |             |                   |                  |
| International(4)   | 10,137            | 3,975            | 39.2        | 9,219             | (387)            | (4.2)       | 8,442             | (83)             |
| Total  | 10,137            | 3,975            | 39.2        | 9,219             | (387)            | (4.2)       | 8,442             | (83)             |
| Long-term  |                   |                  |             |                   |                  |             |                   |                  |
| Domestic(3)  | 7,324             | 1,716            | 23.4        | 7,811             | 1,275            | 16.3        | 9,238             | 1,464            |
| International(4)   | 5,093             | 2,376            | 46.7        | 8,606             | (410)            | (4.8)       | 8,601             | 153              |
| Total  | 12,417            | 4,092            | 33.0        | 16,417            | 865              | 5.3         | 17,839            | 1,617            |
| Total interest bearing liabilities   | 72,827            | 14,927           | 20.5        | 86,689            | 9,717            | 11.2        | 92,099            | 8,919            |
| Non-interest bearing liabilities   |                   |                  |             |                   |                  |             |                   |                  |
| Demand deposits  |                   |                  |             |                   |                  |             |                   |                  |
| Domestic(3)  | 9,678             | -                | -           | 10,876            | -                | -           | 13,163            | -                |
| International(4)   | 182               | -                | -           | 270               | -                | -           | 206               | -                |
| Total  | 9,860             | -                | -           | 11,146            | -                | -           | 13,369            | -                |
| Other non-interest bearing liabilities                                     | 30,529            | -                | -           | 36,790            | -                | -           | 43,346            | -                |
| Total non-interest bearing liabilities                                     | 40,389            | -                | -           | 47,936            | -                | -           | 56,715            | -                |

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|   |                   |                  |             |                   |                 |            |                   |                 |
|---|-------------------|------------------|-------------|-------------------|-----------------|------------|-------------------|-----------------|
| Total liabilities                                 | 113,216           | 14,927           | 13.2        | 134,625           | 9,717           | 7.2        | 148,814           | 8,919           |
| Shareholders' equity                              | 10,015            | -                | -           | 12,138            | -               | -          | 14,012            |                 |
| Minority interests in consolidated subsidiaries   | 216               | -                | -           | 109               | -               | -          | 65                |                 |
| <b>Total liabilities and shareholders' equity</b> | <b>R\$123,447</b> | <b>R\$14,927</b> | <b>12.1</b> | <b>R\$146,872</b> | <b>R\$9,717</b> | <b>6.6</b> | <b>R\$162,891</b> | <b>R\$8,919</b> |

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(1) Primarily denominated in *reais*.

(2) Calculated using the historical average amortized cost. If calculated using the carrying value, the average yield/rate amounts would be 6.9% in 2004, 12.3% in 2003 and 16.9% in 2002.

(3) Denominated in *reais*.

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

**Changes in Interest Income and Expenses Volume and Rate Analysis**

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

|  | December 31, 2003/2002                |                       |               | December 31, 2004/2003 |                       |               |
|--|---------------------------------------|-----------------------|---------------|------------------------|-----------------------|---------------|
|  | Increase (decrease) due to changes in |                       |               |                        |                       |               |
|  | Average<br>volume                     | Average<br>yield/rate | Net<br>change | Average<br>volume      | Average<br>yield/rate | Net<br>change |
|  | (R\$ in millions)                     |                       |               |                        |                       |               |
| Interest-earning assets                        |                                       |                       |               |                        |                       |               |
| Loans  | R\$484                                | R\$(5,333)            | R\$(4,849)    | R\$979                 | R\$(343)              | R\$636        |
| Federal funds sold and securities<br>purchased |                                       |                       |               |                        |                       |               |
| under agreements to resell                     | 2,021                                 | (1,107)               | 914           | (164)                  | (959)                 | (1,123)       |
| Trading assets                                 | 1,564                                 | 773                   | 2,337         | 1,319                  | (1,921)               | (602)         |
| Available-for-sale securities                  | 16                                    | (106)                 | (90)          | 230                    | (219)                 | 11            |
| Securities held to maturity                    | (617)                                 | (855)                 | (1,472)       | 211                    | (34)                  | 177           |
| Interest bearing deposits in other banks       | 231                                   | (180)                 | 51            | (89)                   | (97)                  | (186)         |
| Central Bank compulsory deposits               | 730                                   | (1,329)               | (599)         | 129                    | (46)                  | 83            |
| Other assets                                   | 44                                    | (14)                  | 30            | (9)                    | 20                    | R\$11         |
| Total interest-earning assets                  | R\$4,473                              | R\$(8,151)            | R\$(3,678)    | R\$2,606               | R\$(3,599)            | R\$(993)      |
| Interest bearing liabilities                   |                                       |                       |               |                        |                       |               |
| Deposits from banks                            |                                       |                       |               |                        |                       |               |
| Domestic                                       | 73                                    | 2                     | 75            | (89)                   | (8)                   | (97)          |
| Total  | 73                                    | 2                     | 75            | (89)                   | (8)                   | (97)          |
| Savings deposits                               |                                       |                       |               |                        |                       |               |
| Domestic                                       | 145                                   | 308                   | 453           | 168                    | (552)                 | (384)         |
| Total  | 145                                   | 308                   | 453           | 168                    | (552)                 | (384)         |
| Time deposits                                  |                                       |                       |               |                        |                       |               |
| Domestic                                       | 386                                   | 801                   | 1,187         | 236                    | (1,118)               | (882)         |
| International                                  | 46                                    | (186)                 | (140)         | (9)                    | (17)                  | (26)          |
| Total  | 432                                   | 615                   | 1,047         | 227                    | (1,135)               | (908)         |

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|   |          |            |            |        |            |          |
|---|----------|------------|------------|--------|------------|----------|
| Federal funds purchased and securities sold |          |            |            |        |            |          |
| under agreements to repurchase              | 1,101    | (297)      | 804        | 426    | (891)      | (465)    |
| Borrowings                                  |          |            |            |        |            |          |
| Short-term                                  |          |            |            |        |            |          |
| International                               | (330)    | (4,032)    | (4,362)    | 30     | 274        | 304      |
| <b>Total</b>                                | (330)    | (4,032)    | (4,362)    | 30     | 274        | 304      |
| Long-term                                   |          |            |            |        |            |          |
| Domestic                                    | 108      | (549)      | (441)      | 227    | (38)       | 189      |
| International                               | 944      | (3,730)    | (2,786)    | -      | 563        | 563      |
| <b>Total</b>                                | 1,052    | (4,279)    | (3,227)    | 227    | 525        | 752      |
| <b>Total interest bearing liabilities</b>   | R\$2,473 | R\$(7,683) | R\$(5,210) | R\$989 | R\$(1,787) | R\$(798) |

**Net Interest Margin and Spread**

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

|  | 2002                        | 2003       | 2004       |
|--|-----------------------------|------------|------------|
|  | (R\$ in millions, except %) |            |            |
| Average balance of interest-earning assets                           | R\$98,432                   | R\$121,462 | R\$135,261 |
| Average balance of interest bearing liabilities                      | 72,827                      | 86,689     | 92,099     |
| Net interest income(1)   | 13,467                      | 14,999     | 14,804     |
| Interest rate on the average balance of interest-earning assets      | 28.8%                       | 20.3%      | 17.5%      |
| Interest rate on the average balance of interest bearing liabilities | 20.5%                       | 11.2%      | 9.7%       |
| Net yield on interest earning assets(2)                              | 8.3%                        | 9.1%       | 7.8%       |
| Net interest margin(3)   | 13.7%                       | 12.3%      | 10.9%      |

(1) Total interest income less total interest expenses.

(2) Difference between the yield on the rates of the average interest-earning assets and the rate of the average interest bearing liabilities.

(3) Net interest income divided by average interest-earning assets.

**Return on Equity and Assets**

The following table presents selected financial ratios for the periods indicated:

|   | 2002   | 2003     | 2004     |
|---|--|----------|----------|
|   | (R\$ in millions, except %<br>and per share information) |          |          |
| Net income  | R\$2,142   | R\$2,302 | R\$3,327 |
| Average total assets  | 123,447  | 146,872  | 162,891  |
| Average shareholders equity   | 10,015   | 12,138   | 14,012   |
| Net income as a percentage of average total assets                  | 1.7%   | 1.6%     | 2.0%     |
| Net income as a percentage of average shareholders equity           | 21.4%  | 19.0%    | 23.7%    |
| Average shareholders equity as a percentage of average total assets | 8.1%   | 8.3%     | 8.6%     |
| Dividends payout ratio per class of shares(1)                       |  |          |          |
| Preferred   | 0.44   | 0.58     | 0.40     |
| Common  | 0.44   | 0.58     | 0.40     |

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

**Securities Portfolio**

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

|   | <b>December 31,</b>                |               |               |
|---|------------------------------------|---------------|---------------|
|   | <b>2002</b>                        | <b>2003</b>   | <b>2004</b>   |
|   | <b>(R\$ in millions, except %)</b> |               |               |
| <b>Trading securities</b>                                     |                                    |               |               |
| Brazilian government securities                               | R\$6,920                           | R\$11,389     | R\$8,787      |
| Mutual funds  | 15,415                             | 22,929        | 21,941        |
| Derivative financial instruments                              | 282                                | 283           | 491           |
| Foreign government securities                                 | 71                                 | 212           | 162           |
| Brazilian securities issued abroad                            | 13                                 | 220           | 554           |
| Corporate debt securities                                     | 67                                 | 985           | 1,115         |
| Bank debt securities  | 15                                 | 1,055         | 44            |
| <b>Total</b>  | <b>22,783</b>                      | <b>37,073</b> | <b>33,094</b> |
| Trading securities as a percentage of total assets            | 17.5%                              | 22.3%         | 18.7%         |
| <b>Available-for-sale securities</b>                          |                                    |               |               |
| Brazilian government securities                               | 1,222                              | 1,694         | 2,388         |
| Brazilian securities issued abroad                            | 143                                | 1,264         | 3,221         |
| Corporate debt securities                                     | 849                                | 1,086         | 1,880         |
| Bank debt securities  | 125                                | 52            | 246           |
| Equity securities in public companies                         | 2,427                              | 2,098         | 2,368         |
| <b>Total</b>  | <b>4,766</b>                       | <b>6,194</b>  | <b>10,103</b> |
| Available-for-sale securities as a percentage of total assets | 3.7%                               | 3.7%          | 5.7%          |
| <b>Held to maturity securities</b>                            |                                    |               |               |
| Brazilian government securities                               | 2,929                              | 3,085         | 3,152         |
| Brazilian securities issued abroad(1)                         | 1,072                              | 180           | 976           |
| Financial Institution securities                              | -                                  | -             | 53            |
| Foreign government securities                                 | -                                  | -             | 19            |
| <b>Total</b>  | <b>4,001</b>                       | <b>3,265</b>  | <b>4,200</b>  |



|  |      |      |      |
|--|------|------|------|
| <b>Held to maturity securities as a percentage of total assets</b> | 3.1% | 2.0% | 2.4% |
|--|------|------|------|

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(1) See note 6 to our consolidated financial statements included in Item 18.

### **Maturity Distribution**

The following table sets forth the maturity dates and weighted average yield, as of December 31, 2004, of our trading securities, available-for-sale securities and securities held to maturity.

As of December 31, 2004 we held no tax-exempt securities in our portfolio.

## December 31, 2004

|  | Due in         |       | Due after 1 year<br>to |        | Due after 5<br>years to |       | Due after 10<br>years |      | Unspecified<br>Maturity |   | Total         |       |
|--|----------------|-------|------------------------|--------|-------------------------|-------|-----------------------|------|-------------------------|---|---------------|-------|
|  | 1 year or less |       | 5 years                |        | 10 years                |       |                       |      |                         |   |               |       |
|  | Average yield  |       | Average yield          |        | Average yield           |       | Average yield         |      | Average yield           |   | Average yield |       |
|  | R\$            | %     | R\$                    | %      | R\$                     | %     | R\$                   | %    | R\$                     | % | R\$           | %     |
| (R\$ in millions, except %)                        |                |       |                        |        |                         |       |                       |      |                         |   |               |       |
| <b>Trading bonds and securities:<sup>(1)</sup></b> |                |       |                        |        |                         |       |                       |      |                         |   |               |       |
| Brazilian government securities                    | R\$3,393       |       | R\$4,721               |        | R\$527                  |       | R\$146                |      |                         |   | R\$8,787      |       |
| Fixed rate   | 1,301          | 18.3% | 20                     | 18.0%  |                         |       |                       |      |                         |   | 1,321         | 18.3% |
| Floating rate                                      | 1,924          | 15.1  | 4,701                  | 15.1   | 527                     | 15.4% | 146                   | 15.1 |                         |   | 7,298         | 15.1  |
| Floating rate bills of exchange                    | 168            | (5.3) |                        |        |                         |       |                       |      |                         |   | 168           | (5.3) |
| Brazilian sovereign bonds issued abroad            | 31             |       | 457                    |        | 65                      |       | 1                     |      |                         |   | 554           |       |
| Floating rate bills of exchange                    | 31             | 1.5   | 457                    | 2.4    | 65                      | 0.5   | 1                     | 2.9  |                         |   | 554           | 2.4   |
| Foreign government securities                      | 161            |       | 1                      |        |                         |       |                       |      |                         |   | 162           |       |
| Floating rate bills of exchange                    | 161            | (7.0) | 1                      | 1.0    |                         |       |                       |      |                         |   | 162           | (6.9) |
| Bonds issued by non-financial institutions         | 191            |       | 745                    |        | 178                     |       | 1                     |      |                         |   | 1,115         |       |
| Floating rate                                      | 83             | 14.8  | 685                    | 17.1   | 155                     | 17.1  |                       |      |                         |   | 923           | 17.1  |
| Floating rate bills of exchange                    | 108            | (4.8) | 60                     | (0.2)  | 23                      | 0.9   | 1                     | 0.3  |                         |   | 192           | (2.7) |
| Bonds issued by financial institutions             | 40             |       | 4                      |        |                         |       |                       |      |                         |   | 44            |       |
| Floating rate                                      |                |       |                        |        |                         |       |                       |      |                         |   |               |       |
| Floating rate bills of exchange                    | 40             | (8.1) | 4                      | (10.5) |                         |       |                       |      |                         |   | 44            | (6.8) |

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[illegible]

**Total securities  
held to  
maturity,  
at amortized  
cost:**

|  |          |        |          |       |          |          |                  |           |
|--|----------|--------|----------|-------|----------|----------|------------------|-----------|
| Brazilian government securities          | 95       |        | 978      |       | 2,079    |          | 3,152            |           |
| Floating rate                            | 55       | 18.4   | 978      | 18.4% | 2,079    | 20.6%    | 3,112            | 19.3%     |
| Floating rate-bills of exchange          | 40       | (5.3)  |          |       |          |          | 40               | (5.3%)    |
| Bonds issued by financial institutions   |          |        |          |       | 53       |          | 53               |           |
| Floating rate bills of exchange          |          |        |          |       | 53       | (1.1)    | 53               | (1.1%)    |
| Brazilian sovereign bonds issued abroad  |          |        |          |       | 976      |          | 976              |           |
| Floating rate bills of exchange          |          |        |          |       | 976      | 2.9%     | 976              | 2.9%      |
| Foreign government titles                | 19       |        |          |       |          |          | 19               |           |
| Floating bills of exchange               | 19       | (7.0%) |          |       |          |          | 19               | (7.0%)    |
| <b>Total securities held to maturity</b> | 114      |        | 978      |       | 1,029    | 2,079    | 4,200            |           |
| <b>Total</b>                             | R\$4,743 |        | R\$8,792 |       | R\$4,933 | R\$4,129 | <u>R\$24,800</u> | R\$47,397 |

(1) At market value.

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

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

| At fair value                       |           |                       |  |           |
|-------------------------------------|-----------|-----------------------|--|-----------|
|                                     | Trading   | Available<br>for sale | Amortized<br>Cost<br>Securities<br>held<br>to maturity | Total     |
| (R\$ in millions)                   |           |                       |  |           |
| <b>December 31, 2004</b>            |           |                       |  |           |
| Brazilian currency ( <i>reais</i> ) | R\$31,974 | R\$5,660              | R\$3,112   | R\$40,746 |
| Indexed to foreign currency(1)      | 952       | 4,431                 | 1,029  | 6,412     |
| Denominated in foreign currency(1)  | 168       | 12                    | 59   | 239       |
| <b>December 31, 2003</b>            |           |                       |  |           |
| Brazilian currency ( <i>reais</i> ) | R\$35,344 | R\$3,716              | R\$2,718   | R\$41,778 |
| Indexed to foreign currency(1)      | 929       | 609                   | 367  | 1,905     |
| Denominated in foreign currency(1)  | 800       | 1,869                 | 180  | 2,849     |
| <b>December 31, 2002</b>            |           |                       |  |           |
| Brazilian currency ( <i>reais</i> ) | 22,352    | 4,051                 | 2,458  | 28,861    |
| Indexed to foreign currency(1)      |           |                       | 471  | 471       |
| Denominated in foreign currency(1)  | R\$431    | R\$715                | R\$1,072   | R\$2,218  |

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(1) Predominantly U.S. dollars.

### Central Bank Compulsory Deposits

We are required to either maintain deposits with the Central Bank or purchase and keep Brazilian government securities as compulsory deposits. The following sets forth the amounts of these deposits as of the dates indicated:

| December 31,                |           |                                      |           |                                      |           |                                      |
|-----------------------------|-----------|--------------------------------------|-----------|--------------------------------------|-----------|--------------------------------------|
|                             | 2002      |                                      | 2003      |                                      | 2004      |                                      |
|                             | R\$       | % of total<br>compulsory<br>deposits | R\$       | % of total<br>compulsory<br>deposits | R\$       | % of total<br>compulsory<br>Deposits |
| (R\$ in millions, except %) |           |                                      |           |                                      |           |                                      |
| <b>Total deposits</b>       |           |                                      |           |                                      |           |                                      |
| Non-interest-earning(1)     | R\$3,956  | 24.6%                                | R\$4,577  | 27.4%                                | R\$5,045  | 25.0%                                |
| Interest-earning(2)         | 12,101    | 75.4                                 | 12,113    | 72.6                                 | 15,164    | 75.0%                                |
| <b>Total</b>                | R\$16,057 | 100.0%                               | R\$16,690 | 100.0%                               | R\$20,209 | 100.0%                               |

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

### **Credit Operations**

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

|                                    | December 31,      |           |           |           |           |
|------------------------------------|-------------------|-----------|-----------|-----------|-----------|
|                                    | 2000              | 2001      | 2002      | 2003      | 2004      |
|                                    | (R\$ in millions) |           |           |           |           |
| <b>Type of credit operations</b>   |                   |           |           |           |           |
| Commercial                         |                   |           |           |           |           |
| Industrial and others              | R\$16,275         | R\$18,142 | R\$20,157 | R\$21,156 | R\$23,343 |
| Import financing                   | 1,504             | 1,475     | 1,291     | 673       | 1,242     |
| Export financing                   | 4,566             | 5,160     | 7,863     | 8,375     | 8,181     |
| Leasing                            | 2,028             | 1,667     | 1,506     | 1,364     | 1,626     |
| Real estate construction financing | 545               | 543       | 427       | 415       | 449       |
| Individuals                        |                   |           |           |           |           |
| Overdraft                          | 647               | 1,199     | 1,033     | 1,134     | 1,301     |
| Residential mortgage loans         | 1,625             | 1,246     | 1,200     | 1,097     | 921       |
| Other financing(1)                 | 5,491             | 6,985     | 8,269     | 10,231    | 14,981    |
| Credit card                        | 655               | 973       | 1,164     | 1,373     | 1,289     |
| Rural credit                       | 2,910             | 2,959     | 3,922     | 4,404     | 6,034     |
| Foreign currency loans             | 1,499             | 2,388     | 3,151     | 2,429     | 1,588     |
| Public Sector                      | 5                 | -         | -         | -         | 15        |
| Non-performing loans               | 1,689             | 2,257     | 2,341     | 2,144     | 2,206     |
| Allowance for loan losses          | (2,345)           | (2,941)   | (3,455)   | (3,846)   | (4,063)   |
| Loans, net                         | 37,094            | 42,053    | 48,869    | 50,949    | 59,113    |

(1) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

The types of credit operations presented above are as follows:

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

**Real estate construction financing** real estate construction financing consists primarily of mortgage loans to construction companies, which generally have medium-term maturities.

**Leasing** leasing contracts consist primarily of leases of equipment and automobiles to both corporate and individual borrowers.

**Individuals** loans to individuals include mortgage loans to individuals for the purchase of their own residences, which generally have long-term maturities, credit cards and lines of credit provided to individuals under pre-approved credit limits as a result of overdrafts on their deposit accounts. We offer individuals personal loans for various other purposes, classified as other financing, of which more than 89% consists, at each date in the table above, of loans for the acquisition of vehicles and direct consumer financing.

**Rural credit** rural credit consists of loans to borrowers who operate in rural businesses, including farming, production, livestock and reforestation.

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



**Non-performing loans** we classify all loans that are sixty days or more overdue as non-performing once the credits are classified as non-performing loans we stop accruing interest over them.

**Impairment** clients with significant loans whose profile indicates that they may have difficulty making their payments or that their credit rating has declined, presenting probable losses for us. These loans are classified as impaired and are subject to review in accordance with SFAS 114, Accounting for Impairment of a Loan by a Creditor, as amended by SFAS 118. We estimate the value of impaired loans based on:

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

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

We provision up to 100% of the outstanding amount of those loans which are classified as "non-performing" instead of impaired. We provision these sums up to 180 days before payments under such loans become due, depending on the credit rating of the debtor.

Loans with small outstanding balances, such as overdraft loans, credit cards, residential mortgages and consumer credit, are considered in the aggregate for the purpose of evaluating the risk of default based on our prior experiences and future perspectives. Loans with larger outstanding balances are evaluated based on the risk characteristics of each borrower.

### ***Charge-offs***

Loans are charged off when they are between 180 and 360 days overdue, depending on their initial risk classification. Generally, the charge-off takes place after 360 days. However, the charge-off might be postponed for longer-term loans (that will mature after thirty-six months), until they are up to 540 days overdue.

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

There were no changes made to our loan classification system. For more information on our categorization of loans, see Regulation and Supervision Bank Regulations Treatment of Overdue Debts and Classification of Credit Operations.

**Maturities and Interest Rates of Loans**

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

**December 31, 2004**

|                     | Due within<br>30 days<br>or less | Due in 31<br>to 90<br>days | Due<br>in 91 to<br>180<br>days | Due<br>in 181<br>to 360<br>days | Due in 1<br>to 3<br>years | Due<br>after 3<br>years | No stated<br>maturity(2) | Total loans,<br>gross | Allowance for<br>losses | Total            |
|---------------------|----------------------------------|----------------------------|--------------------------------|---------------------------------|---------------------------|-------------------------|--------------------------|-----------------------|-------------------------|------------------|
| (R\$ in millions)   |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| <b>Type of loan</b> |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| Commercial          |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| Industrial          |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| and others          | R\$3,969                         | R\$7,512                   | R\$3,547                       | R\$3,001                        | R\$3,910                  | R\$1,210                | R\$934                   | R\$24,083             | R\$(1,600)              | R\$22,483        |
| Import              |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| financing           | 273                              | 387                        | 297                            | 187                             | 10                        | 88                      | 26                       | 1,268                 | (45)                    | 1,223            |
| Export              |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| financing           | 1,486                            | 1,759                      | 1,445                          | 824                             | 1,824                     | 842                     | 71                       | 8,251                 | (122)                   | 8,129            |
| Real estate         |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| construction        |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| financing           | 5                                | 15                         | 58                             | 69                              | 217                       | 84                      | 24                       | 472                   | (23)                    | 449              |
| Leasing             | 173                              | 181                        | 234                            | 414                             | 602                       | 11                      | 46                       | 1,661                 | (53)                    | 1,608            |
| Individuals         |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| Overdraft           | 1,164                            | -                          | -                              | -                               | -                         | -                       | 278                      | 1,442                 | (191)                   | 1,251            |
| Residential         |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| mortgage            |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| loans               | 42                               | 40                         | 35                             | 112                             | 291                       | 393                     | 134                      | 1,047                 | (111)                   | 936              |
| Other               |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| financings(1)       | 1,660                            | 2,442                      | 2,558                          | 3,533                           | 4,544                     | 122                     | 929                      | 15,788                | (1,415)                 | 14,373           |
| Credit cards        | -                                | -                          | -                              | -                               | -                         | -                       | 1,476                    | 1,476                 | (188)                   | 1,288            |
| Rural credit        | 187                              | 400                        | 984                            | 1,164                           | 958                       | 2,326                   | 63                       | 6,082                 | (302)                   | 5,780            |
| Foreign             |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| currency            |                                  |                            |                                |                                 |                           |                         |                          |                       |                         |                  |
| loans               | 130                              | 70                         | 466                            | 374                             | 547                       | -                       | 4                        | 1,591                 | (13)                    | 1,578            |
| Public Sector       | -                                | -                          | 1                              | 1                               | 3                         | 10                      | -                        | 15                    | -                       | 29               |
| <b>Total</b>        | <b>R\$9,089</b>                  | <b>R\$12,806</b>           | <b>R\$9,625</b>                | <b>R\$9,679</b>                 | <b>R\$12,906</b>          | <b>R\$5,086</b>         | <b>R\$3,985</b>          | <b>R\$63,176</b>      | <b>R\$(4,063)</b>       | <b>R\$59,113</b> |

(1) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

(2) Primarily includes non-performing credit cards and loans.

**December 31, 2004**

(R\$ in millions)

**Types of loans to customer by maturity**

Floating or adjustable rates(1)

|             |          |          |          |          |          |          |          |           |
|-------------|----------|----------|----------|----------|----------|----------|----------|-----------|
|             | R\$2,415 | R\$3,300 | R\$4,197 | R\$4,263 | R\$6,145 | R\$4,260 | R\$2,206 | R\$26,786 |
| Fixed rates | 6,674    | 9,506    | 5,428    | 5,416    | 6,761    | 826      | 1,779    | 36,390    |

**Total by maturity**

|  |          |           |          |          |           |          |          |           |
|--|----------|-----------|----------|----------|-----------|----------|----------|-----------|
|  | R\$9,089 | R\$12,806 | R\$9,625 | R\$9,679 | R\$12,906 | R\$5,086 | R\$3,985 | R\$63,176 |
|--|----------|-----------|----------|----------|-----------|----------|----------|-----------|

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(1) Includes non-performing loans.

**Credit Approval Process**

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

**Indexation**

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

**Non-performing Loans and Allowance for Loan Losses**

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

|   | <b>December 31,</b>                |                  |                  |                  |                  |
|---|------------------------------------|------------------|------------------|------------------|------------------|
|   | <b>2000</b>                        | <b>2001</b>      | <b>2002</b>      | <b>2003</b>      | <b>2004</b>      |
|   | <b>(R\$ in millions, except %)</b> |                  |                  |                  |                  |
| Non-performing loans  | R\$1,689                           | R\$2,257         | R\$2,341         | R\$2,144         | R\$2,206         |
| Foreclosed assets, net of reserves  | 213                                | 192              | 257              | 194              | 229              |
| Total non-performing loans and foreclosed assets  | 1,902                              | 2,449            | 2,598            | 2,338            | 2,435            |
| Allowance for loan losses   | 2,345                              | 2,941            | 3,455            | 3,846            | 4,063            |
| <b>Total loans</b>  | <b>R\$39,439</b>                   | <b>R\$44,994</b> | <b>R\$52,324</b> | <b>R\$54,795</b> | <b>R\$63,176</b> |
| Non-performing loans as a percentage of total loans   | 4.3%                               | 5.0%             | 4.5%             | 3.9%             | 3.5%             |
| Non-performing loans and foreclosed assets as a percentage of total loans                                       | 4.8                                | 5.4              | 5.0              | 4.3              | 3.9              |
| Allowance for loan losses as a percentage of total loans  | 5.9                                | 6.5              | 6.6              | 7.0              | 6.4              |
| Allowance for loan losses as a percentage of non-performing loans   | 138.8                              | 130.3            | 147.6            | 179.4            | 184.2            |
| Allowance for loan losses as a percentage of non-performing loans and foreclosed assets                         | 123.3                              | 120.1            | 133.0            | 164.5            | 166.9            |
| Net charge-offs for the period as a percentage of the average balance of loans (including non-performing loans) | 2.1%                               | 2.7%             | 3.9%             | 3.1%             | 2.1%             |

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

**Outstanding Foreign Loans**

The aggregate amount of our outstanding cross-border loans does not exceed 1% of our total assets. Therefore, we do not believe that such information is material to an understanding of the risks associated with our loan portfolio.

Additionally, our deposit base is primarily comprised of Brazilian residents and the amount of deposits in our branches outside Brazil is less than 10% of our total deposits and is therefore not considered significant.

**Loans by Economic Activity**

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

|   | December 31,      |                           |                   |                           |                   |                           |
|---|-------------------|---------------------------|-------------------|---------------------------|-------------------|---------------------------|
|   | 2002              |                           | 2003              |                           | 2004              |                           |
|   | Loan<br>portfolio | % of<br>loan<br>portfolio | Loan<br>portfolio | % of<br>loan<br>portfolio | Loan<br>portfolio | % of<br>loan<br>portfolio |
| (R\$ in millions, except %)                             |                   |                           |                   |                           |                   |                           |
| <b>Industrial</b>                                       |                   |                           |                   |                           |                   |                           |
| Food, beverages and tobacco                             | R\$2,769          | 5.5%                      | R\$3,066          | 5.8%                      | R\$3,366          | 5.5%                      |
| Electric and electronic, and<br>communication equipment | 545               | 1.1                       | 532               | 1.0                       | 1,088             | 1.8                       |
| Chemicals and pharmaceuticals                           | 1,671             | 3.3                       | 1,416             | 2.7                       | 1,738             | 2.8                       |
| Civil construction                                      | 1,004             | 2.0                       | 854               | 1.6                       | 894               | 1.5                       |
| Basic metal industries                                  | 2,438             | 4.9                       | 2,805             | 5.3                       | 1,623             | 2.7                       |
| Textiles, clothing and leather goods                    | 1,163             | 2.3                       | 977               | 1.9                       | 1,046             | 1.7                       |
| Manufacturing of machinery and<br>equipment             | 1,049             | 2.1                       | 929               | 1.8                       | 1,307             | 2.1                       |
| Paper, paper products, printing and<br>publishing       | 1,586             | 3.2                       | 1,609             | 3.0                       | 1,337             | 2.2                       |
| Automotive  | 1,060             | 2.1                       | 2,074             | 3.9                       | 2,484             | 4.1                       |
| Non-metallic minerals                                   | 222               | 0.4                       | 225               | 0.4                       | 302               | 0.5                       |
| Rubber and plastic                                      | 484               | 1.0                       | 616               | 1.2                       | 764               | 1.3                       |
| Information technology and office<br>equipment          | 95                | 0.2                       | 33                | 0.1                       | 55                | 0.1                       |
| Wood and wood products, including<br>furniture          | 449               | 0.9                       | 458               | 0.9                       | 578               | 1.0                       |
| Extractive  | 355               | 0.7                       | 386               | 0.7                       | 266               | 0.4                       |
| Petrochemicals  | 78                | 0.2                       | 204               | 0.4                       | 448               | 0.7                       |
| Other manufacturing industries                          | 1,794             | 3.6                       | 2,257             | 4.3                       | 846               | 1.4                       |
| Subtotal  | 16,762            | 33.5                      | 18,441            | 35.0                      | 18,142            | 29.8                      |
| <b>Individuals</b>                                      |                   |                           |                   |                           |                   |                           |
| Consumer loans  | 10,466            | 20.9                      | 12,738            | 24.2                      | 17,571            | 28.8                      |
| Residential mortgage loans                              | 1,200             | 2.4                       | 1,097             | 2.1                       | 921               | 1.5                       |
| Lease financing   | 103               | 0.2                       | 56                | 0.1                       | 44                | 0.1                       |
| Subtotal  | 11,769            | 23.5                      | 13,891            | 26.4                      | 18,536            | 30.4                      |
| <b>Real Estate</b>                                      |                   |                           |                   |                           |                   |                           |
| Construction  | 427               | 0.9                       | 415               | 0.8                       | 449               | 0.7                       |

**Commercial**

|                               |       |      |       |      |          |      |
|-------------------------------|-------|------|-------|------|----------|------|
| Retail                        | 2,919 | 5.8  | 3,295 | 6.3  | 5,632    | 9.3  |
| Wholesale                     | 4,971 | 10.0 | 3,593 | 6.8  | 3,428    | 5.6  |
| Lodging and catering services | 218   | 0.4  | 193   | 0.4  | 225      | 0.4  |
| Subtotal                      | 8,108 | 16.2 | 7,081 | 13.5 | R\$9,285 | 15.3 |

**Financial services**

|   |     |     |     |     |        |     |
|---|-----|-----|-----|-----|--------|-----|
| Financial institutions                        | 691 | 1.4 | 552 | 1.0 | R\$969 | 1.6 |
| Insurance companies and private pension plans | 6   | -   | 8   | -   | 16     |     |
| Subtotal                                      | 697 | 1.4 | 560 | 1.0 | 985    | 1.6 |

**Services**

|                                   |       |      |       |      |       |      |
|-----------------------------------|-------|------|-------|------|-------|------|
| Telecommunications                | 2,702 | 5.4  | 1,917 | 3.6  | 1,462 | 2.4  |
| Service providers                 | 1,173 | 2.3  | 1,370 | 2.6  | 1,358 | 2.2  |
| Transportation                    | 1,710 | 3.4  | 1,999 | 3.8  | 2,717 | 4.5  |
| Real estate                       | 554   | 1.1  | 731   | 1.4  | 496   | 0.8  |
| Health and social services        | 381   | 0.8  | 413   | 0.8  | 467   | 0.8  |
| Leisure                           | 444   | 0.9  | 374   | 0.7  | 332   | 0.5  |
| Education                         | 150   | 0.3  | 208   | 0.4  | 245   | 0.4  |
| Public administration and defense | 8     | -    | 2     | -    | 11    |      |
| Other                             | 1,176 | 2.4  | 845   | 1.6  | 451   | 0.7  |
| Subtotal                          | 8,298 | 16.6 | 7,859 | 14.9 | 7,539 | 12.3 |

**Agriculture, livestock, forestry and fishing**

|  |       |     |       |     |       |     |
|--|-------|-----|-------|-----|-------|-----|
|  | 3,922 | 7.9 | 4,404 | 8.4 | 6,034 | 9.9 |
|--|-------|-----|-------|-----|-------|-----|

|              |                  |               |                  |               |                  |               |
|--------------|------------------|---------------|------------------|---------------|------------------|---------------|
| <b>Total</b> | <b>R\$49,983</b> | <b>100.0%</b> | <b>R\$52,651</b> | <b>100.0%</b> | <b>R\$60,970</b> | <b>100.0%</b> |
|--------------|------------------|---------------|------------------|---------------|------------------|---------------|

**Classification of Credit Operations**

The following table shows our loan portfolio's classification by risk category as of December 31, 2004, where AA represents minimum credit risk and H represents extremely high credit risk. At December 31, 2004, approximately 92.6% of our loan portfolio was classified between AA and C, representing loans on full accrual basis.

| <b>Risk Level</b> | <b>Loans</b>      | <b>Non-<br/>Performing<br/>Loans</b> | <b>Allowance<br/>for<br/>loan losses</b> |
|-------------------|-------------------|--------------------------------------|--|
|                   | (R\$ in millions) |                                      |  |
| AA                | R\$15,489         | -                                    | -  |
| A                 | 28,035            | -                                    | R\$136                                   |
| B                 | 4,516             | -                                    | 66                                       |
| C                 | 10,433            | -                                    | 748                                      |
| D                 | 1,356             | R\$342                               | 454                                      |
| E                 | 130               | 220                                  | 167                                      |
| F                 | 318               | 211                                  | 348                                      |
| G                 | 147               | 164                                  | 293                                      |
| H                 | 546               | 1,269                                | 1,851                                    |
| <b>Total</b>      | <b>R\$60,970</b>  | <b>R\$2,206</b>                      | <b>R\$4,063</b>                          |



**Allowance for Loan Losses**

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

|   | <b>2000</b>                        | <b>2001</b> | <b>2002</b> | <b>2003</b> | <b>2004</b> |
|---|------------------------------------|-------------|-------------|-------------|-------------|
|   | <b>(R\$ in millions, except %)</b> |             |             |             |             |
| <b>Balance at the beginning of the period</b> | R\$1,783                           | R\$2,345    | R\$2,941    | R\$3,455    | R\$3,846    |
| <b>Charge-offs</b>                            |                                    |             |             |             |             |
| Commercial                                    |                                    |             |             |             |             |
| Industrial and others                         | (493)                              | (657)       | (751)       | (1,006)     | (853)       |
| Import financing                              | (2)                                | (22)        | (5)         | (14)        | (5)         |
| Export financing                              | (17)                               | -           | (6)         | (28)        | (13)        |
| Construction                                  | (1)                                | (67)        | (5)         | (5)         | (5)         |
| Leasing                                       | (59)                               | (29)        | (31)        | (85)        | (31)        |
| Individuals                                   |                                    |             |             |             |             |
| Overdraft                                     | (15)                               | (9)         | (287)       | (284)       | (278)       |
| Real estate                                   | (46)                               | (185)       | (26)        | (72)        | (135)       |
| Financing(1)                                  | (60)                               | (88)        | (900)       | (290)       | (207)       |
| Credit card                                   | (47)                               | (4)         | (162)       | (163)       | (287)       |
| Agricultural                                  | (89)                               | (341)       | (145)       | (109)       | (8)         |
| Foreign currency loans                        | (70)                               | (12)        | (2)         | (2)         | (2)         |
| <b>Total charge-offs</b>                      | (899)                              | (1,414)     | (2,320)     | (2,058)     | (1,824)     |
| <b>Recoveries</b>                             |                                    |             |             |             |             |
| Commercial                                    |                                    |             |             |             |             |
| Industrial and others                         | 82                                 | 52          | 69          | 144         | 286         |
| Import financing                              | -                                  | -           | 2           | -           | 1           |
| Export financing                              | -                                  | -           | 1           | -           | -           |
| Construction                                  | 4                                  | 3           | 1           | -           | -           |
| Leasing                                       | 18                                 | 16          | 17          | 18          | 4           |
| Individuals                                   |                                    |             |             |             |             |
| Overdraft                                     | 6                                  | 17          | 83          | 48          | 54          |
| Real estate                                   | 71                                 | 76          | 5           | 2           | 69          |
| Financing(1)                                  | 20                                 | 38          | 97          | 193         | 175         |
| Credit card                                   | 5                                  | 33          | 15          | 7           | 7           |
| Agricultural                                  | 8                                  | 5           | 1           | 3           | 5           |
| Foreign currency loans                        | 3                                  | 7           | -           | -           | 11          |
| <b>Total recoveries</b>                       | R\$217                             | R\$247      | R\$291      | R\$415      | R\$612      |
| <b>Net charge-offs</b>                        | (682)                              | (1,167)     | (2,029)     | (1,643)     | (1,212)     |
| <b>Provision for loan losses</b>              | 1,244                              | 1,763       | 2,543       | 2,034       | 1,429       |
| <b>Balance at the end of the period</b>       | 2,345                              | 2,941       | 3,455       | 3,846       | 4,063       |

|   |      |      |      |      |      |
|---|------|------|------|------|------|
| Net charge-offs during the period as a<br>percentage of average loans outstanding<br>(including non-performing loans) | 2.1% | 2.7% | 3.9% | 3.1% | 2.1% |
|---|------|------|------|------|------|

(1) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

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

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

|                              | Year ended December 31,    |          |          | % Change  |           |
|------------------------------|----------------------------|----------|----------|-----------|-----------|
|                              | 2002                       | 2003     | 2004     | 2003/2002 | 2004/2003 |
|                              | (R\$ in millions except %) |          |          |           |           |
| Provision for loan losses    | R\$2,543                   | R\$2,034 | R\$1,429 |           |           |
| Loan charge-offs             | (2,320)                    | (2,058)  | (1,824)  | (20.0)%   | (29.7)%   |
| Loan recoveries              | 291                        | 415      | 612      | (11.3)    | (11.4)    |
| Net charge-offs              | (2,029)                    | (1,643)  | (1,212)  | 42.6      | 47.5      |
| Provision for loan losses(1) | 4.9%                       | 3.8%     | 2.5%     | (19.0)%   | (26.2)%   |

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

#### Allocation of the Allowance for Loan Losses

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

**December 31, 2000**

|                                    | <b>Allocated allowance</b> | <b>Allocated allowance as a percentage of total loans(1)</b> | <b>Allocated allowance as a percentage of total loans(2)</b> | <b>Loan category as a percentage of total loans(1)</b> | <b>Loan category as a percentage of total loans(2)</b> |
|------------------------------------|----------------------------|--|--|--|--|
| <b>(R\$ in millions, except %)</b> |                            |  |  |  |  |
| <b>Type of loans</b>               |                            |  |  |  |  |
| Commercial                         |                            |  |  |  |  |
| Industrial and others              | R\$956                     | 2.5%   | 2.4%   | 43.2%  | 42.6%  |
| Import financing                   | 33                         | 0.1  | 0.1  | 4.0  | 3.8  |
| Export financing                   | 35                         | 0.1  | 0.1  | 12.1   | 11.6   |
| Construction                       | 63                         | 0.2  | 0.1  | 1.4  | 1.5  |
| Leasing                            | 139                        | 0.4  | 0.3  | 5.4  | 5.2  |
| Individuals                        |                            |  |  |  |  |
| Overdraft                          | 65                         | 0.2  | 0.2  | 1.7  | 2.0  |
| Real estate                        | 198                        | 0.5  | 0.5  | 4.3  | 4.6  |
| Financing(3)                       | 279                        | 0.7  | 0.7  | 14.5   | 15.0   |
| Credit card                        | 23                         | 0.1  | 0.1  | 1.7  | 2.2  |
| Agricultural                       | 430                        | 1.1  | 1.1  | 7.7  | 7.5  |
| Foreign currency loans             | 124                        | 0.3  | 0.3  | 4.0  | 4.0  |
| <b>Total</b>                       | <b>R\$2,345</b>            | <b>6.2%</b>  | <b>5.9%</b>  | <b>100.0%</b>  | <b>100.0%</b>  |

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(1) Excludes non-performing loans.

(2) Includes non-performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

**December 31, 2001**

|                                    | <b>Allocated allowance</b> | <b>Allocated allowance as a percentage of total loans(1)</b> | <b>Allocated allowance as a percentage of total loans(2)</b> | <b>Loan category as a percentage of total loans(1)</b> | <b>Loan category as a percentage of total loans(2)</b> |
|------------------------------------|----------------------------|--|--|--|--|
| <b>(R\$ in millions, except %)</b> |                            |  |  |  |  |
| <b>Type of loans</b>               |                            |  |  |  |  |
| Commercial                         |                            |  |  |  |  |
| Industrial and others              | R\$1,671                   | 3.9%   | 3.7%   | 42.6%  | 41.9%  |
| Import financing                   | 45                         | 0.1  | 0.1  | 3.5  | 3.3  |
| Export financing                   | 30                         | 0.1  | 0.1  | 12.1   | 11.5   |
| Construction                       | 27                         | 0.1  | 0.1  | 1.3  | 1.3  |
| Leasing                            | 123                        | 0.3  | 0.3  | 3.9  | 3.8  |

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|                        |                 |             |             |               |               |
|------------------------|-----------------|-------------|-------------|---------------|---------------|
| Individuals            |                 |             |             |               |               |
| Overdraft              | 92              | 0.2         | 0.2         | 2.8           | 3.1           |
| Real estate            | 155             | 0.4         | 0.3         | 2.9           | 3.1           |
| Financing(3)           | 374             | 0.9         | 0.8         | 16.1          | 17.5          |
| Credit card            | 27              | 0.1         | 0.1         | 2.3           | 2.5           |
| Agricultural           | 339             | 0.8         | 0.7         | 6.9           | 6.7           |
| Foreign currency loans | 58              | 0.1         | 0.1         | 5.6           | 5.3           |
| <b>Total</b>           | <b>R\$2,941</b> | <b>7.0%</b> | <b>6.5%</b> | <b>100.0%</b> | <b>100.0%</b> |

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(1) Excludes non-performing loans.

(2) Includes non-performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

**December 31, 2002**

|                                    |                 | <b>Allocated allowance as a percentage of total loans(1)</b> | <b>Allocated allowance as a percentage of total loans(2)</b> | <b>Loan category as a percentage of total loans(1)</b> | <b>Loan category as a percentage of total loans(2)</b> |
|------------------------------------|-----------------|--|--|--|--|
| <b>(R\$ in millions, except %)</b> |                 |  |  |  |  |
| <b>Type of loans</b>               |                 |  |  |  |  |
| Commercial                         |                 |  |  |  |  |
| Industrial and others              | R\$1,450        | 2.9%   | 2.8%   | 40.3%  | 40.2%  |
| Import financing                   | 42              | 0.1  | 0.1  | 2.6  | 2.5  |
| Export financing                   | 95              | 0.2  | 0.2  | 15.7   | 15.1   |
| Construction                       | 53              | 0.1  | 0.1  | 0.9  | 0.9  |
| Leasing                            | 142             | 0.3  | 0.3  | 3.0  | 3.0  |
| Individuals                        |                 |  |  |  |  |
| Overdraft                          | 155             | 0.3  | 0.3  | 2.1  | 2.2  |
| Real estate                        | 202             | 0.4  | 0.4  | 2.4  | 2.6  |
| Financing(3)                       | 898             | 1.8  | 1.6  | 16.5   | 17.5   |
| Credit card                        | 82              | 0.2  | 0.2  | 2.3  | 2.4  |
| Agricultural                       | 261             | 0.5  | 0.5  | 7.9  | 7.6  |
| Foreign currency loans             | 75              | 0.2  | 0.1  | 6.3  | 6.0  |
| <b>Total</b>                       | <b>R\$3,455</b> | <b>7.0%</b>  | <b>6.6%</b>  | <b>100.0%</b>  | <b>100.0%</b>  |

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(1) Excludes non-performing loans.

(2) Includes non-performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

**December 31, 2003**

|                                    |          | <b>Allocated allowance as a percentage of total loans(1)</b> | <b>Allocated allowance as a percentage of total loans(2)</b> | <b>Loan category as a percentage of total loans(1)</b> | <b>Loan category as a percentage of total loans(2)</b> |
|------------------------------------|----------|--|--|--|--|
| <b>(R\$ in millions, except %)</b> |          |  |  |  |  |
| <b>Type of loans</b>               |          |  |  |  |  |
| Commercial                         |          |  |  |  |  |
| Industrial and others              | R\$1,738 | 3.3%   | 3.2%   | 40.1%  | 40.0%  |

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|                        |                 |             |             |               |               |
|------------------------|-----------------|-------------|-------------|---------------|---------------|
| Import financing       | 57              | 0.1         | 0.1         | 1.3           | 1.3           |
| Export financing       | 83              | 0.2         | 0.1         | 15.9          | 15.3          |
| Construction           | 32              | 0.1         | 0.1         | 0.8           | 0.8           |
| Leasing                | 115             | 0.2         | 0.2         | 2.6           | 2.6           |
| Individuals            |                 |             |             |               |               |
| Overdraft              | 179             | 0.3         | 0.3         | 2.2           | 2.4           |
| Real estate            | 253             | 0.5         | 0.5         | 2.1           | 2.3           |
| Financing(3)           | 974             | 1.9         | 1.8         | 19.4          | 20.0          |
| Credit card            | 121             | 0.2         | 0.2         | 2.6           | 2.7           |
| Agricultural           | 269             | 0.5         | 0.5         | 8.4           | 8.1           |
| Foreign currency loans | 25              | -           | -           | 4.6           | 4.5           |
| <b>Total</b>           | <b>R\$3,846</b> | <b>7.3%</b> | <b>7.0%</b> | <b>100.0%</b> | <b>100.0%</b> |

---

(1) Excludes non-performing loans.

(2) Includes non-performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.

## December 31, 2004

|                             | Allocated allowance | Allocated allowance as a percentage of total loans(1) | Allocated allowance as a percentage of total loans(2) | Loan category as a percentage of total loans(1) | Loan category as a percentage of total loans(2) |
|-----------------------------|---------------------|---|---|---|---|
| (R\$ in millions, except %) |                     |   |   |   |   |
| <b>Type of loans</b>        |                     |   |   |   |   |
| Commercial                  |                     |   |   |   |   |
| Industrial and others       | R\$1,600            | 2.6%  | 2.5%  | 38.3%   | 38.1%   |
| Import financing            | 45                  | 0.1   | 0.1   | 2.1   | 2.0   |
| Export financing            | 122                 | 0.2   | 0.2   | 13.4  | 13.1  |
| Construction                | 23                  |   |   | 0.7   | 0.7   |
| Leasing                     | 53                  | 0.1   | 0.1   | 2.7   | 2.6   |
| Individuals                 |                     |   |   |   |   |
| Overdraft                   | 191                 | 0.3   | 0.3   | 2.1   | 2.3   |
| Real estate                 | 111                 | 0.3   | 0.2   | 1.5   | 1.7   |
| Financing(3)                | 1,415               | 2.3   | 2.2   | 24.6  | 25.0  |
| Credit card                 | 188                 | 0.3   | 0.3   | 2.1   | 2.4   |
| Agricultural                | 302                 | 0.5   | 0.5   | 9.9   | 9.6   |
| Foreign currency loans      | 13                  |   |   | 2.6   | 2.5   |
| <b>Total</b>                | <b>R\$4,063</b>     | <b>6.7%</b>   | <b>6.4%</b>   | <b>100.0%</b>                                   | <b>100.0%</b>                                   |

---

(1) Excludes non-performing loans.

(2) Includes non-performing loans.

(3) Primarily includes loans for the acquisition of vehicles and direct consumer financing.



**Average Deposit Balances and Interest Rates**

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

|                                  | Year ended December 31, |              |                  |              |                  |              |
|----------------------------------|-------------------------|--------------|------------------|--------------|------------------|--------------|
|                                  | 2002                    |              | 2003             |              | 2004             |              |
|                                  | Average balance         | Average rate | Average balance  | Average rate | Average balance  | Average rate |
| (R\$ in millions, except %)      |                         |              |                  |              |                  |              |
| <b>Domestic deposits</b>         |                         |              |                  |              |                  |              |
| Non-interest bearing deposits    |                         |              |                  |              |                  |              |
| Demand deposits                  | R\$9,678                | -            | R\$10,876        | -            | R\$13,163        | -            |
| Interest bearing deposits        |                         |              |                  |              |                  |              |
| Deposits from banks              | 223                     | 16.1%        | 657              | 16.9%        | 90               | 15.6%        |
| Savings deposits                 | 19,033                  | 8.3          | 20,680           | 9.9          | 22,499           | 7.4          |
| Time deposits                    | 18,392                  | 16.0         | 20,629           | 20.0         | 21,871           | 14.8         |
| Total interest bearing deposits  | 37,648                  | 12.1         | 41,966           | 14.9         | 44,460           | 11.0         |
| Total domestic deposits          | 47,326                  | 9.6          | 52,842           | 11.8         | 57,623           | 8.5          |
| <b>International deposits(1)</b> |                         |              |                  |              |                  |              |
| Non-interest bearing deposits    |                         |              |                  |              |                  |              |
| Demand deposits                  | 182                     | -            | 270              | -            | 206              | -            |
| Interest bearing deposits        |                         |              |                  |              |                  |              |
| Time deposits                    | 2,955                   | 8.5          | 3,601            | 3.1          | 3,288            | 2.6          |
| Total interest bearing deposits  | 2,955                   | 8.5          | 3,601            | 3.1          | 3,288            | 2.6          |
| Total international deposits     | 3,137                   | 8.0          | 3,871            | 2.9          | 3,494            | 2.5          |
| <b>Total deposits</b>            | <b>R\$50,463</b>        | <b>9.5%</b>  | <b>R\$56,713</b> | <b>11.2%</b> | <b>R\$61,117</b> | <b>8.2%</b>  |

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

**Maturity of Deposits**

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

| <b>December 31, 2004</b>         |  |   |   |                             |                  |
|----------------------------------|--|---|---|-----------------------------|------------------|
|                                  | <b>Due in 3<br/>months or<br/>less</b> | <b>Due after<br/>3<br/>months to<br/>6 months</b> | <b>Due after<br/>6<br/>months to<br/>1 year</b> | <b>Due after<br/>1 year</b> | <b>Total</b>     |
| <b>(R\$ in millions)</b>         |  |   |   |                             |                  |
| <b>Domestic deposits</b>         |  |   |   |                             |                  |
| Non-interest bearing deposits    |  |   |   |                             |                  |
| Demand deposits(1)               | R\$15,155                              | -   | -   | -                           | R\$15,155        |
| Interest bearing deposits        |  |   |   |                             |                  |
| Deposits from banks              | 20                                     | -   | -   | -                           | 20               |
| Savings deposits(1)              | 24,783                                 | -   | -   | -                           | 24,783           |
| Time deposits                    | 4,870                                  | R\$2,653  | R\$3,586  | R\$15,137                   | 26,246           |
| Total interest bearing deposits  | 29,673                                 | 2,653   | 3,586   | 15,137                      | 51,049           |
| Total domestic deposits          | 44,828                                 | 2,653   | 3,586   | 15,137                      | 66,204           |
| <b>International deposits(2)</b> |  |   |   |                             |                  |
| Non-interest bearing deposits    |  |   |   |                             |                  |
| Demand deposits                  | 229                                    | -   | -   | -                           | 229              |
| Interest bearing deposits        |  |   |   |                             |                  |
| Deposits from banks              | -                                      | -   | -   | -                           | -                |
| Time deposits                    | 1,460                                  | 179   | 166   | 409                         | 2,214            |
| Total interest bearing deposits  | 1,460                                  | 179   | 166   | 409                         | 2,214            |
| Total international deposits     | 1,689                                  | 179   | 166   | 409                         | 2,443            |
| <b>Total deposits</b>            | <b>R\$46,517</b>                       | <b>R\$2,832</b>                                   | <b>R\$3,752</b>                                 | <b>R\$15,546</b>            | <b>R\$68,647</b> |

- 
- (1) Demand deposits and savings deposits are classified as due in three months or less, without taking into account the average turnaround history.
- (2) Denominated in currencies other than *reais*, primarily U.S. dollars.

The following table sets forth information regarding the maturity of outstanding deposits with balances greater than US\$100,000 (or its equivalent), by maturity, as of the date indicated:

**December 31, 2004**

| <b>Domestic<br/>Currency</b> | <b>International<br/>Currency</b> |
|------------------------------|-----------------------------------|
|------------------------------|-----------------------------------|

|  | <b>(R\$ in millions)</b> |              |
|--|--------------------------|--------------|
| Maturity within 3 months                       | 3,981                    | 1,316        |
| Maturity after 3 months but within 6 months    | 1,736                    | 170          |
| Maturity after 6 months but within 12 months   | 1,763                    | 161          |
| Maturity after 12 months                       | 7,444                    | 405          |
| <b>Total deposits in excess of US\$100,000</b> | <b>14,924</b>            | <b>2,052</b> |

#### **Federal Funds Purchased and Securities Sold under Agreements to Repurchase and Short-term Borrowings**

Federal funds purchased and securities sold under agreements to repurchase and short-term borrowings totaled R\$24,804 million at December 31, 2004, R\$35,285 million at December 31, 2003 and R\$17,272 million at December 31, 2002. The principal categories of short-term financings are import and export financing and commercial paper.

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

|   | Year ended December 31,     |           |           |
|---|-----------------------------|-----------|-----------|
|   | 2002                        | 2003      | 2004      |
|   | (R\$ in millions, except %) |           |           |
| <b>Federal funds purchased and securities sold under agreements to repurchase</b> |                             |           |           |
| Amount outstanding  | R\$7,633                    | R\$27,490 | R\$16,532 |
| Maximum amount outstanding during the period                                      | 13,361                      | 27,490    | 26,596    |
| Weighted average interest rate at period end                                      | 21.1%                       | 15.1%     | 14.1%     |
| Average amount outstanding during period  | 9,670                       | 15,486    | 18,070    |
| Weighted average real interest rate   | 21.2%                       | 18.4%     | 13.2%     |
| <b>Import and export financing</b>  |                             |           |           |
| Amount outstanding  | 7,741                       | 6,034     | 5,340     |
| Maximum amount outstanding during the period                                      | 10,167                      | 8,114     | 6,777     |
| Weighted average interest rate at period end                                      | 2.8%                        | 1.7%      | 1.9%      |
| Average amount outstanding during period  | 7,902                       | 7,187     | 5,765     |
| Weighted average real interest rate   | 46.4%                       | (6.7)%    | (4.3)%    |
| <b>Commercial paper</b>   |                             |           |           |
| Amount outstanding  | 1,884                       | 1,761     | 2,920     |
| Maximum amount outstanding during the period                                      | 2,609                       | 2,530     | 3,518     |
| Weighted average interest rate at period end                                      | 1.7%                        | 0.4%      | 1.6%      |
| Average amount outstanding during period  | 2,235                       | 2,032     | 2,673     |
| Weighted average real interest rate   | 13.8%                       | 4.7%      | 6.1%      |
| <b>Other</b>  | 14                          | -         | 12        |
| <b>Total</b>  | R\$17,272                   | R\$35,285 | R\$24,804 |

## Item 5. Operating and Financial Review and Prospects

*You should read this discussion in conjunction with our consolidated financial statements and the notes thereto and other financial information included elsewhere in this annual report.*

### Overview

#### ***Brazilian Economic Conditions***

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

Brazil's growth slowed in 2001 after a robust 2000, as the impact of the ongoing economic crisis in Argentina and lower levels of growth of the U.S. economy led to declines in investment and consumption in Brazil as well as other emerging markets. The economic situation was exacerbated by the government's announcement in May 2001 of measures designed to reduce the consumption of electricity in response to an electricity shortage. The impact of the conservation measures, which were lifted in February 2002, paired with the Argentine and United States economic situation, contributed to slower rates of growth of GDP, which grew 1.5% in 2001 compared to 4.5% in 2000. Inflation was 10.4% in 2001, compared to 9.8% in 2000, as measured by the *Índice Geral de Preços - Disponibilidade Interna*, or IGP-DI, a general price index issued monthly by the FGV - *Fundação Getúlio Vargas*. The *real* depreciated by 18.7% against the U.S. dollar during 2001. At the same time, the Central Bank increased the base interest rate four times from April 18, 2001 to July 18, 2001, from 15.25% to 19.8% .

The slow growth of the Brazilian economy continued in 2002 as political uncertainty relating to the presidential elections, and lower levels of growth in the U.S. economy, continued to lead to declines in investment and consumption in Brazil. GDP grew by 1.5% in 2002, as in 2001. Inflation was 26.4% in 2002, as measured by the IGP-DI. The *real* depreciated by 52.3% against the U.S. dollar during 2002. The Central Bank decreased the base interest rate three times between February 20 and July 17, 2002, from 19.00% to 18.00%. Between October 14, 2002 and December 18, 2002, the Central Bank increased the base interest rate to 25.00%.

In 2003 there were signs of improvement in Brazil's economy. Investor confidence increased as the new administration largely continued the macroeconomic policies of the previous government, including its focus on fiscal responsibility, and the *real* appreciated by 18.2% against the U.S. dollar. However, overall economic growth fell, as GDP contracted by 0.2% during 2003, compared to growth of 1.5% in 2002. This contraction was largely due to the effect of high interest rates, which were maintained at higher levels in order to combat inflationary pressures during the first half of the year, in constraining economic growth. The Central Bank increased the basic interest rate from 25.00% at January 1, 2003 to 26.50% on February 19, 2003 and maintained it at that level until June 18, 2003. Beginning on June 18, 2003, the Central Bank gradually decreased to 16.50% as of December 31, 2003. The Brazilian economy showed signs of improvement during the second half of 2003, growing by approximately 7.2% during the third quarter and 1.5% during the fourth, each as compared to the previous quarter.

During 2004, the Brazilian economy continued to recover despite uncertainties in the global markets, particularly in the U.S. economy and the rising international price for petroleum, which continued to dampen growth. The increasing price of basic commodities in Brazil contributed to a growing rate of inflation, from 7.7% in 2003 to 12.1% in 2004. The Brazilian economy withstood these factors and continued to recover in large part due to the strengths of its export economy. During 2004, GDP grew 4.9% from 2003 and the *real* appreciated 8.1% against the U.S. dollar, reaching R\$2.6544 per U.S. dollar as of December 31, 2004, as compared with R\$2.8892 per U.S. dollar as of December 31, 2003. As a result of the rising inflationary pressures on the Brazilian economy, the Central Bank reduced the base interest rate from 16.5% to 16.0% in April 2004, but it began raising the interest rate later in the year, eventually arriving at an interest rate of 17.75% by December 2004.

The Brazilian economy has continued to show signs of improvement during the first five months of 2005. During the first quarter of 2005, GDP increased by 2.9% over the same period in 2004. The *real* appreciated to 2.4038 *reais* per U.S. dollar at May 31, 2005, compared with R\$2.6544 at December 31, 2004. The exchange rate reached a low of 2.3784 *reais* per U.S. dollar and a high of 2.7621 *reais* per U.S. dollar during the period. During the first five months of 2005, the Central Bank increased five times the base interest rate from 17.75% in December 2004 to 19.75% in May 2005. Inflation for the first five months of 2005 was 1.99%. On June 20, 2005, the exchange rate was 2.3855 *reais* per U.S. dollar.

The following table shows Brazilian inflation as measured by the IGP-DI, devaluation or appreciation of the *real* against the U.S. dollar and the period-end exchange rates and average exchange rates for the periods indicated:

|   | December 31,                 |           |           |
|---|------------------------------|-----------|-----------|
|   | 2002                         | 2003      | 2004      |
|   | (in R\$, except percentages) |           |           |
| Inflation (IGP-DI)  | 26.4%                        | 7.7%      | 12.1%     |
| Devaluation (appreciation) of the <i>real</i> vs. U.S. dollar | 52.3%                        | (18.2)%   | (8.1)%    |
| Period-end exchange rate US\$1.00(1)                          | R\$3.5333                    | R\$2.8892 | R\$2.6544 |
| Average exchange rate US\$1.00(2)                             | R\$2.9461                    | R\$3.0964 | R\$2.9150 |

- (1) The *real*/U.S. dollar exchange rate at June 20, 2005 was R\$2.3855.
- (2) The average exchange rate is the sum of the closing exchange rates at the end of each month in the period divided by the number of months in the period.

Sources: FGV and the Central Bank.

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

|                                     | December 31, |        |       |
|-------------------------------------|--------------|--------|-------|
|                                     | 2002         | 2003   | 2004  |
| Change in real GDP(1)               | 1.5%         | (0.2)% | 4.9%  |
| Average base interest rates(2)      | 19.2         | 23.3   | 16.2  |
| Average interbank interest rates(3) | 19.1         | 23.3   | 16.2% |

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

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

The interbank interest rate has been relatively similar to, and is sometimes lower than, the average base interest rate over the past three years, primarily due to the relatively high level of funds available in the Brazilian banking industry and increased competition between banks. These factors move the interbank interest rate towards the base interest rate as banks seek to use their funds available and remain competitive with each other.

#### *Effects of Interest Rates and Devaluation, Appreciation on Net Interest Income*

During periods of high interest rates, such as occurred in certain periods of 1998 through the first half of 2003 and July-December of 2004, our interest income increases as interest rates on our interest-yielding assets increase. At the same time, our interest expense increases as interest rates on our interest bearing-liabilities also rise. Changes in volumes of interest-earning assets and interest bearing-liabilities also produce changes in interest income and interest expense. For example, an increase in our interest income attributable to an increase in interest rates may be offset by a decrease in the volume of our outstanding loans during a period.

In addition, when the real is devalued, as occurred in certain periods of 1998 through 2002, including most significantly in 1999 and 2002, 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, as the cost in reais of the related interest expense increases, and gains in our assets denominated in foreign currencies, such as our dollar-indexed securities and loans, as the income from such assets as measured in *reais* increases.

Conversely, when the *real* appreciates against the U.S. dollar, as occurred in 2003 and in 2004, we incur losses on our monetary assets denominated in or indexed to foreign currencies and record gains on our liabilities denominated in or indexed to foreign currencies. Accordingly, the 28.5% decrease in interest income from loans in 2003 compared to 2002 and the 34.9% decrease in our interest expense in 2003 compared to 2002 were both largely attributable to the 18.2% appreciation of the real against the dollar during 2003.

By comparison, the *real* appreciated only 8.1% against the U.S. dollar in 2004. As a consequence, our 2004 interest income decreased by only 4.0% compared with 2003, our interest expense decreased by 8.2% in 2004 compared with 2003, and our average interest rates, especially the CDI,





decreased from 23.3% in 2003 to 16.2% in 2004. These effects were partially offset by the increase in the average balance of our transactions.

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

|  | <b>December 31,</b>      |                  |                  |
|--|--------------------------|------------------|------------------|
|  | <b>2002</b>              | <b>2003</b>      | <b>2004</b>      |
|  | <b>(R\$ in millions)</b> |                  |                  |
| <b>Assets</b>  |                          |                  |                  |
| Cash and due from banks  | R\$1,050                 | R\$599           | R\$380           |
| Interest bearing deposits in other banks                                   | 1,548                    | 4,069            | 4,751            |
| Federal funds sold and securities purchased under agreements to resell     | 285                      | 4,503            | 1,011            |
| Brazilian Central Bank compulsory deposits                                 | 943                      | 502              | 211              |
| Trading securities, at fair value  | 431                      | 1,729            | 1,120            |
| Available-for-sale securities, at fair value                               | 715                      | 2,478            | 4,443            |
| Securities held to maturity  | 1,543                    | 547              | 1,088            |
| Net loans  | 14,752                   | 13,201           | 11,089           |
| Other assets   | 193                      | 1,195            | 1,306            |
| <b>Total assets</b>  | <b>21,460</b>            | <b>28,823</b>    | <b>25,399</b>    |
| Off-balance sheet accounts    notional value                               |                          |                  |                  |
| Derivatives    long position   |                          |                  |                  |
| Futures  | 4,357                    | 7,014            | 3,171            |
| Term   | 123                      | 20               | 302              |
| Options  |                          | 4                |                  |
| Swap   | 2,714                    | 3,350            | 534              |
| <b>Total</b>   | <b>R\$28,654</b>         | <b>R\$39,211</b> | <b>R\$29,406</b> |
| <b>Liabilities</b>   |                          |                  |                  |
| Deposits   | 3,165                    | 4,207            | R\$2,443         |
| Federal funds purchased and securities sold under agreements to repurchase | 730                      | 3,406            | 924              |
| Short-term borrowings  | 9,639                    | 7,795            | 8,272            |
| Long-term debt   | 4,487                    | 9,283            | 6,837            |
| Others   | 2,836                    | 1,124            | 1,672            |
| <b>Total liabilities</b>   | <b>20,857</b>            | <b>25,815</b>    | <b>20,148</b>    |
| Off-balance sheet accounts    notional value                               |                          |                  |                  |
| Derivatives    short position  |                          |                  |                  |
| Futures  | 660                      | 8,718            | 6,742            |
| Term   | 157                      | 550              | 275              |
| Options  |                          | 148              | 47               |

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|              |                  |                  |               |
|--------------|------------------|------------------|---------------|
| Swap         | 4,589            | 2,904            | 2,636         |
| <b>Total</b> | <b>R\$26,263</b> | <b>R\$38,135</b> | <b>29,848</b> |
| Net exposure | 2,391            | 1,076            | R\$(442)      |

The excess of our foreign currency-denominated and -indexed assets over foreign currency-denominated and -indexed liabilities, adjusted according to the derivatives instruments as well as the higher interest rates we earn on our foreign-currency-denominated and -indexed assets compared to our foreign-currency-denominated and -indexed liabilities, led to net financial gains on our net foreign currency asset position for 2002 and 2003.

In 2004, the excess of our foreign-currency-denominated and -indexed liabilities over foreign-currency-denominated and -indexed assets, adjusted according to the derivative financial instruments, led to net financial gains as a result of the *real* appreciation during that period.

We have used swap and futures contracts and certain other hedging contracts to minimize the potential impact of currency devaluation or appreciation. For more information on our use of derivatives for hedging purposes, see notes 2(e), 2(f) and 22(b) to the consolidated financial statements in Item 18.

#### *Effects of Devaluation and Interest Rates on Lending and Treasury Activities*

As a general matter, downturns in the Brazilian economy have resulted in increasing volumes of overdue loans among our customers. As a result, during such periods, we must increase our provisions for loan losses. During 2000, our provisions for loan losses were R\$1,244 million.

However, with the subsequent deterioration of the economy in 2001 and 2002, our provisions for loan losses increased to R\$1,763 million for the year ended December 31, 2001 and to R\$2,543 million for the year ended December 31, 2002. We decreased our provisions for loan losses to R\$2,034 million during the year ended December 31, 2003 and to R\$1,429 million for the year ended December 31, 2004, despite an increase in the average balance of our loan portfolio. The decreases reflected improvements in our implementation of new methods of evaluating potential credits together with the continuing improvement of Brazilian economy.

Our balance of loans outstanding grew from R\$54,795 million at December 31, 2003 to R\$63,176 million at December 31, 2004. This 15.3% increase in our lending activities was largely a result of ongoing marketing efforts, increasing confidence on the part of borrowers, and recovering domestic and international markets. As demand for credit has increased, we have reduced our investments in trading securities, such that the value of our trading assets, measured at fair value, decreased from R\$37,073 million at December 31, 2003 to R\$33,094 million at December 31, 2004. This reduction was partially offset by increase in our portfolio of trading securities made possible by increased sales of our pension investment contracts VGBL and PGBL.

#### **Taxes**

Our income tax expense is made up of two components, a federal income tax and the Social Contribution Tax. The federal income tax includes two components: a basic income tax and an additional income tax. As of December 31, 2004, the federal income tax was assessed at a combined rate of 25% of adjusted net income. At the same date, the Social Contribution Tax was assessed at a rate of 9% of adjusted net income. As of February 1, 2000, the enacted base rate for the Social Contribution Tax on net profits is 8%, with an additional rate of 1% levied until December 31, 2002. The total Social Contribution Tax rate was to be reduced to 8% on January 1, 2003, but the government decided to maintain the 9% rate indefinitely.

Brazilian corporations may make payments to shareholders characterized as a distribution of interest on capital as an alternative form of making dividend distributions and take a deduction against taxable income for such payments. We aim at maximizing the amount of dividends we pay in the form of interest on capital. For further information on our tax expense, see Item 4. Information on the Company Regulation and Supervision Taxation and Item 10. Additional Information Memorandum and Articles of Incorporation Organization Allocation of Net Income and Distribution of

Dividends and Taxation Distributions of Interest on Capital.

***Impact of Recent Material Acquisitions and Joint Ventures on our Future Financial Performance***

In December 2000, we entered into a telecommunications joint venture agreement with Unibanco and Portugal Telecom and two of its affiliates. Pursuant to that agreement, BUS Holding became our subsidiary and its results accordingly were thereupon consolidated with our own. In connection with the original joint venture agreement, BUS Holding received an initial payment in *reais* equivalent to R\$548 million, of which R\$335 million corresponded to goodwill on the purchase of our technology infrastructure, which is being amortized at the rate of R\$67 million per year. The payment and related amortization were reflected on our December 31, 2001 financial statements and will continue to be reflected on our financial statements through December 31, 2006. The transaction was completed in 2002, with the liquidation of BUS Holding. For more information, see Item 4. Information on the Company The Company History Recent Important Acquisitions and Joint Ventures BUS Serviços de Telecomunicações Joint Venture.

On August 20, 2001, we won a public bidding process organized by the Postal Service to offer banking services in post offices. We executed the related agreement with the Postal Service in September 2001. The agreement with the Postal Service has led to an increase in our revenues and income as well as expenses. The amount of increases in revenue, income and expenses during the remainder of the term of the agreement are uncertain, and we therefore cannot estimate with confidence the impact of this transaction on our future financial performance. For more information about the proposed agreement, see Item 4. Information on the Company The Company History Recent Important Acquisitions and Joint Ventures Postal Service Banking.

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

- In January 2002, we acquired control of Banco Mercantil and its controlled companies. In March 2003, we completed the purchase of the minority shareholders' shares of Banco Mercantil and converted it into our wholly-owned subsidiary. In May 2003, the branches assets and liabilities of Banco Mercantil were transferred to Banco Bradesco at their book value;
- In January 2002, we acquired control of BEA at auction for a purchase price of R\$182.9 million. In June 2003, the branches, assets and liabilities of BEA were transferred to Banco Bradesco at their book value;
- In February 2002, we acquired 100% of the shares of BancoCidade and its controlled entities. In June 2002, the branches, assets and liabilities of BancoCidade were merged into BCN at book value. In 2004, BCN was merged into Banco Bradesco;
- In January 2003, we entered into an agreement to acquire 100% of the shares of BBV Banco, now Banco Alvorada. Upon completion of the transaction in June 2003, BBV Banco became our wholly-owned subsidiary and in September 2003, all of the branches, assets and liabilities of BBV Banco were transferred to Banco Bradesco;
- In November 2003, we entered into an agreement to acquire 100% of the shares of the Zogbi Institutions. Upon completion of the transaction in February 2004, the Zogbi Institutions became our wholly-owned subsidiaries; and

- In February 2004, we acquired control of BEM at auction for a purchase price of R\$78 million. In October 2004, the assets, liabilities and branches of BEM were transferred to Banco Bradesco at their book value.

In each case, we believe that the acquisitions and related transfers of assets and liabilities resulted in an increase in our revenues, expenses and income. However, we do not separately account for these acquisitions, and the acquired operations have been integrated into our operations. Accordingly, we are not able to quantify the financial impact of these acquisitions. Similarly, we expect that each of the acquisitions and the related transfers of assets and liabilities is likely to result in increases in our revenues and expenses in the future. The amount of such potential increases is uncertain, and we therefore cannot estimate with confidence the impact of these transactions on our future financial performance. For more information, see Item 4. Information of the Company The Company History Recent Material Acquisitions and Joint Ventures.

With the exception of the acquisition of BBV Banco, now Banco Alvorada, none of our acquisitions made since January 1998 has been significant as measured in accordance with U.S. GAAP.

### **Critical Accounting Policies**

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

#### ***Allowance for Loan Losses***

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

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

- general Brazilian economic conditions and conditions in the relevant industry;
- past experience with the relevant debtor or sector of the economy, including recent loss experience;
- credit quality trends;
- the value of a loan's collateral;
- the volume, composition, and growth of our loan portfolio;





- the Brazilian government's monetary policy; and
- any delays in the receipt of information needed to evaluate loans or confirm existing credit deterioration.

We use models to assist us in analyzing our loans and in determining what allowance for loan losses to make. Although we frequently revise and improve our models, they are by their nature dependent on our judgment and the quality of the information we receive. In addition, the volatility of the Brazilian economy may lead to greater uncertainty in our models than would be expected in more stable macroeconomic environments. Accordingly, to the extent that actual loan losses differ from forecasts or management's judgment, the allowance for loan losses may not be indicative of future charge-offs.

Our determination of our allowance for loan losses is influenced by the risk classification of each credit operation. Assuming a 1.0% positive variation in expected losses to our loan portfolio composed by customers that comply with their obligations on time, as of December 31, 2004, the allowance for loan losses would increase by approximately R\$16.9 million. This sensitivity analysis is hypothetical, and is meant to illustrate the impact that risks classification and the severity of losses has on our determination of the allowance for loan losses. The analysis should not be considered a reflection of our expectations for future determinations of risk classification or for future changes in the severity of losses. Given the procedures that we follow in order to determine our loan portfolio's risk classification and our assessment of the severity of losses, we believe that the current risk classification and estimate of severity of losses for our loan portfolio are appropriate.

For additional information regarding our practices related to the allowance for loan losses, see Item 4. Information on the Company - Selected Statistical Information - Credit Operations - Non-performing loans and - Allowance for Loan Losses.

### ***Valuation of Derivatives and Securities***

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

We estimate fair value using quoted market prices when available. We note that quoted market price may be affected by the volume of securities traded and may not reflect control premiums resulting from agreements for shares with shareholders with significant holdings. Nonetheless, management believes that quoted market prices are the best indicator of fair value.

When quoted market prices are not available, we use models to estimate fair value. The factors used in these models include dealer quotes, pricing models, the prices of instruments with similar characteristics and discounted cash flows. Model-based pricing also uses information on interest rates, foreign exchange rates and option volatilities when relevant and available.

The determination of fair value when quoted market prices are not available involves management judgment, as models are dependent on our judgment regarding what weight to give different factors and the quality of the information we receive. For example, market data to rely upon when estimating the impact of holding a large or mature position are often limited. Similarly, we utilize our judgment in estimating prices when no external parameters exist. If we make incorrect assumptions, or the model itself makes incorrect assumptions or correlations, the amount of revenue or loss recorded for a specific asset or liability may be exaggerated. Judgment is also required to determine whether a decline



in fair value below the amortized cost of an available-for-sale security or a security held to maturity is other than temporary, such that it requires that we write down the amortized cost basis and reflect the reduction as an expense. In evaluating whether a decline is other than temporary, management exercises discretion in deciding the historical period to be considered and how severe a loss may be.

These valuation methods could expose us to materially different results should the models used or underlying assumptions be inaccurate.

### ***Classification of Securities***

The classification of securities as trading, available-for-sale or held to maturity is based on management's intention to hold or trade such securities at the time of acquisition. The accounting treatment of the securities we hold thus depends on whether we classify them at acquisition as trading, available-for-sale or held to maturity. Changes in circumstances may modify our strategy with respect to a specific security, requiring transfers among the three categories indicated above.

### ***Income Tax***

The determination of the amount of our tax liability is complex, and our assessment is related to our analysis of our deferred tax assets and liabilities and income tax payable. In general, our evaluation requires that we estimate future amounts of deferred tax benefits and income tax payable. Our assessment of the possibility that a deferred tax benefit could be realized is subjective and involves assessments and assumptions that are inherently uncertain in nature. The realization of deferred tax benefits is subject to changes in future tax rates and developments in our tax planning strategies. The underlying support for our assessments and assumptions could change over time as a result of unforeseen events or circumstances, influencing our determination of the amount of our tax liability.

We constantly monitor and evaluate the impact on our liability of new tax laws as well as new developments that could affect the assessments and assumptions underlying our analysis of the possibility of realizing deferred tax benefits.

For additional information regarding our income tax, see Item 4. Information on the Company Regulation and Supervision Taxation Income Tax and Social Contribution on Profits. Our accounting policy with respect to income tax recognition is discussed in note 2(q) of our consolidated financial statements in Item 18.

### ***Use of Estimates***

In presenting the financial statements our management makes estimates and assumptions that also include the amount of valuation allowances for deferred tax assets, assumptions underlying the calculation of the allowance for loan losses, assumptions relating to the calculation of insurance technical reserves, the selection of useful lives for certain assets and the determination of whether a specific asset or group of assets has been impaired. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates.

### ***Accounting for Unusual and Unique Transactions***

Accounting for unusual and unique transactions for which no specific literature exists requires significant judgment in identifying the key terms of the transaction, determining which situations in the literature may be considered analogous, drawing conclusions as to whether the treatments applied in



analogous situations are appropriate and, finally, determining which of possible alternative treatments identified is the most appropriate method of accounting for the transaction.

Certain of our transactions, such as those with BUS and those involving products and transactions unique to the Brazilian market, require management to apply significant judgment in determining the appropriate accounting treatment for each such transaction.

For additional information on the BUS transactions see Item 4. Information on the Company-The Company-History-Recent Important Acquisitions and Joint Ventures-BUS-Serviços de Telecomunicações Joint Venture. Our accounting policy with respect to this transaction is discussed in note 27 to our consolidated financial statements in Item 18.

### ***Commitments and Contingencies***

We have contractual obligations to make certain payments to third parties, in accordance with the amounts presented in the table below.

#### **Payments due as of December 31, 2004**

| <b>Contractual Obligations</b>  | <b>Less than<br/>1 year</b> | <b>1 to 3<br/>years</b> | <b>3 to 5<br/>years</b> | <b>More<br/>than<br/>5 years</b> | <b>Total</b>      |
|---|-----------------------------|-------------------------|-------------------------|----------------------------------|-------------------|
|   | <b>(R\$ in millions)</b>    |                         |                         |                                  |                   |
| Time deposits   | R\$12,914                   | R\$15,073               | R\$361                  | R\$112                           | R\$28,460         |
| Federal funds purchased and securities<br>sold under agreements to repurchase | 14,521                      | 1,594                   | 417                     |                                  | 16,532            |
| Long-term debt  | 4,468                       | 5,760                   | 2,226                   | 7,199                            | 19,653            |
| Other obligations(1)  | 33,469                      | 13,991                  | 674                     | 209                              | 48,343            |
| <b>Total</b>  | <b>R\$65,372</b>            | <b>R\$36,418</b>        | <b>R\$3,678</b>         | <b>R\$7,520</b>                  | <b>R\$112,988</b> |

(1) Includes reserves for insurance claims, pension plans and pension investment contracts.

### ***Off-balance Sheet Financial Guarantees***

As part of our credit operations, we enter into credit-related transactions with our customers, for the purpose of administering to their financing needs, which are not recorded on our balance sheet in accordance with U.S. GAAP. The following table summarizes these off-balance sheet financial arrangements as of December 31, 2004:

#### **Payments due as of December 31, 2004**

|                          | <b>Less than<br/>1 year</b> | <b>1 to 3<br/>years</b> | <b>3 to 5<br/>years</b> | <b>More<br/>than<br/>5 years</b> | <b>Total</b> |
|--------------------------|-----------------------------|-------------------------|-------------------------|----------------------------------|--------------|
| <b>(R\$ in millions)</b> |                             |                         |                         |                                  |              |

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|                    |                 |                 |               |                 |                 |
|--------------------|-----------------|-----------------|---------------|-----------------|-----------------|
| Guarantees granted | R\$1,791        | R\$1,589        | R\$886        | R\$3,834        | R\$8,100        |
| Letters of credit  | 130             |                 |               |                 | 130             |
| <b>Total</b>       | <b>R\$1,921</b> | <b>R\$1,589</b> | <b>R\$886</b> | <b>R\$3,834</b> | <b>R\$8,230</b> |

We grant financial guarantees conditioned on loans thus guaranteeing our clients' performance in a relationship between our client and a third party. We have the right to seek reimbursement from our clients for any amount we shall have to pay under such a guarantee. Additionally, we may withhold revenues in cash or enter into other high liquidity guarantees to counter-guarantee these obligations. The

agreements are subject to the same credit evaluation as the credit evaluation performed on the execution of loans.

Letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party. We issue commercial letters of credit to facilitate foreign trade transactions and to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. These instruments are short-term commitments to pay a third-party beneficiary under certain contractual conditions regarding the shipment of goods. The contracts are subject to the same credit evaluations as other extensions of credit.

We expect many of these guarantees to expire without the need to advance any cash. Therefore, in the ordinary course of business, we expect for these transactions to have virtually no impact on our liquidity.

## **Results by Segment**

We operate and manage our business through two principal operating segments: the banking segment and the insurance, pension funds and certificated savings plans segment. Our segments are managed based on types of products and services offered and their related client bases. We evaluate the performance of our segments based on net income, net interest income, and non-interest income and expense.

The sum of amounts presented by segment may not equal amounts reported on a consolidated basis due to amounts attributable to other immaterial segments and to adjustments, reclassifications and eliminations for inter-company transactions.

In our banking segment, we offer a range of banking products and services to our customers, including deposit-taking and lending operations, credit and debit card services, and capital markets services, through our broad distribution network. For a description of the banking segment's operations, see Item 4. Information on the Company The Company Banking.

In our insurance, pension plans and certificated savings plans segment, we offer a range of products and services to our customers, including health, life, accident, automobile and property insurance, individual and corporate pension plans, and certificated savings accounts, through our broad distribution network. For a description of the operations of the insurance, pension plans and certificated savings plans segment, see Item 4. Information on the Company The Company Insurance, Pension Plans and Certificated Savings Plans.

**Results of Operations for Year Ended December 31, 2004 Compared with December 31, 2003**

The following tables show the principal components of our net income for 2004 and 2003 on a company-wide basis and by segment:

| <b>Bradesco</b>                                   |             |             |                          |
|---|-------------|-------------|--------------------------|
|   | <b>2003</b> | <b>2004</b> | <b>Percentage change</b> |
| <b>(R\$ in millions, except percentages)</b>      |             |             |                          |
| Net interest income                               | R\$14,999   | R\$14,804   | (1.3)%                   |
| Provision for loan losses                         | (2,034)     | (1,429)     | (29.7)                   |
| Non-interest income                               | 11,109      | 14,282      | 28.6                     |
| Non-interest expense                              | (21,418)    | (23,717)    | 10.7                     |
| Income before income taxes and minority interests | 2,656       | 3,940       | 48.3                     |
| Income taxes                                      | (346)       | (601)       | 73.7                     |
| Income before minority interest                   | 2,310       | 3,339       | 44.5                     |
| Minority interest                                 | (8)         | (12)        | 50.0                     |
| Net income  | R\$2,302    | R\$3,327    | 44.5%                    |

|   | Banking    |          |        | Insurance, Pension Plans & Certificated Savings Plans |          |         |
|---|------------|----------|--------|---|----------|---------|
|   | Percentage |          |        | Percentage  |          |         |
|   | 2003       | 2004     | Change | 2003  | 2004     | Change  |
| (R\$ in millions, except percentages)             |            |          |        |   |          |         |
| Net interest income                               | R\$10,034  | R\$9,861 | (1.7)% | R\$4,959  | R\$4,937 | (0.4)%  |
| Provision for loan losses                         | (2,034)    | (1,429)  | (29.7) |   |          |         |
| Non-interest income                               | 4,041      | 6,370    | 57.6   | 7,020   | 7,794    | 11.0    |
| Non-interest expense                              | (10,424)   | (11,418) | 9.5    | (10,949)  | (12,201) | 11.4    |
| Income before income taxes and minority interests | 1,617      | 3,384    | 109.3  | 1,030   | 530      | (48.5)  |
| Income taxes                                      | 24         | (457)    |        | (364)   | (138)    | (62.1)  |
| Income before minority interest                   | 1,641      | 2,927    | 78.4   | 666   | 392      | (41.1)  |
| Minority interest                                 | (6)        | (8)      | 33.3   | (2)   | (4)      | 100.0   |
| Net income  | R\$1,635   | R\$2,919 | 78.5%  | R\$664  | R\$388   | (41.6)% |





***Net Interest Income***

The following table shows the principal components of our net interest income before provision for loan losses for 2003 and 2004, on a company-wide basis and by segment:

|  | <b>Bradesco</b> |             |                              | <b>Banking</b> |             |                              | <b>Insurance, Pension Plans<br/>&amp; Certificated Savings Plans</b> |             |                              |
|--|-----------------|-------------|------------------------------|----------------|-------------|------------------------------|--|-------------|------------------------------|
|  | <b>2003</b>     | <b>2004</b> | <b>Percentage<br/>Change</b> | <b>2003</b>    | <b>2004</b> | <b>Percentage<br/>Change</b> | <b>2003</b>  | <b>2004</b> | <b>Percentage<br/>Change</b> |
| <b>(R\$ in millions, except percentages)</b> |                 |             |                              |                |             |                              |  |             |                              |
| Interest income                              | 24,716          | 23,723      | (4.0)%                       | \$19,768       | 18,793      | (4.9)%                       | 4,959  | 4,937       | (0.4)%                       |
| Interest expense                             | (9,717)         | (8,919)     | (8.2)                        | (9,734)        | (8,932)     | (8.2)                        | -  | -           |                              |
| Net interest income                          | 14,999          | 14,804      | (1.3)%                       | 10,034         | 9,861       | (1.7)%                       | 4,959  | 4,937       | (0.4)%                       |

The following table shows, on a company-wide basis and by segment, how much of the decrease in our net interest income was attributable to changes in the average volume of interest-earning assets and interest bearing liabilities, and how much was attributable to changes in average interest rates (including the effects of the appreciation of the *real*) in each case for the year 2004 as compared to the year 2003:

|  | <b>Bradesco</b> | <b>Banking</b> | <b>Insurance,<br/>Pension<br/>Plans &amp;<br/>Certificated<br/>Savings Plans</b> |
|--|-----------------|----------------|--|
| <b>2004/2003 Increase (decrease) (R\$ in millions)</b>                                       |                 |                |  |
| Due to changes in average volume of interest-earning assets and interest bearing liabilities | R\$1,617        | R\$(114)       | R\$1,549   |
| Due to changes in average interest rates   | (1,812)         | (59)           | (1,571)  |
| Net change   | R\$(195)        | R\$(173)       | R\$(22)  |

**Banking**

The R\$173 million decrease in net interest income in the banking segment in 2004 from 2003 resulted mainly from a 6.2% increase in the average volume of interest bearing liabilities, compared with an increase of only 5.7% in the volume of interest-earning assets, which in turn produced a decrease of R\$114 million in net interest income. This decrease resulted primarily from a 16.7% increase in federal funds purchased and securities sold under repurchase agreements, from an 8.7% increase in the average balance of our long-term debt, as well as from a 3.8% increase in time deposits, which, in turn, were partially offset by a 8.2% increase in the average balance of our credit portfolio. This increase was due primarily to an increase in funds loaned to individuals, especially for automobile financing and personal loans.

The reduction of the basic interest rate from 23.3% in 2003 to 16.2% in 2004 resulted in a decrease of R\$59 million in our net interest income in 2004, as compared to 2003.

Net interest margin is net interest income as a percentage of average interest-earning assets. Our net interest margin in the banking segment fell from 10.1% in 2003 to 9.4% in 2004.

#### Insurance, Pension Plans and Certificated Savings Plans

The R\$22 million decrease in net interest income in the insurance, pension plans and certificated savings plans segment in 2004 from 2003 was primarily due to a decrease in average interest rates during 2004, which was partially offset by an increase in the average volume of interest-earning assets. The base interest rate decreased from 23.3% in 2003 to 16.2% in 2004, leading to a decrease in net interest income of R\$1,571 million in 2004 in comparison with 2003. The changes in the average volume of interest-earning assets (which increased by 36.9%) led to an increase in interest income of R\$1,549 million.

These increases were primarily due to a 40.4% increase in our average balance of trading securities, made possible by an increase in funds from sales of our pension investment contracts VGBL and PGBL.

Our net interest margin in the insurance, pension plans and certificated savings plans segment decreased from 22.7% in 2003 to 16.5% in 2004.

### *Interest Income*

The following tables show, on a company-wide basis and by segment, the average balance of the principal components of our average interest-earning assets and the average interest rates earned in 2003 and 2004:

| <b>Bradesco</b>  |                   |                   |                          |
|--|-------------------|-------------------|--------------------------|
|  | <b>2003</b>       | <b>2004</b>       | <b>Percentage Change</b> |
| <b>(R\$ in millions, except percentages)</b>                           |                   |                   |                          |
| <b>Average balance of interest-earning assets:</b>                     |                   |                   |                          |
| Loans  | R\$51,039         | R\$55,230         | 8.2%                     |
| Federal funds sold and securities purchased under agreements to resell | 19,487            | 18,628            | (4.4)                    |
| Trading securities   | 27,077            | 34,039            | 25.7                     |
| Available-for-sale securities  | 3,147             | 5,682             | 80.6                     |
| Securities held to maturity  | 3,088             | 4,528             | 46.6                     |
| Interest bearing deposits in other banks                               | 4,651             | 3,226             | (30.6)                   |
| Central bank compulsory deposits                                       | 11,988            | 13,070            | 9.0                      |
| Other interest-earning assets  | 985               | 858               | (12.9)                   |
| <b>Total</b>   | <b>R\$121,462</b> | <b>R\$135,261</b> | <b>11.4%</b>             |
| <b>Average interest rate earned:</b>                                   | <b>20.3%</b>      | <b>17.5%</b>      |                          |

|  | Banking          |                   |                   | Insurance, Pension Plans & Certificated Savings Plans |                  |                   |
|--|------------------|-------------------|-------------------|---|------------------|-------------------|
|  | 2003             | 2004              | Percentage Change | 2003  | 2004             | Percentage Change |
| (R\$ in millions, except percentages)              |                  |                   |                   |   |                  |                   |
| <b>Average balance of interest-earning assets:</b> |                  |                   |                   |   |                  |                   |
| Loans  | R\$51,039        | R\$55,230         | 8.2%              |   |                  |                   |
| Federal funds sold and securities purchased        |                  |                   |                   |   |                  |                   |
| under agreements to resell                         | 19,487           | 18,628            | (4.4)             |   |                  |                   |
| Trading securities                                 | 9,274            | 9,036             | (2.6)             | R\$17,803   | R\$25,003        | 40.4%             |
| Available-for-sale securities                      | 1,687            | 3,860             | 128.8             | 1,460   | 1,822            | 24.8              |
| Securities held to maturity                        | 680              | 1,616             | 137.6             | 2,408   | 2,912            | 20.9              |
| Interest bearing deposits in other banks           | 4,526            | 3,088             | (31.8)            | 202   | 209              | 3.5               |
| Central bank compulsory deposits                   | 11,988           | 13,070            | 9.0               |   |                  |                   |
| Other interest-earning assets                      | 985              | 858               | (12.9)            |   |                  |                   |
| <b>Total</b>                                       | <b>R\$99,666</b> | <b>R\$105,386</b> | <b>5.7%</b>       | <b>R\$21,873</b>                                      | <b>R\$29,946</b> | <b>36.9%</b>      |
| <b>Average interest rate earned:</b>               | <b>19.8%</b>     | <b>17.8%</b>      |                   | <b>22.7%</b>  | <b>16.5%</b>     |                   |

For further information about average interest rates by type of assets, see Item 4. Information on the Company Selected Statistical Information Average Balance Sheet and Interest Rate Data.

The following table shows, on a company-wide basis and by segment, how much of the decrease in our interest income was attributable to changes in the average volume of interest-earning assets, and how much was attributable to changes in average interest rates (including the effects of the appreciation of the *real*) in each case for the year 2004 as compared to the year 2003:

|  | Bradesco          | Banking        | Insurance, Pension Plans & Certificated Savings Plans |
|--|-------------------|----------------|---|
| 2004/2003 increase (decrease)  |                   |                |   |
|  | (R\$ in millions) |                |   |
| Due to changes in average volume of interest-earning assets and interest bearing liabilities | R\$2,606          | R\$883         | R\$1,549  |
| Due to changes in average interest rates   | <u>(3,599)</u>    | <u>(1,858)</u> | <u>(1,571)</u>  |
| Net change   |                   |                |   |

R\$(993)R\$(975)R\$(22)Banking

Interest income in the banking segment decreased by R\$975 million in 2004, a 4.9% decrease compared to 2003, primarily due to a decrease in interest income from federal funds sold and securities purchased under agreements to resell and trading securities that was partially offset by the increase in the interest income from loans.

The interest income from federal funds sold and securities purchased under agreements to resell decreased from R\$3,861 million in 2003 to R\$2,738 million in 2004. This decrease was mainly a result of the decrease in the average interest rate from 23.3% in 2003 to 16.2% in 2004 as well as a 4.4% decrease in the average balance of our transactions.

The 27.3% decrease in interest income from trading securities, from R\$1,842 million in 2003 to R\$1,340 million in 2004, was largely attributable to the decrease on the average rates from 23.3% in 2003 to 16.2% in 2004,

partially offset by the lower exchange losses in 2004 compared to 2003 as a result the decline in the appreciation of the *real* from 18.2% in 2003 to 8.1% in 2004. When the *real* appreciates our interest income from such assets as measured in *reais* decreases and as a consequence the income decrease in 2004 related to the appreciation of the *real* was lower than in 2003.

The increase in our interest income was due to a 5.2% increase in interest income from loans, from R\$12,176 million in 2003 to R\$12,812 million in 2004, which resulted from a 8.2% increase in the average balance of loans from R\$51,039 million in 2003, to R\$ 55,230 million in 2004, partially offset by a decline in average interest rates. This increase resulted mainly from an increase in personal loans and automobile financing to individuals, where interest rates are higher than our average rates, and, to a lesser extent, from the reduction in exchange losses resulting from the lower appreciation of the *real* against the dollar in 2004. The increases in interest income due to the foregoing factors were partially offset by a decrease in interest income resulting from a decline in average interest rates from 23.3% in 2003 to 16.2% in 2004.

#### Insurance, Pension Plans and Certificated Savings Plans

Interest income in the insurance, pension plans and certificated savings plans segment decreased by R\$22 million in 2004, a 0.4% decrease from 2003, primarily due to a decrease in average interest rates during 2004, which was partially offset by an increase in the average volume of interest earning assets. The changes in the average volume of such assets resulted in R\$1,549 million of income, an increase of 36.9%, was due primarily to a 40.4% increase in the average balance of our trading securities, which was related to increased sales of our VGBL and PGBL products in 2004.

#### *Interest Expense*

The following table shows the principal components of our average interest bearing liabilities and the average interest rates paid on those liabilities in 2003 and 2004, all of which are in the banking segment:

|   | <b>Banco<br/>Bradesco</b>                    |                  |                              |
|---|--|------------------|------------------------------|
|   | <b>2003</b>                                  | <b>2004</b>      | <b>Percentage<br/>Change</b> |
|   | <b>(R\$ in millions, except percentages)</b> |                  |                              |
| <b>Average balance of interest-bearing liabilities:</b>                       |  |                  |                              |
| Savings deposits  | R\$20,680                                    | R\$22,499        | 8.8%                         |
| Time deposits   | 24,230                                       | 25,159           | 3.8                          |
| Federal funds purchased and securities sold<br>under agreements to repurchase | 15,486                                       | 18,070           | 16.7                         |
| Short-term borrowings   | 9,219  | 8,442            | (8.4)                        |
| Long-term debt  | 16,417                                       | 17,839           | 8.7                          |
| Deposits from financial institutions  | 657  | 90               | (86.3)                       |
| <b>Total</b>  | <b>R\$86,689</b>                             | <b>R\$92,099</b> | <b>6.2%</b>                  |
| <b>Average interest rate paid:</b>  | <b>11.2%</b>                                 | <b>9.7%</b>      |                              |





|  | Banking   |           |                   | Insurance, Pension Plans & Certified Savings Plans |      |                   |
|--|-----------|-----------|-------------------|--|------|-------------------|
|  | 2003      | 2004      | Percentage Change | 2003   | 2004 | Percentage Change |
| (R\$ in millions, except percentages)                                      |           |           |                   |  |      |                   |
| <b>Average balance of interest-bearing liabilities:</b>                    |           |           |                   |  |      |                   |
| Savings deposits   | R\$20,698 | R\$22,502 | 8.7%              |  |      |                   |
| Time deposits  | 24,298    | 25,230    | 3.8               |  |      |                   |
| Federal funds purchased and securities sold under agreements to repurchase | 15,486    | 18,070    | 16.7              |  |      |                   |
| Short-term borrowings  | 9,219     | 8,442     | (8.4)             |  |      |                   |
| Long-term debt   | 16,417    | 17,839    | 8.7               |  |      |                   |
| Deposits from financial institutions                                       | 657       | 90        | (86.3)            |  |      |                   |
| Total  | R\$86,775 | R\$92,173 | 6.2%              |  |      |                   |
| <b>Average interest rate paid:</b>   | 11.2%     | 9.7%      |                   |  |      |                   |

For further information on average interest rates by type of liability, see Item 4. Information on the Company Selected Statistical Information Average Balance Sheet and Interest Rate Data.

The following table shows how much of the decrease in our interest expense was attributable to changes in the average volume of interest bearing liabilities and how much was attributable to changes in average interest rates (including the effects of the appreciation of the *real*) in each case for the year 2004 as compared to the year 2003:

|  | Bradesco | Banking  | Insurance, Pension Plans & Certified Savings Plans |
|--|----------|----------|--|
| 2004/2003 (decrease)   |          |          |  |
| (R\$ in millions)  |          |          |  |
| Due to changes in average volume of interest bearing liabilities | R\$989   | R\$997   | -  |
| Due to changes in average interest rates                         | (1,787)  | (1,799)  | -  |
| Net change   | R\$(798) | R\$(802) | -  |

Banking

The 8.2% decrease in our interest expense in our banking segment for 2004 compared to 2003 was primarily attributable to lower interest expenses on time deposits, partially offset by higher interest expenses on long-term debt.

The decrease of our interest expense was due to a 21.4% decrease in our interest expenses on time deposits from R\$4,250 million in 2003 to R\$3,340 million in 2004. This decrease was mainly due to a decrease in average interest rates, from 23.3% in 2003 to 16.2% in 2004, which was partially offset by a 3.8% increase in our average volume of time deposits, from R\$24,298 million in 2003 to R\$25,230 million in 2004. The increase in our time deposits was primarily due to increased demand by institutional investors.

We recorded interest income related to short-term borrowings, represented mainly by short-term international financing facilities denominated in foreign currency, in 2003 and 2004, as a result of exchange gains as a result of the appreciation of the *real* in both years. Our income in respect of such borrowings decreased in 2003 and in 2004, due primarily to the lower appreciation of the *real* against the dollar of 8.1% in 2004, compared with 18.2% in 2003.

Interest expense on our long-term debt increased 86.9%, from R\$865 million during 2003 to R\$1,617 million during 2004. This increase was due primarily to an increase of R\$563 million in our interest expense on our long-term international financing facilities denominated in foreign currency, which in turn was largely attributable to the smaller appreciation of the *real* against the U.S. dollar during 2004 when compared to 2003.

### ***Provision for Loan Losses***

The following table shows changes in our allowance for loan losses, provision for loan losses, loan charge-offs and loan recoveries for the years ended 2003 and 2004, as well as our provisions-to-loans ratio (expressed as a percentage of the average balance of our loans):

|  | 2003     | 2004     | Percentage<br>Change |
|--|----------|----------|----------------------|
| <b>(R\$ in millions, except percentages)</b>                       |          |          |                      |
| Allowance for loan losses at the beginning of the year             | R\$3,455 | R\$3,846 | 11.3%                |
| Provision for loan losses  | 2,034    | 1,429    | (29.7)               |
| Loan charge-offs   | (2,058)  | (1,824)  | (11.4)               |
| Loan recoveries  | 415      | 612      | 47.5                 |
| Allowance for loan losses at the end of the year                   | 3,846    | R\$4,063 | 5.6                  |
| Ratio of provision for loan losses to average loans<br>outstanding | 3.8%     | 2.5%     |                      |

The allowance for loan losses increased 5.6% from R\$3,846 million as of December 31, 2003 to R\$4,063 million as of December 31, 2004, primarily due to a 8.2% increase in our average loan balance.

We believe that Brazil's economic situation has not yet completely stabilized, although the economy showed indications of improvement during 2004. Accordingly, the allowance for loan losses decreased as a percentage of loans from 7.0% in 2003 to 6.4% in 2004.

The Brazilian economy performed well during 2004, largely due to the current administration's implementation of fiscal austerity policies. As a result, our level of annual loan losses, defined as the value of loan charge-offs as a percentage of the total value of outstanding loans, decreased from 3.9% in 2003 to 3.2% in 2004. Similarly, recoveries of troubled loans increased by 47.5% as compared to 2003, and loan charge-offs fell by 11.4% for the year, as the rate of loan defaults decreased. Overall, during 2004 the provision for loan losses decreased by 29.7% as compared to 2003.

Our borrowers' ability to perform their obligations in light of the improving Brazilian economy, as well as our own increased selectivity in granting loans, is reflected in improvements in the risk classifications of our loan portfolio. The percentage of loans in our top four risk classifications, none of which are considered to be non-performing, was 92.6% at December 31, 2004, an increase from 92.0% at December 31, 2003. Loans in a lower two risk classification categories increased from 68.1% of the total at year-end 2003, to 68.9% at year-end 2004, reflecting the improvement in the overall quality of the portfolio.

We believe that our current allowance for loan losses is sufficient to cover known and estimated future loan losses in our portfolio. For more information, see Item 4. Information on the Company Selected Statistical Information Credit

Operations Non-performing loans Charge-offs and Non-performing Loans and Allowance for Loan Losses.

We believe that the amount of, and changes in, our allowance for loan losses, viewed as a percentage of the total portfolio, are consistent with our historical net loss experience, rates of default and charge-offs.

In 2004, our loan portfolio growth strategy continued to focus on extending personal loans and automobile financing to individuals, such loan historically having a better return rate than loans to industries and companies, although they have a higher level of default. Such strategy reflects in the growth of our other financings account, which includes loans only to individuals, with an increase of 44.0% in 2004, increasing its participations over the total credit portfolio from 20.0% in 2003 to 25.0% in 2004.

The business expansion of loans to individuals was due mainly to efforts to estimate the organic growth of our portfolio, distributed among all the segments specialized in this kind of customer. Although with a lower participation, the acquisition of Banco Zogbi in 2004, completed the expansion plan, increasing our participation in the personal credit for lower income clients.

Shifts in the quality of our loan portfolio played a more significant role in determining our allocation of allowances for loan losses than any other criteria change or trend in non-performing loans.

The economic segments that performed well in 2004 were largely those that were oriented toward foreign trade. Despite the appreciation of the *real*, exporters were aided by favorable exchange rates, as the U.S. dollar depreciated against the euro.

The strength of the export-based segments of the economy was also reflected in the growth of agriculture-related loans in our portfolio, which increased from 8.1% of the total portfolio in 2003 to 9.6% in 2004. This led to an additional allowance for loan losses of R\$33 million in this segment, representing 2.3% of the expense allowance for loan losses during this period. We increased the balance of our loans classified as industrial and other loans, the largest segment of our loan portfolio, by 9.9%, while having a very small reduction in the total of loans, reaching 38.1% as compared to 40.0% in 2003. The small decrease related to the level of loans in this classification was influenced by the decrease in volume of loans to major companies, which in turn was affected by the appreciation of the *real* as a result of the large number of foreign currency assets in our portfolio.

For a description of the Central Bank's regulation of lending operations, see Item 4. Information on the Company-Regulation and Supervision-Treatment of Overdue Debts and note 2(j) to our consolidated financial statements in Item 18.

***Non-interest Income***

The following tables show, on a company-wide basis and by segment, the principal components of our non-interest income for 2003 and 2004.

| <b>Bradesco</b>   |                  |                  |                          |
|---|------------------|------------------|--------------------------|
|   | <b>2003</b>      | <b>2004</b>      | <b>Percentage Change</b> |
| <b>(R\$ in millions, except percentages)</b>            |                  |                  |                          |
| Fee and commission income                               | R\$3,463         | R\$4,310         | 24.5%                    |
| Trading income  | 45               | 1,236            | 2,646.7                  |
| Net realized gains on available-for-sale securities     | 738              | 433              | (41.3)                   |
| Net gain on foreign currency transactions               | 198              | 269              | 35.9                     |
| Equity in earnings (losses) of unconsolidated companies | 60               | 66               | 10.0                     |
| Insurance premiums                                      | 6,149            | 6,764            | 10.0                     |
| Pension plan income                                     | 64               | 374              | 484.4                    |
| Other non-interest income                               | 392              | 830              | 111.7                    |
| <b>Total</b>  | <b>R\$11,109</b> | <b>R\$14,282</b> | <b>28.6%</b>             |

|   | Banking                               |                 |                   | Insurance, Pension Plans & Certificated Savings Plans |                 |                   |
|---|---------------------------------------|-----------------|-------------------|---|-----------------|-------------------|
|   | 2003                                  | 2004            | Percentage Change | 2003  | 2004            | Percentage Change |
|   | (R\$ in millions, except percentages) |                 |                   |   |                 |                   |
| Fee and commission income                               | R\$3,225                              | R\$3,885        | 20.5%             | R\$191  | R\$312          | 63.4%             |
| Trading income (losses)                                 | 154                                   | 1,248           | 710.4             | (108)   | (12)            | (88.9)            |
| Net realized gains on available-for-sale securities     | 167                                   | 168             | 0.6               | 570   | 252             | (55.8)            |
| Net gain on foreign currency transactions               | 198                                   | 269             | 35.9              |   |                 |                   |
| Equity in earnings (losses) of unconsolidated companies | 101                                   | 32              | (68.3)            | (41)  | 33              |                   |
| Insurance premiums                                      |                                       | -               |                   | 6,149   | 6,764           | 10.0              |
| Pension plan income                                     |                                       | -               |                   | 64  | 374             | 484.4             |
| Other non-interest income                               | 196                                   | 768             | 291.8             | 195   | 71              | (63.6)            |
| <b>Total</b>  | <b>R\$4,041</b>                       | <b>R\$6,370</b> | <b>57.6%</b>      | <b>R\$7,020</b>                                       | <b>R\$7,794</b> | <b>11.0%</b>      |

Banking

Non-interest income in the banking segment increased 57.6% in 2004 compared to 2003, principally due to an increase in income from trading securities and an increase in fee and commission income.

Income from trading securities increased 710.4% from an income of R\$154 million in 2003 to an income of R\$1,248 million in 2004. This increase resulted principally from a reduction in exchange losses due to smaller appreciation of the *real*, as well as an increase in income from hedging operations.

Fee and commission income increased from R\$3,225 million in 2003 to R\$3,885 million in 2004, or 20.5%, primarily due to an increase in the volume of operations that yield fees and commissions and growth in our client base. Fees and commissions from the administration of funds and for services related to current accounts saw the greatest increase, largely due to the increased volume of these transactions.

#### Insurance, Pension Plans and Certificated Savings Plans

Non-interest income in the insurance, pension plans and certificated savings plans segment increased 11.0% in 2004 compared to 2003, principally due to increases in insurance premiums and pension plan income.

Insurance premiums increased by 10.0%, from R\$6,149 million in 2003 to R\$6,764 million in 2004. This increase resulted principally from increases in the volume of automobile and health insurance policies sold, which was largely due to the ability of brokers and clients to enter into policy agreements via the Internet.

#### *Non-interest Expense*

The following tables show, on a company-wide and per segment basis, the principal components of our non-interest expense for 2003 and 2004:

|   | <b>Bradesco</b>                              |                    |                          |
|---|--|--------------------|--------------------------|
|   | <b>2003</b>                                  | <b>2004</b>        | <b>Percentage Change</b> |
|   | <b>(R\$ in millions, except percentages)</b> |                    |                          |
| Salaries and benefits   | R\$(4,677)                                   | R\$(4,864)         | 4.0%                     |
| Administrative expenses   | (3,909)                                      | (4,057)            | 3.8                      |
| Amortization of intangible assets   | (266)  | (278)              | 4.5                      |
| Insurance claims and provisions for claims incurred but not reported  | (4,333)                                      | (4,822)            | 11.3                     |
| Changes in reserves for insurance, pension plans, certificated savings plans and pension investment contracts | (3,777)                                      | (4,326)            | 14.5                     |
| Pension plan operating expenses   | (637)  | (751)              | 17.9                     |
| Insurance and pension plan selling expenses   | (762)  | (907)              | 19.0                     |
| Depreciation and amortization   | (744)  | (789)              | 6.0                      |
| Other non-interest expense  | (2,313)                                      | (2,923)            | 26.4                     |
| <b>Total</b>  | <b>R\$(21,418)</b>                           | <b>R\$(23,717)</b> | <b>10.7%</b>             |



|  | Banking            |                    |                      | Insurance, Pension Plans &<br>Certificated Savings Plans |                    |                      |
|--|--------------------|--------------------|----------------------|--|--------------------|----------------------|
|  | 2003               | 2004               | Percentage<br>Change | 2003   | 2004               | Percentage<br>Change |
| (R\$ in millions, except percentages)  |                    |                    |                      |  |                    |                      |
| Salaries and benefits  | R\$(4,189)         | R\$(4,325)         | 3.2%                 | R\$(462)   | R\$(480)           | 3.9%                 |
| Administrative expenses  | (3,555)            | (3,722)            | 4.7                  | (484)  | (455)              | (6.0)                |
| Amortization of intangible assets  | (256)              | (274)              | 7.0                  | (10)   | (4)                | (60.0)               |
| Insurance claims and provisions<br>for claims incurred but not<br>reported   |                    |                    |                      | (4,333)  | (4,822)            | 11.3                 |
| Changes in reserves for insurance,<br>pension plans, certificated savings<br>plans and pension investment<br>contracts |                    |                    |                      | (3,777)  | (4,326)            | 14.5                 |
| Pension plan operating expenses  |                    |                    |                      | (637)  | (751)              | 17.9                 |
| Insurance and pension plan selling<br>expenses   |                    |                    |                      | (762)  | (907)              | 19.0                 |
| Depreciation and amortization  | (675)              | (728)              | 7.9                  | (67)   | (56)               | (16.4)               |
| Other non-interest expense   | (1,749)            | (2,369)            | 35.4                 | (417)  | (400)              | (4.1)                |
| <b>Total</b>   | <b>R\$(10,424)</b> | <b>R\$(11,418)</b> | <b>9.5%</b>          | <b>R\$(10,949)</b>                                       | <b>R\$(12,201)</b> | <b>11.4%</b>         |

**Banking**

Non-interest expense in the banking segment increased 9.5% in 2004 compared to 2003, due primarily to increases in administrative expenses, salaries and benefits. The salaries and benefits expense increased by 3.2%, from R\$4,189 million in 2003 to R\$4,325 million in 2004, partially due to the effect of a bargaining agreement with labor unions and the consolidation of BBV Banco, Zogbi and BEM, which was partially offset by headcount reduction.

Administrative expenses increased by 4.7%, from R\$3,555 million in 2003 to R\$3,722 million in 2004, due primarily to the consolidation of BBV Banco, Banco Zogbi and BEM.

**Insurance, Pension Plans and Certificated Savings Plans**

Non-interest expense in the insurance, pension plans and certificated savings plans segment increased 11.4% in 2004 compared to 2003, due primarily to an increase in insurance claims and provisions for claims incurred but not reported as well as in the expense for changes in provisions for insurance, pension plans and certificated savings plans. Insurance claims increased by 11.3%, from R\$4,333 million in 2003, to R\$4,822 million in 2004, largely due to an increase in payments of claims under automobile and health insurance policies due to the increase in the number of policies in force.

The expense for changes in reserves for insurance, pension plans and certificated savings plans increased by 14.5% in 2004 compared to 2003, from R\$3,777 million in 2003 to R\$4,326 million in 2004, due to the establishment of a

provision in the portfolio of the health segment in R\$324 million, mainly to solve the level problem regarding the premiums per persons over sixty years, due to a change in the applicable law, occurred in 2004.

***Income Tax***

Income tax in Brazil is comprised of federal income taxes and the Social Contribution Tax on adjusted income. See Overview Taxes. The combined rate of these two taxes has been 34% since February 2000.

Income tax expense increased by 73.7% to R\$601 million in 2004 from R\$346 million in 2003. Income tax expense as a percentage of our income before income taxes, adjusted for income in earnings (losses) of unconsolidated companies, increased to 15.5% in 2004 from 13.3% in 2003.

The increase was due primarily to the increase in taxable income in 2004.

***Net Income***

As a result of the foregoing, net income for 2004 increased 44.5%, from R\$2,302 million in 2003 to R\$3,327 million in 2004.

**Results of Operations for Year Ended December 31, 2003 Compared with December 31, 2002**

The following tables show the principal components of our net income for 2003 and 2002 on a company-wide basis and by segment:

|   | <b>Bradesco</b>                              |             |                          |
|---|--|-------------|--------------------------|
|   | <b>2002</b>                                  | <b>2003</b> | <b>Percentage change</b> |
|   | <b>(R\$ in millions, except percentages)</b> |             |                          |
| Net interest income                               | R\$13,467                                    | R\$14,999   | 11.4%                    |
| Provision for loan losses                         | (2,543)                                      | (2,034)     | (20.0)                   |
| Non-interest income                               | 7,963  | 11,109      | 39.5                     |
| Non-interest expense                              | (16,599)                                     | (21,418)    | 29.0                     |
| Income before income taxes and minority interests | 2,288  | 2,656       | 16.1                     |
| Income taxes                                      | (161)  | (346)       | 114.9                    |
| Change in accounting principle                    | 27   |             | (100.0)                  |
| Income before minority interest                   | 2,154  | 2,310       | 7.2                      |
| Minority interest                                 | (12)   | (8)         | (33.3)                   |
| Net income  | 2,142  | 2,302       | 7.5                      |

|   | Banking   |           |                   | Insurance, Pension Plans & Certificated Savings Plans |          |                   |
|---|-----------|-----------|-------------------|---|----------|-------------------|
|   | 2002      | 2003      | Percentage Change | 2002  | 2003     | Percentage Change |
| (R\$ in millions, except percentages)             |           |           |                   |   |          |                   |
| Net interest income                               | R\$10,436 | R\$10,034 | (3.9)%            | R\$3,021  | R\$4,959 | 64.2%             |
| Provision for loan losses                         | (2,543)   | (2,034)   | (20.0)            | -   | -        | -                 |
| Non-interest income                               | 2,304     | 4,041     | 75.4              | 5,684   | 7,020    | 23.5              |
| Non-interest expense                              | (8,630)   | (10,424)  | 20.8              | (7,989)   | (10,949) | 37.1              |
| Income before income taxes and minority interests | 1,567     | 1,617     | 3.2               | 716   | 1,030    | 43.9              |
| Income taxes                                      | 22        | 24        | 9.1               | (173)   | (364)    | 110.4             |
| Change in accounting principle                    | 27        | -         | (100.0)           | -   | -        | -                 |
| Income before minority interest                   | 1,616     | 1,641     | 1.5               | 543   | 666      | 22.7              |
| Minority interest                                 | (9)       | (6)       | (33.3)            | (3)   | (2)      | (33.3)            |
| Net income  | 1,607     | 1,635     | 1.7               | 540   | 664      | 23.0              |

***Net Interest Income***

The following table shows the principal components of our net interest income before provision for loan losses for 2002 and 2003, on a company-wide basis and by segment:

|                                       | Bradesco  |           |                   | Banking   |           |                   | Insurance, Pension Plans & Certificated Savings Plans |          |                   |
|---------------------------------------|-----------|-----------|-------------------|-----------|-----------|-------------------|---|----------|-------------------|
|                                       | 2002      | 2003      | Percentage Change | 2002      | 2003      | Percentage Change | 2002  | 2003     | Percentage Change |
| (R\$ in millions, except percentages) |           |           |                   |           |           |                   |   |          |                   |
| Interest income                       | R\$28,394 | R\$24,716 | (13.0)%           | R\$25,380 | R\$19,768 | (22.1)%           | R\$3,021  | R\$4,959 | 64.2%             |
| Interest expense                      | (14,927)  | (9,717)   | (34.9)            | (14,944)  | (9,734)   | (34.9)            | -   | -        | -                 |
| Net interest income                   | 13,467    | 14,999    | 11.4              | 10,436    | 10,034    | (3.9)             | 3,021   | 4,959    | 64.2              |

The following table shows, on a company-wide basis and by segment, how much of our net interest income was attributable to changes in the average volume of interest-earning assets and interest bearing liabilities, and how much was attributable to changes in average interest rates (including the effects of the appreciation of the *real*) in each case for the year 2003 as compared to the year 2002:

|  | <b>Bradesco</b>                      | <b>Banking</b> | <b>Insurance,<br/>Pension<br/>Plans &amp;<br/>Certificated<br/>Savings Plans</b> |
|--|--------------------------------------|----------------|--|
|  | <b>2003/2002 Increase (decrease)</b> |                |  |
|  | <b>(R\$ in<br/>millions)</b>         |                |  |
| Due to changes in average volume of interest-earning assets and interest bearing liabilities | R\$2,000                             | R\$899         | R\$1,219   |
| Due to changes in average interest rates   | (468)                                | (1,301)        | 719  |
| Net change   | 1,532                                | (402)          | 1,938  |

#### Banking

The R\$402 million decrease in net interest income in the banking segment in 2003 from 2002 was due to the net effect of the reduction in average interest rates during the second half of 2003.

The effect of the decrease in net interest income was partially offset by the effect of the increase in average volume of interest-earning assets and interest bearing liabilities. The changes in the average

volume of interest bearing liabilities (which increased by 18.9%) and the average volume of interest-earning assets (which increased by 20.5%) led to an increase in net interest income of R\$899 million. These increases were primarily due to an 88.8% increase in our average balance of federal funds sold and securities purchased under agreements to resell among Brazilian financial institutions, as well as to a 30.1% increase in the average balance of trading securities. The increase in our average balance of trading securities was in turn largely due to an increase in funds available, most notably due to our issuance of subordinated debt as well as a decrease in demand for credit.

Net interest margin is net interest income as a percentage of average interest-earning assets. Our net interest margin in the banking segment fell from a rate of 12.6% in 2002 to a rate of 10.1% in 2003.

#### Insurance, Pension Plans and Certificated Savings Plans

The R\$1,938 million increase in net interest income in the insurance, pension plans and certificated savings plans segment in 2003 from 2002 was primarily due to an increase in the average volume of interest-earning assets. The changes in the average volume of interest-earning assets (which increased by 37.4%) led to an increase in interest income of R\$1,219 million. These increases were primarily due to a 43.6% increase in our average balance of trading securities made possible by an increase in funds available from sales of our VGBL and PGDL pension investment contracts.

The base interest rate remained high during most of the first half of 2003, leading to an increase in net interest revenue of R\$719 million in 2003 in comparison with 2002.

Our net interest margin in the insurance, pension plans and certificated savings plans segment increased from 19.0% in 2002 to 22.7% in 2003.

#### *Interest Income*

The following tables show, on a company-wide basis and by segment, the average balance of the principal components of our average interest-earning assets and the average interest rates earned in 2002 and 2003:

| <b>Bradesco</b>  |  |                   |                          |
|--|--|-------------------|--------------------------|
|  | <b>2002</b>                                  | <b>2003</b>       | <b>Percentage Change</b> |
|  | <b>(R\$ in millions, except percentages)</b> |                   |                          |
| <b>Average balance of interest-earning assets:</b>                     |  |                   |                          |
| Loans  | R\$49,590                                    | R\$51,039         | 2.9%                     |
| Federal funds sold and securities purchased under agreements to resell | 10,322                                       | 19,487            | 88.8                     |
| Trading securities   | 19,537                                       | 27,077            | 38.6                     |
| Available-for-sale securities  | 3,045  | 3,147             | 3.3                      |
| Securities held to maturity  | 5,295  | 3,088             | (41.7)                   |
| Interest bearing deposits in other banks                               | 2,154  | 4,651             | 115.9                    |
| Central bank compulsory deposits                                       | 8,149  | 11,988            | 47.1                     |
| Other interest-earning assets  | 340  | 985               | 189.7                    |
| <b>Total</b>   | <b>R\$98,432</b>                             | <b>R\$121,462</b> | <b>23.4</b>              |

|                                      |       |       |
|--------------------------------------|-------|-------|
| <b>Average interest rate earned:</b> | 28.8% | 20.3% |
|--------------------------------------|-------|-------|

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|  | Banking          |                  |                   | Insurance, Pension Plans & Certificated Savings Plans |                  |                   |
|--|------------------|------------------|-------------------|---|------------------|-------------------|
|  | 2002             | 2003             | Percentage Change | 2002  | 2003             | Percentage Change |
| (R\$ in millions, except percentages)              |                  |                  |                   |   |                  |                   |
| <b>Average balance of interest-earning assets:</b> |                  |                  |                   |   |                  |                   |
| Loans  | R\$49,590        | R\$51,039        | 2.9%              |   |                  |                   |
| Federal funds sold and securities purchased        |                  |                  |                   |   |                  |                   |
| under agreements to resell                         | 10,322           | 19,487           | 88.8              |   |                  |                   |
| Trading securities                                 | 7,130            | 9,274            | 30.1              | R\$12,396   | R\$17,803        | 43.6%             |
| Available-for-sale securities                      | 1,825            | 1,687            | (7.6)             | 1,282   | 1,460            | 13.9              |
| Securities held to maturity                        | 3,186            | 680              | (78.7)            | 2,112   | 2,408            | 14.0              |
| Interest bearing deposits in other banks           | 2,148            | 4,526            | 110.7             | 124   | 202              | 62.9              |
| Central bank compulsory deposits                   | 8,149            | 11,988           | 47.1              |   |                  |                   |
| Other interest-earning assets                      | 340              | 985              | 189.7             |   |                  |                   |
| <b>Total</b>                                       | <b>R\$82,690</b> | <b>R\$99,666</b> | <b>20.5%</b>      | <b>R\$15,914</b>                                      | <b>R\$21,873</b> | <b>37.4%</b>      |
| <b>Average interest rate earned:</b>               | <b>30.7%</b>     | <b>19.8%</b>     |                   | <b>19.0%</b>  | <b>22.7%</b>     |                   |

For further information about average interest rates by type of assets, see Item 4. Information on the Company Selected Statistical Information Average Balance Sheet and Interest Rate Data.

The following table shows, on a company-wide basis and by segment, how much of the decrease in our interest income was attributable to changes in the average volume of interest-earning assets, and how much was attributable to changes in average interest rates (including the effects of the appreciation of the *real*) in each case for the year 2003 as compared to the year 2002:

|   | Bradesco       | Banking           | Insurance, Pension Plans & Certificated Savings Plans |
|---|----------------|-------------------|---|
| 2003/2002 Increase (decrease)                               |                |                   |   |
|   |                | (R\$ in millions) |   |
| Due to changes in average volume of interest-earning assets | R\$4,473       | R\$3,362          | R\$1,219  |
| Due to changes in average interest rates                    | (8,151)        | (8,974)           | 719   |
| <b>Net change</b>   | <b>(3,678)</b> | <b>(5,612)</b>    | <b>1,938</b>  |



Banking

Interest income in the banking segment decreased by R\$5,612 million in 2003, a 22.1% decrease compared to 2002, primarily due to a decrease in interest income from loans and, to a lesser extent, a decrease in interest income from securities held to maturity.

The 28.5% decrease in interest income from loans, from R\$17,025 million to R\$12,176 million, was largely attributable to exchange-loss effect resulting from the 18.2% appreciation of the *real* against the dollar during 2003, on transactions indexed to or denominated in U.S. dollars, in contrast to the exchange-gain effect on such transactions resulting from the 52.3% depreciation of the *real* against the dollar in 2002. When the *real* appreciates, our interest income from such assets as measured in *real* decreases, and when the *real* depreciates, our interest income from such assets as measured in *real* increases. The impact of the 2003 appreciation of the *real* on interest income from loans was partially

offset by the impact of the overall increase in average interest rates during the year and an increase in the average volume of interest-earning loans due to the acquisition of BBV Banco in June 2003.

The decrease in our interest income was also due to a decrease in income from our securities held to maturity, from income of R\$1,258 million in 2002 to an expense of R\$11 million in 2003. Although the majority of our securities held to maturity were denominated in Brazilian *reais*, as of December 31, 2003 approximately 17.0% of them were denominated in, or indexed to, other currencies, primarily the U.S. dollar. When the *real* appreciates against the dollar, we experience exchange losses on securities denominated in or indexed to the dollar, which accordingly yield a lower effective rate of return than securities denominated in *reais*. Accordingly, the decrease in interest income from our securities held to maturity was largely due to the impact of the appreciation of the *real* on our income from those securities which were indexed to or denominated in U.S. dollars, which led to a R\$723 million decrease in interest income. The decrease in income from our securities held to maturity was also due to a decrease in the average volume, which led to a R\$546 million decrease in interest income.

### Insurance, Pension Plans and Certificated Savings Plans

Interest income from insurance, pension plans and certificated savings plans increased by R\$1,938 million in 2003, a 64.2% increase from 2002, primarily due to a 99.3% increase in interest income from trading securities, consisting primarily of Brazilian government securities, from R\$2,054 million to R\$4,093 million. The increase in interest income from trading securities was primarily due to a R\$1,080 million increase in the average balance of our trading securities, made possible by an increase in funds available from sales of our VGBL and PGBL pension investment contracts. The increase in interest income was also partially due to the increase in interest rates during 2003, particularly the SELIC rate, which was at 26.5% for most of the first six months of 2003.

### *Interest Expense*

The following tables show, on a company-wide basis and by segment, the principal components of our average interest-bearing liabilities and the average interest rates paid on those liabilities in 2002 and 2003:

|  | <b>Bradesco</b>                              |             |                          |
|--|--|-------------|--------------------------|
|  | <b>2002</b>                                  | <b>2003</b> | <b>Percentage Change</b> |
|  | <b>(R\$ in millions, except percentages)</b> |             |                          |
| <b>Average balance of interest-bearing liabilities:</b>                    |  |             |                          |
| Savings deposits   | R\$19,033                                    | R\$20,680   | 8.7%                     |
| Time deposits  | 21,347                                       | 24,230      | 13.5                     |
| Federal funds purchased and securities sold under agreements to repurchase | 9,670  | 15,486      | 60.1                     |
| Short-term borrowings  | 10,137                                       | 9,219       | (9.1)                    |
| Long-term debt   | 12,417                                       | 16,417      | 32.2                     |
| Deposits from financial institutions                                       | 223  | 657         | 194.6                    |
| Total  | R\$72,827                                    | R\$86,689   | 19.0                     |
| <b>Average interest rate paid:</b>   | 20.5%  | 11.2%       |                          |



|  | Banking   |           |                      | Insurance, Pension Plans &<br>Certificated Savings Plans |      |                      |
|--|-----------|-----------|----------------------|--|------|----------------------|
|  | 2002      | 2003      | Percentage<br>Change | 2002   | 2003 | Percentage<br>Change |
| (R\$ in millions, except percentages)                                      |           |           |                      |  |      |                      |
| <b>Average balance of interest-bearing liabilities:</b>                    |           |           |                      |  |      |                      |
| Savings deposits   | R\$19,050 | R\$20,698 | 8.7%                 |  |      |                      |
| Time deposits  | 21,466    | 24,298    | 13.2                 |  |      |                      |
| Federal funds purchased and securities sold under agreements to repurchase | 9,673     | 15,486    | 60.1                 |  |      |                      |
| Short-term borrowings  | 10,137    | 9,219     | (9.1)                |  |      |                      |
| Long-term debt   | 12,417    | 16,417    | 32.2                 |  |      |                      |
| Deposits from financial institutions                                       | 223       | 657       | 194.6                |  |      |                      |
| Total  | R\$72,966 | R\$86,775 | 18.9                 |  |      |                      |
| <b>Average interest rate paid:</b>   | 20.5%     | 11.2%     |                      |  |      |                      |

For further information on average interest rates by type of liability, see Item 4. Information on the Company Selected Statistical Information Average Balance Sheet and Interest Rate Data.

The following table shows, on a company-wide basis and by segment, how much of the decrease in our interest expense was attributable to changes in the average volume of interest-bearing liabilities and how much was attributable to changes in average interest rates (including the effects of the appreciation of the *real*) in each case for the year 2003 as compared to the year 2002:

|  | Bradesco | Banking              | Insurance,<br>Pension<br>Plans &<br>Certificated<br>Savings Plans |
|--|----------|----------------------|---|
| 2003/2002 Increase (decrease)                                    |          |                      |   |
|  |          | (R\$ in<br>millions) |   |
| Due to changes in average volume of interest-bearing liabilities | R\$2,473 | R\$2,462             |   |
| Due to changes in average interest rates                         | (7,683)  | (7,672)              |   |
| Net change   | (5,210)  | (5,210)              |   |

### Banking

The 34.9% decrease in our interest expense in our banking segment for 2003 compared to 2002 was primarily attributable to a decrease in our interest expense on our short-term borrowings and on our long-term debt, partially offset by an increase in our interest expense on time deposits and interest on federal funds purchased and securities sold under agreements to repurchase.

Interest expense (income) related to our short-term borrowings, represented mainly by short-term international financing facilities denominated in foreign currency, shifted from an expense of R\$3,975 million during 2002 to income of R\$387 million during 2003. This variation was primarily due to the exchange gain impact of the 18.2% appreciation of the *real* against the dollar during 2003 on our operations indexed to or denominated in U.S. dollars, in contrast to the exchange-loss impact on such transactions of the 52.3% depreciation of the *real* against the dollar during 2002. When the *real* appreciates on those transactions our interest expense as measured in *reais* decreases (and can even turn negative, producing accounting income). The decrease in interest expense was also due, to a lesser extent, to a decrease in the average volume of our short-term borrowings.

Interest expense on our long-term debt decreased 78.9%, from R\$4,092 million during 2002 to R\$865 million during 2003. This decrease resulted primarily from a decrease of R\$2,786 million in our interest expense on our long-term international financing facilities denominated in foreign currency, which in turn was largely due to exchange gains attributable to the appreciation of the *real* during 2003. This was partially offset by the effect of a 32.2% increase in the average balance of long term debt. Our interest expense on our long-term domestic facilities, indexed to the *real*-U.S. dollar exchange rate decreased by R\$441 million, primarily due to exchange gains attributable to the appreciation of the *real* during 2003. The average balance of these facilities remained relatively stable between 2002 and 2003.

The decrease in interest expense was partially offset by a 32.8% increase in our interest expense on time deposits, from R\$3,188 million in 2002 to R\$4,235 million in 2003. The increase was primarily due to a 13.5% increase in the average volume of our time deposit transactions during the period, as well as to an increase in interest rates. The increase in the volume of our time deposit transactions was largely due to our acquisition of BBV Banco in June 2003.

### ***Provision for Loan Losses***

The following table shows changes in our allowance for loan losses, provision for loan losses and loan charge-offs and recoveries for 2002 and 2003, as well as our provisions to loans ratio (expressed as a percentage of the average balance of our loans):

|  | 2002     | 2003     | Percentage<br>Change |
|--|----------|----------|----------------------|
| <b>(R\$ in millions, except percentages)</b>                       |          |          |                      |
| Allowance for loan losses at the beginning of the year             | R\$2,941 | R\$3,455 | 17.5%                |
| Provision for loan losses  | 2,543    | 2,034    | (20.0)               |
| Loan charge-offs   | (2,320)  | (2,058)  | (11.3)               |
| Loan recoveries  | 291      | 415      | 42.6                 |
| Allowance for loan losses at the end of the year                   | 3,455    | 3,846    | 11.3                 |
| Ratio of provision for loan losses to average loans<br>outstanding | 4.9%     | 3.8%     |                      |

The allowance for loan losses increased 11.3% from R\$3,455 million as of December 31, 2002 to R\$3,846 million as of December 31, 2003, primarily due to a 2.6% increase in our average loan balance.

We believe that Brazil's economic situation has not yet completely stabilized, although the economy showed indications of improvement in late 2003. Accordingly, the allowance for loan losses increased as a percentage of loans from 6.6% in 2002 to 7.0% in 2003.

The Brazilian economy performed better during 2003 than our expectations had suggested, largely due to the smooth transition from the Fernando Henrique Cardoso administration to the new Lula da Silva administration and the new administration's implementation of fiscal austerity policies. As a result, our level of annual loan losses, defined as the value of loan charge-offs as a percentage of the total average value of outstanding loans at the end of the year, decreased from 4.5% in 2002 to 3.9% in 2003. Similarly, recoveries of troubled loans increased by 42.6% as compared to 2002, and loan charge-offs fell by 11.3% for the year, as the rate of loan defaults decreased. Overall, during 2003 the provision for loan losses decreased by 20.0% as compared to 2002.

Our borrowers' ability to perform their obligations in light of the improving Brazilian economy as well as our own increased selectivity in granting loans was reflected in improvements in the risk classifications of our loan portfolio in 2003. The percentage of loans in our four lower risk

classifications, none of which are considered non-performing, was 92.0% at December 31, 2003, an increase from 91.6% at December 31, 2002. Loans in the two lower risk classification categories increased from 67.2% of the total at year-end 2002 to 68.1% of the total at year-end 2003, reflecting the improvement in the overall quality of the portfolio.

Our growth strategy for our loan portfolio in 2003 focused on extending loans specifically oriented toward individuals, such as personal loans and automobile financing, during 2003. Historically, we have experienced better rates of return and more stable risk levels on loans to individuals than on loans to companies. We also reevaluated the position of various clients from the industrial sector, including transportation, property, lumber and vehicle companies, and the service sector, including telecommunications and energy companies, and elected to increase our provisioning at the end of 2003, limiting the overall decrease in our provision for loan losses. We also charged-off loans when our collection efforts were exhausted which increased our corporation and others charge-offs by 34.0% in 2003 compared to 2002.

Shifts in the quality of our loan portfolio played a more significant role in determining our allocation of allowances for loan losses than any other change or trend in non-performing loans.

The economic segments that performed well in 2003 were largely those that were oriented toward foreign trade, principally those with interests in agricultural and mineral commodities. Despite the appreciation of the *real*, exporters were aided by favorable exchange rate, as the U.S. dollar depreciated against the euro.

Accordingly, we also focused the growth of our loan portfolio during 2003 on large exporting companies, the majority of which are subsidiaries of multinational companies. The acquisition of BBV Banco and the integration of its portfolio into ours advanced this strategy, as BBV Banco's loan portfolio was concentrated in loans to large, creditworthy European and North American companies, with a relatively small volume of loans to small and medium-sized enterprises or individual clients. As a result, we increased the level of our loans classified as industrial and other loans, the largest segment of our loan portfolio, by 4.1%, while maintaining the classification at a relatively stable percentage of total loans, at 40.0% as compared to 40.2% in 2002. There was an increase in the level of loans in this classification despite the low levels of growth among small and medium-sized enterprises in Brazil during 2003.

The strength of the export-based segments of the economy was also reflected in the growth of agriculture-related loans in our portfolio, which increased from 7.6% of the total in 2002 to 8.1% in 2003. This led to an additional allowance of R\$8 million for questionable borrowers in this segment, representing 0.4% of the expense allowance for loan losses during this period.

Loans that we extended to individual clients as other financing, which includes loans specifically oriented toward individuals, such as personal loans and automobile financing, grew by 19.9% in 2003, increasing their representation in the total loan portfolio from 17.5% in 2002 to 20.0% in 2003. This resulted in an 8.5% growth of our allowance for loan losses when compared to 2002. This increase was proportionately less than the increase in our loan portfolio, largely due to increased selectivity in granting these types of loans.

At the same time, the allowance allocated to foreign-currency loans to individuals decreased from 2.2% in 2002 to 0.7% in 2003, and these loans decreased as a percentage of total loans from 6.0% to 4.4%, largely due to the appreciation of the *real*.



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For a description of the Central Bank's regulation of lending operations, see Item 4. Information on the Company Regulation and Supervision-Treatment of Overdue Debts and note 2(j) to our consolidated financial statements in Item 18.

***Non-interest Income***

The following tables show, on a company-wide basis and by segment, the principal components of our non-interest income for 2002 and 2003.

For comparative purposes, amounts related to certain private retirement plans have been reclassified to adjust to a change in classification effective January 1, 2003. As a result, income from pension premiums decreased, and income from insurance premiums increased, by R\$327 million during the year ended December 31, 2002. This reclassification does not have an effect on non-interest income, net income or shareholders' equity. For more information, see Item 3. Key Information - Selected Financial Data.

| <b>Bradesco</b>  |                 |                  |                          |
|--|-----------------|------------------|--------------------------|
|  | <b>2002</b>     | <b>2003</b>      | <b>Percentage Change</b> |
| <b>(R\$ in millions, except percentages)</b>                 |                 |                  |                          |
| Fee and commission income                                    | R\$2,894        | R\$3,463         | 19.7%                    |
| Trading income (losses)                                      | (2,006)         | 45               |                          |
| Net realized gains (losses) on available-for-sale securities | (38)            | 738              |                          |
| Net gain on foreign currency transactions                    | 148             | 198              | 33.8                     |
| Equity in earnings (losses) of unconsolidated companies      | 150             | 60               | (60.0)                   |
| Insurance premiums   | 5,308           | 6,149            | 15.8                     |
| Pension plan income  | 21              | 64               | 204.8                    |
| Other non-interest income                                    | 1,486           | 392              | (73.6)                   |
| <b>Total</b>   | <b>R\$7,963</b> | <b>R\$11,109</b> | <b>39.5</b>              |

|  | Banking                               |          |                   | Insurance, Pension Plans & Certificated Savings Plans |        |                   |
|--|---------------------------------------|----------|-------------------|---|--------|-------------------|
|  | 2002                                  | 2003     | Percentage Change | 2002  | 2003   | Percentage Change |
|  | (R\$ in millions, except percentages) |          |                   |   |        |                   |
| Fee and commission income                                    | R\$2,803                              | R\$3,225 | 15.1%             | R\$96   | R\$191 | 99.0%             |
| Trading income (losses)                                      | (2,062)                               | 154      |                   | 57  | (108)  |                   |
| Net realized gains (losses) on available-for-sale securities | (85)                                  | 167      | -                 | 48  | 570    | 1,087.5           |
| Net gain on foreign currency transactions                    | 148                                   | 198      | 33.8              |   |        |                   |

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|  |                 |                 |             |                 |                 |             |
|--|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
| Equity in earnings (losses) of<br>unconsolidated companies | 157             | 101             | (35.7)      | (14)            | (41)            | 192.9       |
| Insurance premiums   |                 |                 |             | 5,308           | 6,149           | 15.8        |
| Pension plan income  |                 |                 |             | 21              | 64              | 204.8       |
| Other non-interest income                                  | 1,343           | 196             | (85.4)      | 168             | 195             | 16.1        |
| <b>Total</b>   | <b>R\$2,304</b> | <b>R\$4,041</b> | <b>75.4</b> | <b>R\$5,684</b> | <b>R\$7,020</b> | <b>23.5</b> |

### Banking

Non-interest income in the banking segment increased 75.4% in 2003 compared to 2002, principally due to reduction of losses from securities trading activities and, to a lesser extent, an increase in fee and commission income.

Income from trading securities improved from a loss of R\$2,062 million in 2002 to income of R\$154 million in 2003. This increase was principally due to the impact on our hedging operations of the depreciation of the *real* in 2002, which did not recur in 2003. Fee and commission income increased by 15.1% in 2003 compared to 2002, from R\$2,803 million to R\$3,225 million, primarily due to an increase in the volume of operations that yield fees and commissions, and secondarily from the growth of our client base. Fees and commissions from the administration of funds and for services related to current accounts saw the greatest increase, largely due to the increased volume of these transactions. These increases were partially offset by an 85.4% decrease in other non-interest income, which was primarily due to the recognition, during the consolidation of our income statement, of a negative change in our foreign assets due to depreciation of the *real* against the U.S. dollar.

### Insurance, Pension Plans and Certificated Savings Plans

Non-interest income in the insurance, pension plans and certificated savings plans segment increased 23.5% in 2003 compared to 2002, principally due to increases in insurance premiums and net realized gains on available-for-sale securities.

Insurance premiums increased by 15.8%, from R\$5,308 million in 2002 to R\$6,149 million in 2003. This increase was principally due to increases in the volume of automobile and health insurance policies sold, which in turn was due to increased marketing efforts. The net realized gains on available-for-sale securities increased by 1,087.5%, from R\$48 million in 2002 to R\$570 million in 2003, largely as a result of an increase in market prices for securities listed on the Brazilian stock exchanges.

***Non-interest Expense***

The following tables show, on a company-wide and per segment basis, the principal components of our non-interest expense for 2002 and 2003:

|   | <b>Bradesco</b>                              |                    |                              |
|---|--|--------------------|------------------------------|
|   | <b>2002</b>                                  | <b>2003</b>        | <b>Percentage<br/>Change</b> |
|   | <b>(R\$ in millions, except percentages)</b> |                    |                              |
| Salaries and benefits   | R\$(3,992)                                   | R\$(4,677)         | 17.2%                        |
| Administrative expenses   | (3,421)                                      | (3,909)            | 14.3                         |
| Amortization of intangible assets   | (230)  | (266)              | 15.7                         |
| Insurance claims and provisions for claims incurred but not reported  | (3,614)                                      | (4,333)            | 19.9                         |
| Changes in reserves for insurance, pension plans, certificated savings plans and pension investment contracts | (2,261)                                      | (3,777)            | 67.0                         |
| Pension plan operating expenses   | (370)  | (637)              | 72.2                         |
| Insurance and pension plan selling expenses   | (669)  | (762)              | 13.9                         |
| Depreciation and amortization   | (459)  | (744)              | 62.1                         |
| Other non-interest expense  | (1,583)                                      | (2,313)            | 46.1                         |
| <b>Total</b>  | <b>R\$(16,599)</b>                           | <b>R\$(21,418)</b> | <b>29.0</b>                  |

|   | <b>Banking</b>                               |                    |                              | <b>Insurance, Pension Plans &amp;<br/>Certificated Savings Plans</b> |                    |                              |
|---|--|--------------------|------------------------------|--|--------------------|------------------------------|
|   | <b>2002</b>                                  | <b>2003</b>        | <b>Percentage<br/>Change</b> | <b>2002</b>  | <b>2003</b>        | <b>Percentage<br/>Change</b> |
|   | <b>(R\$ in millions, except percentages)</b> |                    |                              |  |                    |                              |
| Salaries and benefits   | R\$(3,656)                                   | R\$(4,189)         | 14.6%                        | R\$(335)   | R\$(462)           | 37.9%                        |
| Administrative expenses   | (2,966)                                      | (3,555)            | 19.9                         | (463)  | (484)              | 4.5                          |
| Amortization of intangible assets   | (224)  | (256)              | 14.3                         | (6)  | (10)               | 66.7                         |
| Insurance claims and provisions for claims  |  |                    |                              |  |                    |                              |
| incurred but not reported   |  |                    |                              | (3,614)  | (4,333)            | 19.9                         |
| Changes in reserves for insurance, pension plans, certificated savings plans and pension investment contracts |  |                    |                              | (2,261)  | (3,777)            | 67.0                         |
| Pension plan operating expenses   |  |                    |                              | (370)  | (637)              | 72.2                         |
| Insurance and pension plan selling expenses   |  |                    |                              | (669)  | (762)              | 13.9                         |
| Depreciation and amortization   | (393)  | (675)              | 71.8                         | (61)   | (67)               | 9.8                          |
| Other non-interest expense  | (1,391)                                      | (1,749)            | 25.7                         | (210)  | (417)              | 98.6                         |
| <b>Total</b>  | <b>R\$(8,630)</b>                            | <b>R\$(10,424)</b> | <b>20.8</b>                  | <b>R\$(7,989)</b>  | <b>R\$(10,949)</b> | <b>37.1</b>                  |

**Banking**

Non-interest expense in the banking segment increased 20.8% in 2003 compared to 2002, due primarily to increases in salaries and benefits and administrative expenses. Salaries and benefits expenses increased by 14.6%, from R\$3,656 million in 2002 to R\$4,189 million in 2003, partially due to an increase in the number of employees, primarily as a result of the acquisition of BBV Banco.

Administrative expenses increased by 19.9%, from R\$2,966 million in 2002 to R\$3,555 million in 2003, due primarily to the expansion of our network of branches, post office correspondent offices and other sources of service as well as to increases in price levels due to inflation.

**Insurance, Pension Plans and Certificated Savings Plans**

Non-interest expense in the insurance, pension plans and certificated savings plans segment increased 37.1% in 2003 compared to 2002, due primarily to an increase in provisions for insurance, pension plans and certificated savings plans, as well as in insurance claims. Provisions for insurance, pension plans and certificated savings plans increased by 67.0% in 2003 compared to 2002, from R\$2,261 million in 2002 to R\$3,777 million in 2003, largely due to increased sales of our VGBL and PGBL products. Insurance claims increased by 19.9%, from R\$3,614 million in 2002 to R\$4,333 million in 2003, largely due to an increase in payments of claims under automobile and health insurance policies.

***Income Tax***

Income tax in Brazil is comprised of federal income taxes and the Social Contribution Tax on adjusted income. See Taxes. The combined rate of these two taxes has been 34% since February 2000.

We recorded an income tax expense of R\$346 million in 2003, compared to a tax expense of R\$161 million in 2002. This tax expense as a percentage of our income before income taxes, adjusted for income in earnings (losses) of unconsolidated companies, rose to 13.3% in 2003 from 7.5% in 2002.

The increase was due primarily to the increase in taxable income in 2003.

### ***Net Income***

As a result of the foregoing, net income for 2003 grew by 7.5% to R\$2,302 million in 2003 from R\$2,142 million in 2002.

### **Asset and Liability Management**

Our general policy on asset and liability management is to:

- manage interest rate, liquidity, foreign exchange and maturity risks in order to maximize our net income from financial operations and our return on assets and equity, in light of our internal risk management policies; and
- maintain adequate levels of liquidity and capital.

As part of our asset and liability management we seek to avoid material mismatches between assets and liabilities by matching, to the extent possible, the maturity, currency and interest rate structure of the loans we extend to the terms of the transactions under which we fund such loans. Subject to our policy constraints, from time to time we take mismatched positions as to interest rates, maturities and, in more limited circumstances, foreign currencies, when we believe such positions are justified in view of market conditions and prospects.

We monitor our asset and liability position in accordance with Central Bank requirements and guidelines. The treasury committee of our senior management meets on a weekly basis to:

- set financial asset allocations and funding policies;
- make decisions regarding the maturity structure of our assets and liabilities;
- establish overnight and intra-day limits for our maturity mismatches, interest rate positions and foreign currency positions; and
- establish exposure limits based on our evaluation of the risks presented by our gap positions and current market volatility levels.

In making such decisions, our senior management evaluates not only our exposure limits for each market segment and product, but also market volatility levels and the extent to which we are exposed to market risk through interest, maturity, liquidity and currency mismatches. It also considers other potential risks as well as the liquidity of the market, our institutional needs and perceived opportunities for gain. The committee holds extraordinary meetings as needed in response to unexpected macroeconomic changes.

In addition, we have two credit committees which help carry out our asset and liability management:

- the executive credit committee, which is made up of members of our senior management and which meets on a weekly basis, analyzes credits of over R\$20 million and determines the general policies which will guide our asset and liability management until its next meeting; and
- the daily credit committee, which meets on a daily basis and is responsible for analysis of credits of up to R\$20 million.

In addition, our senior managers receive daily reports on our unmatched and open positions, while the treasury committee assesses our risk position weekly.

### **Liquidity and Funding**

Central Bank requirements for compulsory deposits determine our minimum liquidity levels. We review our asset and liability management policies from time to time to ensure that we have sufficient liquidity available to honor withdrawals of deposits, repay other liabilities at maturity, extend loans or other forms of credit to our customers and meet our own working capital needs. In our opinion, our working capital is sufficient for our current requirements.

Our treasury department acts as a support center for our different business segments by managing our funding and liquidity positions and executing our investment objectives in accordance with our asset and liability management policies. It is also responsible for setting the rates for our different products, including exchange and interbanking transactions. The treasury department covers any funding shortfall through borrowing in the interbank market. It seeks to maximize efficient use of our deposit base by investing any surpluses in liquid instruments in the interbank market.

We have used our excess liquidity to invest in short-term money market instruments and expect to continue doing so, subject to regulatory requirements and investment considerations.

Our principal sources of funding are:

- demand and savings, deposits, time and interbank deposits; and
- short and long-term borrowings, part of which are denominated in foreign currencies.



The following table shows the average balance and average real interest rates of our sources of funding (interest bearing as well as non-interest bearing) in the periods indicated:

|  | 2002               |               |                 | 2003               |               |                 | 2004               |               |                 |
|--|--------------------|---------------|-----------------|--------------------|---------------|-----------------|--------------------|---------------|-----------------|
|  | Average<br>balance | % of<br>total | Average<br>rate | Average<br>balance | % of<br>total | Average<br>rate | Average<br>balance | % of<br>total | Average<br>rate |
| (R\$ in millions, except percentages)                                      |                    |               |                 |                    |               |                 |                    |               |                 |
| Deposits from banks  | R\$223             | 0.2%          | 16.1%           | R\$657             | 0.5%          | 16.9%           | R\$90              | 0.1%          | 15.6%           |
| Savings deposits   | 19,033             | 16.8          | 8.3             | 20,680             | 15.4          | 9.9             | 22,499             | 15.1          | 7.4             |
| Time deposits  | 21,347             | 18.9          | 14.9            | 24,230             | 18.0          | 17.5            | 25,159             | 16.9          | 13.2            |
| <b>Interest bearing-liabilities:</b>                                       |                    |               |                 |                    |               |                 |                    |               |                 |
| Federal funds purchased and securities sold under agreements to repurchase | 9,670              | 8.5           | 21.2            | 15,486             | 11.5          | 18.4            | 18,070             | 12.1          | 13.2            |
| Short-term borrowings  | 10,137             | 9.0           | 39.2            | 9,219              | 6.8           | (4.2)           | 8,442              | 5.7           | (1.0)           |
| Long-term debt   | 12,417             | 11.0          | 33.0            | 16,417             | 12.2          | 5.3             | 17,839             | 12.0          | 9.1             |
| Total interest bearing-liabilities   | 72,827             | 64.3          | 20.5%           | 86,689             | 64.4          | 11.2%           | 92,099             | 61.9          | 9.7%            |
| <b>Non-interest bearing liabilities:</b>                                   |                    |               |                 |                    |               |                 |                    |               |                 |
| Demand deposits  | 9,860              | 8.7           | -               | 11,146             | 8.3           | -               | 13,369             | 9.0           | -               |
| Other non-interest bearing liabilities(1)                                  | 30,529             | 27.0          | -               | 36,790             | 27.3          | -               | 43,346             | 29.1          | -               |
| Total non-interest bearing liabilities                                     | 40,389             | 35.7          | -               | 47,936             | 35.6          | -               | 56,715             | 38.1          | -               |

|                          |            |        |   |            |        |   |            |        |   |
|--------------------------|------------|--------|---|------------|--------|---|------------|--------|---|
| <b>Total liabilities</b> | R\$113,216 | 100.0% | - | R\$134,625 | 100.0% | - | R\$148,814 | 100.0% | - |
|--------------------------|------------|--------|---|------------|--------|---|------------|--------|---|

- 
- (1) Other non-interest bearing liabilities, whose primary components are technical reserves for insurance losses, provision for pension plans, provision for certificated savings plans, provision for pension investment contracts, and provision for contingent liabilities, are not a source of funding.

Deposits are our most important source of funding, accounting for 41.1% of the average balance of liabilities in 2004, compared to 42.2% in 2003 and 44.6% in 2002. The increase in 2002 was due primarily to an increase in the volume of savings deposits, as well as the general increase in the size of our customer base. In 2003, the average balance of deposits grew by 12.4%, but deposits decreased as a percentage of the average balance of liabilities, largely due to greater growth rates in other sources of our funding, including federal funds purchased and securities sold under agreements to repurchase, the average balance of which increased by 60.1% during 2003, and long-term debt, the average balance of which increased by 32.2% during 2003. During 2004 our average deposits grew by 7.8% but declined slightly as a percentage of the average balance of total liabilities, due to the greater increases in the average balances of other sources of funding, such as 8.7% increase in the average balance of long-term borrowings, a 16.7% increase in the average balance of federal funds purchased and securities sold under agreements to repurchase and 17.8% increase in other non-interest liabilities.

Short and long-term borrowings, our second-most-important source of funding, accounted for 17.7% of the average balance of liabilities in 2004, compared to 19.0% in 2003 and 20.0% in 2002. The decrease in 2003 was largely due to a decrease in demand for import and export financing. Although our average balance of short and long-term borrowings increased in 2004 they decreased as a percentage of total liabilities.

The following table shows our sources of funding and liquidity at December 31, 2004:

|  | <b>December 31, 2004</b>     |                   |
|--|------------------------------|-------------------|
|  | <b>(R\$ in<br/>millions)</b> | <b>% of total</b> |
| Deposits from banks  | R\$20                        |                   |
| Savings deposits   | 24,783                       | 15.4%             |
| Time deposits  | 28,460                       | 17.6              |
| Federal funds purchased and securities sold under agreements to repurchase | 16,532                       | 10.2              |
| Short-term borrowings  | 8,272                        | 5.1               |
| Long-term debt   | 19,653                       | 12.2              |
| <br>Total interest bearing liabilities                                     | <br>97,720                   | <br>60.5          |
| Demand deposits  | 15,384                       | 9.5               |
| Other non-interest bearing-liabilities                                     | 48,343                       | 29.9              |
| <br>Total non-interest bearing-liabilities                                 | <br>63,727                   | <br>39.5          |
| <b>Total liabilities</b>   | <b>R\$161,447</b>            | <b>100.0%</b>     |

### ***Deposits***

Deposits accounted for approximately 42.5% of total liabilities at December 31, 2004. Our deposits consist primarily of *real* denominated, interest bearing time and savings deposits and *real* denominated, non-interest bearing demand deposits. The increase in the average balances of our time, savings and demand deposits from December 31, 2003 through December 31, 2004 was due, primarily to the increase in our client base and secondarily to an increase in the average amount deposited per account of institutional investors. At December 31, 2003, we had approximately 14.5 million checking accounts and 32.3 million savings accounts, compared to approximately 15.7 million checking accounts and 34.6 million savings accounts at December 31, 2004. For additional information regarding our deposits, see Item 4. Information on the Company Selected Statistical Information Maturity of Deposits.

### ***Short-term Borrowings***

Our short-term borrowings in foreign currencies consist primarily of lines obtained from correspondent banks for import and export financings, as well as issuances of bonds, certificates of deposit and commercial paper. We have consistently had access to short-term borrowings on market terms.

We do not have any unused credit lines, credit facilities or portions thereof due to the fact that we do not maintain any pre-approved credit lines with other financial institutions.

Our credit facilities could be impacted by various factors, including downgrades in our rating, fluctuations in Brazilian exchange rates and base interest rates, increased rates of inflation, currency devaluations, and adverse developments in the Brazilian and world economies. For a further discussion of risks that could have an adverse effect on our credit facilities, see Item 3. Key Information Risk Factors Risks Relating to Brazil and Risks Relating to Bradesco and the Brazilian Banking Industry.

At December 31, 2004, we had short-term (up to 360 days) borrowings totaling R\$ 8,272 million, an increase of R\$477 million from December 31, 2003. Our short-term borrowings decreased as demand for import and export financings, which we fund through short-term borrowings, fell from R\$6,034 million at December 31, 2003 to R\$5,340 million at December 31, 2004. The decrease was

largely due to the appreciation of the *real* during 2004. Our balance of U.S. dollar-denominated and indexed commercial paper increased by 65.8%, from R\$1,761 million at December 31, 2003 to R\$2,920 million at December 31, 2004 due to the increase in our deposits which were partially offset by the appreciation of the *real* in 2004.

At December 31, 2003, we had short-term (up to 360 days) borrowings totaling R\$7,795 million, a decrease of R\$1,844 million from December 31, 2002. Our short-term borrowings decreased as demand for import and export financings fell from R\$7,741 million at December 31, 2002 to R\$6,034 million at December 31, 2003. Our balance of U.S. dollar-denominated and indexed commercial paper declined 6.5%, from R\$1,884 million at December 31, 2002 to R\$1,761 million at December 31, 2003. These decreases were principally due to the appreciation of the *real* during 2003.

At December 31, 2002, we had short-term (up to 360 days) borrowings totaling R\$9,639 million, an increase of R\$1,319 million from December 31, 2001. Our short-term borrowings increased in 2001 as demand for import and export financings increased from R\$5,106 million at December 31, 2001 compared to R\$7,741 million at December 31, 2002. The increase was largely due to the increase in Brazilian exports in 2002. Our balance of U.S. dollar-denominated and indexed commercial paper declined 41.3%, from R\$3,211 million at December 31, 2001 to R\$1,884 million at December 31, 2002.

Substantially all of our foreign trade finance credit lines from correspondent banks are U.S. dollar-denominated. We have historically funded a substantial portion of our foreign-currency trade loans from foreign-currency credit lines with foreign correspondent banks.

For additional information on our short-term borrowings, see Item 4. Information on the Company Selected Statistical Information Short-term Borrowings and Item 11. Quantitative and Qualitative Disclosure about Market Risk Sensitivity Analysis.

### ***Long-term Borrowings***

We classify as long-term all borrowings not classified as short-term, long-term borrowings consist primarily of funds borrowed for local on-lendings, in which we borrow from Brazilian governmental agencies and entities to make loans to Brazilian entities for investments in facilities and equipment, as well as our subordinated notes, Euronotes and foreign currency loans.

At December 31, 2004, we had R\$19,653 million in long-term outstanding borrowings, a decrease of R\$440 million from December 31, 2003. The decrease in our long-term outstanding borrowings was primarily attributable to a R\$1,671 million decrease in our outstanding balance of Euronotes resulting from repayments, which was partially offset by a R\$801 million increase in borrowings for local on-lendings and by a new issuance of approximately R\$800 million of subordinated debt in the international capital markets in April 2004. This subordinated debt has a ten-year maturity and bears interest at a fixed rate.

At December 31, 2003, we had R\$20,093 million in long-term outstanding borrowings, an increase of R\$6,704 million from December 31, 2002. The increase in our long-term outstanding borrowings was primarily attributable to a R\$1,673 million increase in our subordinated debt and a R\$1,213 million increase in our issuances of Euronotes. Between December 31, 2001 and December 31, 2003 we issued US\$783 million (approximately R\$2,078 million) of subordinated debt in the international capital markets. This subordinated debt has a ten-year maturity and bears interest at a fixed rate.



At December 31, 2002, we had R\$13,389 million in long-term outstanding borrowings, an increase of R\$1,890 million from December 31, 2001. The increase in our long-term outstanding borrowings was primarily attributable to the R\$2,352 million increase in our subordinated debt and to R\$1,169 million in financing for on-lending of internal resources, which were partially offset by a reduction of R\$1,183 million in our outstanding balance of Euronotes that we repaid. In 2002 we issued subordinated debt as a form of payments for some of our bank acquisitions in the first half of 2002.

Also included in our long-term borrowings are medium-and long-term fixed- and floating-rate securities, including through our medium-term note program. This program permits us to issue up to US\$2.5 billion (or its equivalent in other currencies) of medium-term notes through our branches in Grand Cayman and New York and through our headquarters in Brazil. The program provides that the notes are unsecured and unsubordinated obligations and rank on the same level as all our present and future unsecured and unsubordinated external debt. Notes issued under the program have maturities of three months or more from their date of issuance and bear interest at a fixed rate. We may offer the notes issued under the program for sale to qualified institutional buyers in the United States under the Securities Act or to non-U.S. persons outside the U.S. in accordance with Regulation S of the Securities Act.

We had US\$900 million of notes under our medium-term notes program outstanding at December 31, 2003 and US\$500 million outstanding at December 31, 2004. We issued US\$200 million in medium-term notes during 2004. Although the program permits us to issue up to an aggregate of US\$2.5 billion of medium-term notes, our ability to issue the US\$2.0 billion remaining under the program will depend on the existence of demand for such notes.

In August 2003, we issued two series of notes due in 2010, in an aggregate amount of US\$400 million, and in July 2004 we issued a new series of notes due in 2012, in an aggregate amount of US\$100 million. Two of the issuances bear interest at a fixed rate, the other issuance bears interest at a floating rate. The notes are secured by future flows of payment orders we receive from abroad. In addition, in April 2004, we issued R\$800 million in subordinated debt, expiring in 2014. In December 2004, we issued a series of notes denominated in *reais*, equivalent to US\$100 million, with a three-year term. We elected to offer these notes with a structure under which interest accrues and is automatically added to principal.

We use the proceeds of our long-term debt issuances for general on-lending purposes, principally to our Brazilian clients. The difference between the interest we pay on our borrowings and the interest we charge our clients, known as the spread, is related to the term of the loans, our assessment of the client risk, and the general condition of the Brazilian economy. With the exception of our local on-lendings, there are no regulatory restrictions on the use of our borrowings.

For additional information on our long-term debt, see Item 11. Quantitative and Qualitative Disclosure about Market Risk Sensitivity Analysis and note 14 to our consolidated financial statements in Item 18.

### ***Compulsory Deposits with the Central Bank***

The Central Bank requires us, as a financial institution, either to deposit a determined amount of funds with the Central Bank or to purchase and hold Brazilian federal treasury securities. We cannot use these compulsory deposits for any other purpose. The Central Bank determines the interest to be paid on these deposits, if any. For more information on compulsory deposit requirements, see Item 4. Information on the Company The Company Funding Deposit-taking Activities.

We had compulsory deposits of R\$20,209 million at December 31, 2004, a 21.1% increase from December 31, 2003, primarily due to an increase the volume of deposits. At December 31, 2003, the





balance of our compulsory deposits was R\$16,690 million, a 3.9% increase from December 31, 2002, primarily due to an increase in the volume of deposits.

### *Sources of Additional Liquidity*

We do not maintain unused pre-approved credit lines, but we believe that our strong presence in the Brazilian market and our reputation in international credit markets would enable us to obtain funds on market terms if necessary. Although our medium-term notes program is not a guaranteed pre-approved credit line and our ability to issue notes under the program at any given time depends on whether there is demand for such notes, as a general matter the program can facilitate our access to international credit markets, in which we can borrow funds at a lower interest rate and for longer tenors than in the Brazilian market. Furthermore, we may access the international capital markets to raise longer-term resources, under our existing program of notes guaranteed by future cash flows from payment orders that we receive from abroad.

Finally, in some limited circumstances we may obtain emergency funds from the Central Bank through a transaction referred to as *redesconto*. A *redesconto* is a loan from the Central Bank to a financial institution, which loan is guaranteed by federal government securities owned by the financial institution. The amount of federal government securities held by the financial institution as trading securities limits the amount of the *redesconto* transaction. We have never obtained funds from the Central Bank through *redesconto* transactions for liquidity purposes. At December 31, 2004, we had R\$8,787 million in federal government securities as trading securities that could be used for this purpose.

### *Cash Flow*

During 2002, 2003 and 2004, the primary influence on our cash flow was the changes in the Brazilian economic environment. The following table shows the principal variations in cash outflows during the periods indicated:

|  | 2002      | 2003              | 2004       |
|--|-----------|-------------------|------------|
|  |           | (R\$ in millions) |            |
| Net cash provided by (used in) operating activities  | R\$11,794 | R\$(7,995)        | R\$13,496  |
| Net cash used in investing activities                | (9,534)   | (344)             | (15,815)   |
| Net cash provided by (used in) financing activities  | 1,570     | 17,817            | (3,285)    |
| Net increase (decrease) in cash and cash equivalents | R\$3,830  | R\$9,478          | R\$(5,604) |

#### *2002*

During 2002, we experienced a net increase of R\$3,830 million in cash and cash equivalents, due to the R\$11,794 million in cash and cash equivalents generated by our operating activities and to a lesser extent to the R\$1,570 million generated by our financing activities, which was partially offset by R\$9,534 million used in our investment activities.

The cash used in our investing activities in 2002 resulted primarily from a R\$7,192 million net increase in compulsory deposits, due primarily to the increase in the rate and creation of additional compulsory deposit requirements, from an increase of R\$4,989 million in loans and from R\$3,941 million used to acquire available-for-sale securities, which was offset by R\$5,036 million of cash generated from the sale of available-for-sale

securities.

The cash generated from our financing activities in 2002 resulted primarily from a R\$9,691 million increase in deposits, particularly a R\$4,196 million increase in time deposits and a

R\$4,593 million increase in demand deposits, in each case without considering the acquisitions carried out during the first half of 2002, which was partially offset by a decrease of R\$701 million in long-term borrowings net of repayments and a R\$7,089 million net decrease in purchases of federal funds and securities sold under agreements to repurchase. The decrease in purchases of federal funds and securities sold under agreements to repurchase was due largely to our clients' transfer of resources to other funding sources.

### *2003*

During 2003, we experienced a net increase of R\$9,478 million in cash and cash equivalents, due to the R\$17,817 million provided by our financing activities, which was partially offset by the R\$7,995 million used in our operating activities and the R\$344 million used in our investment activities.

The cash used in our investing activities in 2003 resulted primarily from the use of R\$3,968 million to acquire available-for-sale securities and of R\$1,220 million in the acquisition of subsidiaries, net of cash and cash equivalents received. These were partially offset by R\$4,647 million generated from the sale of available-for-sale securities.

The cash generated from our financing activities in 2003 resulted primarily from a R\$18,781 million net increase in purchases of federal funds and securities sold under agreements to repurchase, reflecting our shift during 2003 to using more liquid securities, as well as a R\$6,009 million increase in long-term borrowings, net of repayments. This was partially offset by the impact of a R\$3,556 million net reduction in deposits, excluding the acquisition of BBV Banco, and a R\$2,742 million decrease in our short-term borrowings, pursuant to our liquidation of borrowing and financing operations.

### *2004*

During 2004, we experienced a net decrease of R\$5,604 million in cash and cash equivalents, due to the R\$15,815 million provided by our investing activities and R\$3,285 million provided by our financing activities, which was partially offset by the R\$13,496 million used in our operating activities.

The cash used in our investing activities in 2004 resulted primarily from the use of R\$7,567 million to acquire available-for-sale securities and from the use of R\$9,287 million in our loan activities, as well as a R\$2,023 million net increase in the compulsory deposits, mainly due to the increase in the volume of the deposits that was offset by the R\$3,290 million income from the sale of available-for-sale securities.

The cash generated from our financing activities in 2004 resulted primarily from a R\$11,328 million net decrease in purchases of federal funds and securities sold under agreements to repurchase, reflecting our shift during 2004 to other funding sources, as well as a R\$1,273 million paid as dividends and interest on shareholders equity. This was offset by the impact of a R\$9,395 million net increase in deposits.

## **Capital Compliance**

The Basel I Accord requires banks to have a ratio of capital to risk-weighted assets of a minimum of 8%. At least half of total capital must consist of Tier I capital. Tier I, or core, capital includes equity capital less certain intangibles. Tier II capital includes asset revaluation reserves, general loan loss reserves and subordinated debt, subject to some limitations.

Brazilian banking regulations differ from Basel Accord requirements in several ways. Brazilian banking regulations:



- (a) require a minimum ratio of capital to risk-weighted assets of 11%,
- (b) do not permit general loan loss reserves to be considered as capital,
- (c) specify different risk-weighted categories,
- (d) impose a deduction from capital corresponding to fixed assets held in excess over limits imposed by the Central Bank, and
- (e) limit the issuance of subordinated notes to 50% of Tier I capital.

Prior to July 31, 2000, capital adequacy requirements could be calculated on either a consolidated or unconsolidated basis. Since July 31, 2000, we have measured our capital compliance on a consolidated basis, in accordance with Central Bank rules. See Item 4. Information on the Company Regulation and Supervision Principal Limitations and Restrictions on Activities of Financial Institutions for a more detailed discussion of Brazilian capital adequacy requirements.

The following table shows our capital positions as a percentage of total risk weighted assets, as well as our minimum capital requirements under Brazilian law, for the dates indicated. The table and the following information are based on accounting practices adopted in Brazil.

|   | <b>At December<br/>31,</b>                   |             |             |
|---|--|-------------|-------------|
|   | <b>2002</b>                                  | <b>2003</b> | <b>2004</b> |
|   | <b>(R\$ in millions, except percentages)</b> |             |             |
| Tier I  | 12.2%  | 12.7%       | 11.7%       |
| Tier II   | 3.6  | 4.5         | 4.4         |
| Total capital                                   | 15.8%  | 17.2%       | 16.1%       |
| Available regulatory capital                    | R\$14,396                                    | R\$18,473   | R\$20,907   |
| Minimum regulatory capital required             | 10,027                                       | 11,803      | 14,306      |
| Excess over minimum regulatory capital required | R\$4,369                                     | R\$6,670    | R\$6,601    |

The increase in our available authorized capital from R\$18,473 million at December 31, 2003 to R\$20,907 million at December 31, 2004 was due primarily to our issuance of R\$849 million in subordinated notes, and the capitalization of R\$1,735 million of retained earnings. These factors were partially offset by the effects of a R\$42 million decrease in our minority shareholder participation as a result of the sale of our minority shareholders' shares of Sete Quedas Empreendimentos Imobiliários e Participações Ltda. and the negative adjustment of R\$20 million relating to unrealized losses in investments classified as available-for-sale and of R\$49 million for the acquisition of treasury shares.

The increase in our available regulatory capital from R\$14,396 million at December 31, 2002 to R\$18,473 million at December 31, 2003 was due primarily to our issuance of R\$1,533 million in subordinated notes, capital increased of R\$1,290 million, the capitalization of R\$960 million of profits, and an adjustment of R\$451 million due to unrealized gains in investment securities classified as available-for-sale. These factors were partially offset by the effects of a R\$160 million decrease in our minority shareholder participation as a result of our acquisition of the minority shareholders' shares of Banco Mercantil.

The excess over the minimum regulatory capital required was R\$6,601 million at December 31, 2004, as compared to R\$6,670 million in 2003.

As of December 31 of each of 2002, 2003 and 2004, we were in compliance with all minimum capital requirements imposed by the Central Bank. For a description of our capital requirements and Central Bank capital adequacy regulations see Item 4. Information on the Company Regulation and Supervision Principal Limitations and Restrictions on Activities of Financial Institutions.

In the previous years we maintained a significant position in short-term, highly liquid instruments, which in general have a zero or low risk weighting, thereby eliminating or significantly reducing the need to maintain capital against these assets. This position reflects the restrictive credit environment that prevailed in Brazil during 2002-2003. If we were to increase significantly our loan portfolio, we would be required to maintain capital against these assets which, depending on the capital position at that time, could reduce our capital as a percentage of risk-weighted assets.

### **Interest Rate Sensitivity**

Management of interest rate sensitivity is a key component of our asset and liability policy. Interest rate sensitivity is the relationship between market interest rates and net interest revenue due to the maturity or repricing characteristics of interest-earning assets and interest bearing liabilities. For any given period, the pricing structure is considered balanced when an equal amount of these assets or liabilities matures or reprices in that period. Any mismatch of interest-earning assets and interest bearing liabilities is known as a gap position. A negative gap denotes liability sensitivity and normally means that a decline in interest rates would have a positive effect on net interest income. Conversely, a positive gap denotes asset sensitivity and normally means that a decline in interest rates would have a negative effect on net interest income. These relationships can change significantly from day to day as a result of both market forces and management decisions.

Our interest rate sensitivity strategy takes into account:

- rates of return;
- the underlying degree of risk; and
- liquidity requirements, including minimum regulatory banking reserves, mandatory liquidity ratios, withdrawal and maturity of deposits, capital costs and additional demand for funds.

We monitor our maturity mismatches and positions and manage them within established limits. Our Treasury committee reviews our positions at least weekly and changes our positions as market outlooks change.

The following table shows the maturities of our interest-earning assets and interest bearing liabilities at December 31, 2004 and may not reflect interest rate gap positions at other times. In addition, variations in interest rate sensitivity may exist within the repricing periods presented due to differing repricing dates. Variations may also arise among the different currencies in which interest rate positions are held.

## At December 31, 2004

|   | Up to<br>30<br>days | 31<br>days    | 90<br>days | 91<br>days | 180<br>days   | 181<br>days | 365<br>days   | 1<br>year     | 3<br>years | Over<br>3 years | Total          |
|---|---------------------|---------------|------------|------------|---------------|-------------|---------------|---------------|------------|-----------------|----------------|
| (R\$ in millions, except percentages)   |                     |               |            |            |               |             |               |               |            |                 |                |
| <b>Interest-earning assets:</b>   |                     |               |            |            |               |             |               |               |            |                 |                |
| Deposits from banks   | 6,177               | 186           |            |            | 298           |             | 556           | 756           |            | 3               | 7,976          |
| Federal funds sold and securities<br>purchased under agreements to<br>resell .      | 14,628              |               |            |            | 1             |             | 3,175         | 560           |            | 1,071           | 19,435         |
| Central bank compulsory<br>deposits   | 10,823              | 1             |            |            | 19            |             | 4,058         | 14            |            | 249             | 15,164         |
| Trading securities  | 22,290              | 391           |            |            | 2,087         |             | 989           | 5,177         |            | 1,669           | 32,603         |
| Available-for-sale securities   | 4                   | 65            |            |            | 36            |             | 708           | 1,290         |            | 5,632           | 7,735          |
| Securities held to maturity   | 40                  | 19            |            |            |               |             | 55            | 978           |            | 3,108           | 4,200          |
| Loans   | 10,868              | 12,806        |            |            | 9,625         |             | 9,679         | 12,906        |            | 5,086           | 60,970         |
| Other assets  |                     |               |            |            |               |             |               |               |            | 651             | 651            |
| <b>Total interest-earning<br/>assets</b>  | <b>64,830</b>       | <b>13,468</b> |            |            | <b>12,066</b> |             | <b>19,220</b> | <b>21,681</b> |            | <b>17,469</b>   | <b>148,734</b> |
| <b>Interest bearing-liabilities:</b>  |                     |               |            |            |               |             |               |               |            |                 |                |
| Deposits from banks   | 20                  |               |            |            |               |             |               |               |            |                 | 20             |
| Savings deposits  | 24,783              |               |            |            |               |             |               |               |            |                 | 24,783         |
| Time deposits   | 2,738               | 3,592         |            |            | 2,832         |             | 3,752         | 15,073        |            | 473             | 28,460         |
| Federal funds purchased and<br>securities<br>sold under agreements to<br>repurchase | 14,058              | 328           |            |            | 41            |             | 94            | 1,594         |            | 417             | 16,532         |
| Short-term borrowings   | 1,470               | 1,743         |            |            | 3,027         |             | 1,344         | 660           |            | 28              | 8,272          |
| Long-term debt  | 1,012               | 848           |            |            | 1,126         |             | 1,482         | 5,760         |            | 9,425           | 19,653         |
| <b>Total interest<br/>bearing-liabilities</b>                                       | <b>44,081</b>       | <b>6,511</b>  |            |            | <b>7,026</b>  |             | <b>6,672</b>  | <b>23,087</b> |            | <b>10,343</b>   | <b>97,720</b>  |
| Asset/liability gap   | 20,749              | 6,957         |            |            | 5,040         |             | 12,548        | (1,406)       |            | 7,126           | 51,014         |
| Cumulative gap  | 20,749              | 27,706        |            |            | 32,746        |             | 45,294        | 43,888        |            | 51,014          |                |
| Ratio of cumulative gap to<br>cumulative<br>total interest-earning assets           | 13.95%              | 18.63%        |            |            | 22.02%        |             | 30.45%        | 29.51%        |            | 34.30%          |                |

**Exchange Rate Sensitivity**

Most of our operations are denominated in *reais*. Our policy is to avoid material exchange rate mismatches. However, at any given time, we generally have outstanding long-term debt denominated in and indexed to foreign currencies, principally the U.S. dollar. We had R\$6,837 million of long-term debt outstanding at December 31, 2004.



At that date, our consolidated net foreign currency liability exposure was R\$442 million, or 2.8% of shareholders liability. Consolidated net foreign currency exposure is the difference between total foreign currency-indexed or -denominated assets and total foreign currency-indexed or -denominated liabilities, including off-balance-sheet derivatives financial instruments.

Our foreign currency position arises primarily through our purchases and sales of foreign exchange (primarily U.S. dollars) from Brazilian exporters and importers, from other financial institutions on the interbank market, and on the spot and forward currency markets. The Central Bank regulates our maximum open, short and long foreign currency positions.

At December 31, 2004, the composition of our assets, liabilities and shareholders equity by currency and term was as shown below. Our foreign currency assets are largely denominated in *reais* but are indexed to foreign currencies, principally the U.S. dollar. Most of our foreign currency liabilities are denominated in foreign currencies, principally the U.S. dollar.

| December 31, 2004   |  |                     |                |                                      |
|---|--|---------------------|----------------|--------------------------------------|
|   | R\$                                      | Foreign<br>currency | Total          | Foreign<br>currency as<br>% of total |
|   | (R\$ in millions, except<br>percentages) |                     |                |                                      |
| <b>Assets:</b>  |  |                     |                |                                      |
| Cash and due from banks   | 2,310                                    | 380                 | 2,690          | 14.1%                                |
| Interest-bearing deposits in other banks                                  | 3,225                                    | 4,751               | 7,976          | 59.6                                 |
| Federal funds sold and securities purchased<br>under agreements to resell | 18,424                                   | 1,011               | 19,435         | 5.2                                  |
| Central bank compulsory deposits  | 19,998                                   | 211                 | 20,209         | 1.0                                  |
| Trading securities  |  |                     |                |                                      |
| Less than one year  | 3,308                                    | 508                 | 3,816          | 13.3                                 |
| From one to three years   | 4,955                                    | 222                 | 5,177          | 4.3                                  |
| More than three years   | 1,279                                    | 390                 | 1,669          | 23.4                                 |
| Indefinite (1)  | 22,432                                   |                     | 22,432         |                                      |
| Available-for-sale securities   |  |                     |                |                                      |
| Less than one year  | 801                                      | 12                  | 813            | 1.5                                  |
| From one to three years   | 865                                      | 425                 | 1,290          | 32.9                                 |
| More than three years   | 1,626                                    | 4,006               | 5,632          | 71.1                                 |
| Indefinite  | 2,368                                    |                     | 2,368          |                                      |
| Securities held to maturity   |  |                     |                |                                      |
| Less than one year  | 55                                       | 59                  | 114            | 51.8                                 |
| From one to three years   | 978                                      |                     | 978            |                                      |
| More than three years   | 2,079                                    | 1,029               | 3,108          | 33.1                                 |
| Loans   |  |                     |                |                                      |
| Less than one year  | 34,976                                   | 8,002               | 42,978         | 18.6                                 |
| From one to three years   | 10,836                                   | 2,070               | 12,906         | 16.0                                 |
| More than three years   | 3,951                                    | 1,135               | 5,086          | 22.3                                 |
| Indefinite (2)  | 2,206                                    |                     | 2,206          |                                      |
| Investment in unconsolidated companies and<br>other investments           | 708                                      |                     | 708            |                                      |
| Property, plant and equipment, net  | 2,606                                    | 340                 | 2,946          | 11.5                                 |
| Goodwill  | 262                                      |                     | 262            |                                      |
| Intangible assets, net  | 1,568                                    |                     | 1,568          |                                      |
| Other assets  |  |                     |                |                                      |
| Less than one year  | 6,679                                    | 212                 | 6,891          | 3.1                                  |
| From one to three years   | 5,553                                    |                     | 5,553          |                                      |
| More than three years   | 1,577                                    | 754                 | 2,331          | 32.3                                 |
| Allowance for loan losses   | (3,945)                                  | (118)               | (4,063)        | 2.9                                  |
| <b>Total</b>  | <b>151,680</b>                           | <b>25,399</b>       | <b>177,079</b> | <b>14.3</b>                          |
| Percentage of total assets  | 85.7%                                    | 14.3%               | 100.0%         |                                      |
| <b>Liabilities and Shareholders Equity:</b>                               |  |                     |                |                                      |
| Deposits  |  |                     |                |                                      |

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|   |                |               |                |             |
|---|----------------|---------------|----------------|-------------|
| Less than one year  | 51,067         | 2,034         | 53,101         | 3.8         |
| From one to three years   | 14,754         | 319           | 15,073         | 2.1         |
| More than three years   | 383            | 90            | 473            | 19.0        |
| Federal funds purchased and securities sold<br>under agreements to repurchase | 15,608         | 924           | 16,532         | 5.6         |
| Short-term borrowings   |                |               |                |             |
| Less than one year  |                | 7,584         | 7,584          | 100.0       |
| From one to three years   |                | 660           | 660            | 100.0       |
| More than three years   |                | 28            | 28             | 100.0       |
| Long-term debt  |                |               |                |             |
| Less than one year  | 3,685          | 783           | 4,468          | 17.5        |
| From one to three years   | 4,155          | 1,605         | 5,760          | 27.9        |
| More than three years   | 4,976          | 4,449         | 9,425          | 47.2        |
| Other liabilities   |                |               |                |             |
| Less than one year  | 31,859         | 1,610         | 33,469         | 4.8         |
| From one to three years   | 13,991         |               | 13,991         |             |
| More than three years   | 821            | 62            | 883            | 7.0         |
| Minority interest in consolidated subsidiaries                                | 73             |               | 73             |             |
| Shareholders' equity  | 15,559         |               | 15,559         |             |
| <b>Total</b>  | <b>156,931</b> | <b>20,148</b> | <b>177,079</b> | <b>11.4</b> |
| Percentage of total liabilities and shareholders<br>equity                    | 88.6%          | 11.4          | 100.0%         |             |

- 
- (1) Represents investments in mutual funds, which are redeemable at any time, in accordance with our liquidity needs.
- (2) Represents non-performing loans.

Derivatives are presented in the table above on the same basis as presented in the consolidated financial statements in Item 18.

Our cash and cash equivalents in foreign currency are represented principally by U.S. dollars. Amounts denominated in other currencies, which include euros and yen, are indexed to the U.S. dollar as well through currency swaps, effectively limiting our foreign currency exposure to U.S. dollars only.

We enter into short-term derivatives contracts with selected counterparties to manage our overall exposure as well as to assist customers in managing their exposures. These transactions involve a variety of derivatives, including interest rate swaps, currency swaps, futures and options. For more information regarding these derivative contracts, see note 22(b) to our consolidated financial statements in Item 18.

At December 31, 2004, the composition of our off-balance sheet derivatives by currency was as shown below:

| <b>December 31, 2004</b>            |                          |                             |              |
|-------------------------------------|--------------------------|-----------------------------|--------------|
| <b>Notional amounts</b>             |                          |                             |              |
|                                     | <b>R\$</b>               | <b>Foreign<br/>currency</b> | <b>Total</b> |
|                                     | <b>(R\$ in millions)</b> |                             |              |
| Off-balance sheet derivatives:      |                          |                             |              |
| Interest rate futures contracts:    |                          |                             |              |
| Purchases                           | 53                       |                             | 53           |
| Sales                               | 9,345                    |                             | 9,345        |
| Foreign currency futures contracts: |                          |                             |              |
| Purchases                           |                          | 5,189                       | 5,189        |
| Sales                               |                          | 14,195                      | 14,195       |
| Foreign currency option contracts:  |                          |                             |              |
| Purchases                           |                          | 8                           | 8            |
| Sales                               |                          | 1,450                       | 1,450        |
| Foreign currency forward contracts: |                          |                             |              |
| Purchases                           |                          | 383                         | 383          |
| Sales                               |                          | 331                         | 331          |
| Swap contracts:                     |                          |                             |              |
| Asset Position:                     |                          |                             |              |
| Interest rate swaps                 | 5,169                    |                             | 5,169        |
| Currency swaps                      |                          | 2,287                       | 2,287        |
| Liability Position:                 |                          |                             |              |
| Interest rate swaps                 | 2,645                    |                             | 2,645        |
| Currency swaps                      |                          | 4,500                       | 4,500        |

## Capital Expenditures

In the past three years, we have made, and expect to continue to make, significant capital expenditures related to improvements and innovations in technology and the Internet designed to maintain and expand our technology infrastructure in order to increase our productivity, accessibility and cost efficiency and our reputation as a leader in technological innovation in the financial services sector. We have made significant capital expenditures for systems development, data processing equipment and other technology designed to further these goals. These expenditures are for systems and technology for use both in our own operations and by clients.

The following table shows our capital expenditures accounted for as fixed assets in the periods indicated:

|                                   | 2002              | 2003     | 2004     |
|-----------------------------------|-------------------|----------|----------|
|                                   | (R\$ in millions) |          |          |
| <b>Infrastructure</b>             |                   |          |          |
| Land and buildings                | R\$283            | R\$110   | R\$43    |
| Leasehold furniture and equipment | 137               | 204      | 107      |
| Improvements                      | 65                | 88       | 52       |
| Others                            | 53                | 81       | 28       |
| <b>Total</b>                      | 538               | 483      | 230      |
| <b>Information Technology</b>     |                   |          |          |
| Systems development               | 244               | 235      | 240      |
| Data processing equipment         | 396               | 663      | 643      |
| <b>Total</b>                      | 640               | 898      | 883      |
| <b>Total</b>                      | R\$1,178          | R\$1,381 | R\$1,113 |

During 2004 we made R\$1,532 million in capital expenditures, of which R\$1,113 million was related to the acquisition of assets and R\$419 million to telecommunications services and data processing expenses. During the first three months of 2005, we made investments valued at R\$322 million.

We believe that capital expenditures in 2005 through 2007 will not be substantially greater than historical expenditure levels and anticipate that in accordance with our practice during recent years, our capital expenditures in 2005 through 2007 will be funded from our own resources. No assurance can be given, however, that the capital expenditures will be made and, if made, that such expenditures will be made in the amounts currently expected.

### Off-balance Sheet Arrangements

All of our off-balance sheet financial guarantees are described under Off-balance Sheet Financial Guarantees. None of our off-balance sheet arrangements are of the type with respect to which we are required to provide disclosure pursuant to Item 5.E. of Form 20-F.

### Research and Development, Patents and Licenses

Other than our program of technological innovation we do not have any significant policies or projects relating to research and development, and we own no patents or licenses.

### Item 6. Directors, Senior Management and Employees.

#### Management of Banco Bradesco

We are managed by our *Conselho de Administração*, which we call the Board of Directors, together with our Board of Executive Officers. The Board of Directors establishes our corporate strategy and policies and supervises and monitors the Board of Executive Officers. In turn, the Board of Executive Officers implements the strategy and policies set by the Board of Directors and is responsible for our day-to-day management.

Our Board of Executive Officers is currently made up of (1) the *Diretoria Executiva*, which is the board of senior executive officers, and (2) our departmental and regional directors. The *Diretoria Executiva* is made up of the president, nine executive vice presidents and thirteen managing executive directors.

Our eight-member Board of Directors meets on an ordinary basis every ninety days and meets on an extraordinary basis whenever necessary and is responsible for:

- approving, on a case-by-case basis, any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us;
- establishing our corporate strategy;
- reviewing our business plans and policies; and
- supervising and monitoring the activities of our Board of Executive Officers.

Our board of directors acts as our audit committee, as specified in Section 3(a)(58) of the Exchange Act, for purposes of approving, on a case-by-case basis, any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us.

Our *Diretoria Executiva* meets weekly and is responsible for:

- implementing the strategy and policies established by our Board of Directors; and
- our day-to-day management.

Several members of our Board of Directors and the *Diretoria Executiva* also perform senior management functions at our subsidiaries, including Bradesco Seguros, Bradesco Auto/RE Companhia de Seguros, Bradesco Capitalização, Bram-Bradesco Asset Management S.A., Distribudora de Títulos e Valores Mobiliários, Banco Finasa, Bradesco Consórcios, Bradesco Saúde and Bradesco Leasing. Each of our subsidiaries has its own management structure.

On June 9, 2003, our shareholders Cidade de Deus Companhia Comercial de Participações, Fundação Bradesco and Banco Bilbao Vizcaya Argentaria - BBVA entered into a Shareholders Agreement, which provides that for so long as BBVA owns at least 3.94% of our voting capital, the controlling shareholders shall grant BBVA the right to elect one member of our board of directors and Bradesco and BBVA shall keep a *Euro desk*, headed by a department officer appointed by BBVA. In addition, if BBVA wishes to sell, part or all of its participation interest, it shall notify the other shareholders, which shall be granted a right of first refusal over the acquisition of such shares. For more information regarding the Shareholders Agreement, see Item 4. Information on the Company The Company History Recent Important Acquisitions and Joint Ventures Acquisition of BBV Banco.

Pursuant to Brazilian law, all members of our Board of Directors and Board of Executive Officers have been approved by the Central Bank.

The following are biographies of the current members of our Board of Directors and *Diretoria Executiva*:



***Members of the Board of Directors:***

**Lázaro de Mello Brandão, Chairman:** 78 years old; economist and business administrator. In September 1942, Mr. Brandão was hired by Casa Bancária Almeida & Cia., the financial institution that, on March 10, 1943, became Banco Brasileiro de Descontos S.A. and later became Banco Bradesco S.A. He has held a variety of positions during his banking career with Bradesco. In January 1963, he was elected as an Officer, and in September 1977, he was elected Vice-President. In 1981 he assumed the position of CEO, succeeding Mr. Amador Aguiar, the founder of Bradesco. Since February 1990, he has served as the Chairman of our Board of Directors. In March 1999, he stepped down as CEO, but has remained the Chairman of our Board of Directors. He also holds a variety of positions within the Bradesco corporate structure, such as President of Fundação Bradesco and of the Institute of Diseases of the Digestive System. In addition, he is the Chairman of the Board of Directors of Bradespar S.A., a member of the consulting committee of VBC Participações S.A. and a non-voting member of the Managing Board of Banco Espírito Santo S.A., located in Lisbon, Portugal. He served as President of the Banking Associations of the states of São Paulo, Paraná, Mato Grosso and Mato Grosso do Sul, Vice-President of the National Federation of Banks, known as FENABAN, a member of the Board of the Federation of Brazilian Banking Associations, known as FEBRABAN and of Chairman of the Board of Directors Fundo Garantidor de Créditos FGC and CIBRASEC Companhia Brasileira de Securitização.

**Antônio Bornia, Vice-Chairman:** 69 years old; secondary education. In May 1952, Mr. Bornia started his career with Bradesco. Since then, he has held a variety of positions within Bradesco. In September 1975, he became an Associate Officer; in April 1979, he was appointed to an Executive Officer position; in June 1981 he became Vice-President and since March 1999 he has been the Vice-Chairman of our Board of Directors. He also serves as administrator of several companies of Bradesco's organization, including Bradesco Leasing S.A - Arrendamento Mercantil, Fundação Bradesco and Institute of Diseases of the Digestive System. He is the CEO and Chairman of the Board of the ABEL; CEO of the National Union of Leasing Companies; Vice-president of the Board of Representatives of the CNF - National Confederation of the Financial Institutions and the National Confederation of the Financial System - CONSIF; Vice-president of the Executive Board of the Latin American Federacy of Leasing - Felalease; Vice-president of the Board of Directors of Bradespar S.A.; and member of the Brazilian Sector of the Brazil-United States Chamber of Commerce. He has also served as an alternate member of the Board of Resources of the National Financial System, an agency related to the Treasury Ministry, as representative of the ABEL Associação Brasileira das Empresas de Leasing from July 1989 until July 1991 and from February 2000 to February 2002. He was also the chairman of the Board of Directors of the FGC from January 2002 to January 2005.

**Mario da Silveira Teixeira Junior, Director:** 59 years old. Mr. Teixeira received a degree in civil engineering and business administration from Mackenzie Presbyterian University. In July 1971, Mr. Teixeira joined Bradesco S.A Corretora de Títulos e Valores Mobiliários, having served as an officer from March 1983 until January 1984, when he was transferred to Banco Bradesco de Investimento S.A. and Banco Bradesco S.A.. He was appointed as our Departmental Director in January 1984; Managing Officer in March 1992; Vice-President in March 1998, and from March 1999 to July 2001 he served as a member of our Board of Directors. From July 2001 until March 2002, Mr. Teixeira served as the CEO of Bradespar S.A., a company incorporated by our partial spin off. In March 2002, he returned to his position as a member of our Board of Directors, where he remains until today. He is also Director of Bradesco Leasing S.A. - Arrendamento Mercantil, member of the Board of Trustees and Managing Officer of Fundação Bradesco, Director and Managing Officer of the Institute of Diseases of the Digestive System. In addition, he holds positions as Director of Bradespar S.A., VBC Participações S.A., VBC Energia S.A., Companhia Paulista de Força e Luz CPFL, CPFL Energia S.A., CPFL Geração de Energia S.A., Companhia Piratininga de Força e Luz, Valepar S.A., Vice-chairman of the Board of Directors of Companhia Vale do Rio Doce, non-voting member of the Managing Board of Banco Espírito



Santo de Investimentos S.A., located in Lisbon, Portugal, and Vice-chairman of the Board of Directors of BES Investimento do Brasil S.A. Banco de Investimento. He also served as Vice-President of ANBID Associação Nacional dos Bancos de Investimento, member of the Management Board of ABRASCA Associação Brasileira das Companhias Abertas, Director of Companhia Siderúrgica Nacional - CSN, Latasa S.A., São Paulo Alpargatas S.A and Tigre S.A. Tubos e Conexões.

Márcio Artur Laurelli Cypriano, Director: 61 years old. Mr. Cypriano received a law degree from Mackenzie Presbyterian University. In July 1967, he started his career joining Banco da Bahia S.A., a financial institution we merged with in December 1973, Mr. Cypriano became a manager of Bradesco. In January 1984, Mr. Cypriano was appointed as a Departmental Officer, in January 1986 he became a Deputy Managing Officer, in February 1988, Mr. Cypriano was designated Managing Officer and in February 1995, he became Vice-President. In March 1999, he was appointed our CEO, and since March 2002, he has been director. Prior to that, he was the CEO of Banco BCN from April 1998 until March 1999; Mr. Cypriano also serves as CEO of several companies of Bradesco's organization, including member of the Board of Trustees and Managing Officer of Fundação Bradesco and director and managing officer of the Institute of Diseases of the Digestive System. In addition to these activities, he is a member of the Board of Directors of Bradespar S.A., Member of the Board of Conselho de Desenvolvimento Econômico e Social CDES, CEO and President of FEBRABAN; CEO of FENABAN and of the Union of the Banks in the States of São Paulo, Paraná, Mato Grosso and Mato Grosso do Sul; member of the Board of Directors of FGC; and member of Conselho Superior de Comércio Exterior Coscex; and of the Federation of the Industries of the State of São Paulo/Instituto Roberto Simonsen.

João Aguiar Alvarez, Director: 44 years old. Mr. Alvarez received a degree in agronomy from the Manuel Carlos Gonçalves College of Agronomy and Animal Husbandry in Espírito Santo do Pinhal, SP. In April 1986 he was appointed to the Board of Directors, and since 1988, he has served as an Officer. Since February 1990, Mr. Alvarez has been a member of our Board of Directors and a director of Bradespar S.A. since March 2000. He is also a member of the Board of Trustees and Assistant Officer of the Fundação Bradesco and director and Assistant Officer of the Institute of Diseases of the Digestive System.

Denise Aguiar Alvarez Valente, Director: 47 years old. Ms. Valente received a degree in education from São Paulo Pontific Catholic University and received a Masters in Education from New York University. In April 1986, she was appointed to the Board of Directors of Cidade de Deus - Companhia Comercial de Participações, one of our controlling shareholders, and since July 1988 she has also served as an Officer. Since February 1990, Ms. Valente has served as a member of our Board of Directors, and since March 2000, she has also served as a Director of Bradespar S.A.. She is also a member of the Board of Trustees and Assistant Officer of the Fundação Bradesco and director and Assistant Officer of the Institute of Diseases of the Digestive System. Ms. Valente hold a position of member of the Deliberative Board of the Association of the Friends of the Pinacoteca of the State since March 2002, and of the Fundo Social de Solidariedade do Estado de São Paulo FUSSESP since April 2003.

Raul Santoro de Mattos Almeida, Director: 52 years old. Mr. Almeida received a degree in mechanical engineering. Mr. Almeida joined our Board of Directors on January 28, 2005. He is the Country Manager and CEO of BBVA Bancomer Financial Holdings, Texas; Valley Bank, California; BBVA Bancomer Transfer Services (BTS) - Services of Transference, Texas; BBVA Bancomer Foreign Exchange (BFX) - Exchange, Texas; BBVA Bancomer Financial Services (BFS) - Financial Services, Texas; BBVA Finance, Delaware; BBVA Securities, Incorporation, New York; director of BBVA Puerto Rico and BBVA Bancomer Institution of Banco Múltiplo, Mexico. Prior to that he has served as CEO of Santander Overseas Bank, Puerto Rico; executive vice-president and finance manager of the

Santander Bank, Puerto Rico; Financial officer of the International Division of the Bank Santander, Spain; Managing Superintendent of the Bank Santander, Brazil; Vice-president of the Bank of Boston, Brazil; Vice-president, treasurer and superintendent officer of Multileasing of the Bank of America NT&AS, Brazil; officer of Finasa Leasing Arrendamento Mercantil S.A., Brazil; manager of the LEASCO Companhia de Leasing do Brasil. Mr. Almeida is a member of the Board of Directors of the IIB - Institute of International Bankers, New York; of USSCC - Chamber of Commerce United States and Spain and of USBCC - Chamber of Commerce United States and Spain.

Ricardo Espírito Santo Silva Salgado, Director: 60 years old. Mr. Salgado received a degree in economics from the Instituto Superior de Ciências Econômicas e Financeiras at Universidade Técnica de Lisboa - Portugal. In June 2003 he was appointed to our Board of Directors. He is also a member of the Superior Council of the Espírito Santo group, Vice-President of the Board of Directors and President of the Executive Commission of Banco Espírito Santo, S.A. - Lisbon, President of Espírito Santo Financial Group (ESFG) - Luxembourg, a member of the Supervisory Board of Euronext NV - the Netherlands, a member of the Executive Committee of Institut Internationale d'Études Bancaires (IIEB) - Brussels and a member of the European Advisory Committee Board of NYSE. He was a member of the Board of Directors of Banco Boavista Interatlântico S.A. (Brazil) from September 1997 to October 2000.

### ***Members of the Diretoria Executiva***

Márcio Artur Laurelli Cypriano, Chief Executive Officer: Mr. Cypriano also serves as our Chief Executive Officer. His experience is summarized above under Members of the Board of Directors.

Décio Tenerello, Vice-President: 60 years old. Mr. Tenerello received a law degree from University Center FIEO of Osasco - UNIFIEO. He started his career with us in June 1961. Since then, he has held a variety of positions within Bradesco, being appointed as our Departmental Officer in March 1982, in January 1984 he became a Deputy Executive Officer of Bradesco; in February 1988, Mr. Tenerello was appointed as a Managing Officer and since March 1998, he has served as our Vice-President. He also serves as member of the Board of Trustees and Managing Officer of Fundação Bradesco; Managing Officer of the Institute of Diseases of the Digestive System, President of the Brazilian Association of Real Estate Credit and Savings Entities (ABECIP) and its representative within FEBRABAN, CNF - National Confederation of the Financial Institutions; director of CIBRASEC Companhia Brasileira de Securitização and CETIP - Central de Custódia e de Liquidação Financeira de Títulos.

Laércio Albino Cezar, Vice-President: 58 years old; accountant. He started his career in April 1960. Since then, Mr. Cezar has held a variety of positions Bradesco, being appointed as our Departmental Officer in March 1982, Managing Executive Officer in March 1992 and since March 1999 as Vice-President. He holds positions as member of the Board of Trustees and Managing Officer of Fundação Bradesco, member of the Board of Directors and Managing Director of the Institute of Diseases of the Digestive System. Prior to that, from November 1983 to March 1992, he was member of the Security Against Frauds Subcommittee of FEBRABAN. Mr. Cezar was also the Brazilian representative within the Internal Auditors Committee of FELABAN Federação Latino-americana de Bancos from January 1991 to April 1997; Vice-President from July 1997 until July 2000 of the Institute of Rational Organization of Labor (IDORT) of São Paulo, and First Executive Vice-President from July 2000 to July 2003.

Arnaldo Alves Vieira, Vice President: 56 years old. Mr. Vieira received a law degree from Guarulhos University and a degree in business administration from Mackenzie Presbyterian University. He started his career in October 1961. Since then, Mr. Vieira has held a variety of positions within Bradesco, being appointed as our Regional Officer in April 1985; Departmental Officer in March 1992;

Managing Officer in February 1995, and Vice President in March 1999. He also holds positions as member of the Board of Trustees, and Managing Officer of Fundação Bradesco and member of the Board of Directors and Managing Director of the Institute of Diseases of the Digestive System. Since November 1995 he has been the Vice-Chairman of Companhia Brasileira de Meios de Pagamento (VISANET), Officer of the InterAmerica Overseas Limited since May 2000 and member of the Conselho Diretivo Regional of the Visa International since May 1999. Prior to that, Mr. Vieira also was a Executive Officer of FEBRABAN and FENABAN from March to September of 2002.

Luiz Carlos Trabuco Cappi, Vice President: 53 years old. Mr. Cappi received a degree in philosophy from the São Paulo University of Philosophy, Science and Languages and a post-graduate degree in social psychology from the São Paulo School of Sociology and Politics. He began at Bradesco in April 1969. Since then, Mr. Cappi has held a variety of positions within Bradesco, being appointed Departmental Officer in January 1984, Managing Officer in March 1998 and since March 1999, he has been our Vice-President. He also holds positions as member of the Board of Trustees and Managing Officer of Fundação Bradesco and member of the Board of Directors and Managing Director of the Institute of Diseases of the Digestive System. Since March 2003, he has been the CEO of Bradesco Seguros S.A. and he served as a director of Bradesco Seguros S.A. from March 1999 until March 2005. Prior to that, he was also an Officer of Setorial ADVB Associação dos Dirigentes de Vendas do Brasil; President of ANAPP, the National Association for Private Pension Plans; member of the managing board for ABRASCA, the Brazilian Association for Listed Companies; director of Companhia Siderúrgica Belgo Mineira; Marketing Officer and member of the National Board of Banking Ethics (CONEB) and of FEBRABAN.

Sérgio Socha, Vice President: 59 years old; accountant technician. Mr. Socha began his career at Banco Indústria e Comércio de Santa Catarina S.A. in September 1961. With the acquisition of Banco Indústria e Comércio de Santa Catarina S.A., he joined our staff in May 1968. Since then he has held a variety of positions within the banking career, being appointed as a Regional Officer in March 1986; Departmental Officer from July 1995 to January 1998 and since July 1999 he is our Vice President. He also holds positions as member of the Board of Trustees and Managing Officer of Fundação Bradesco and member of the Board of Directors and Managing Director of the Institute of Diseases of the Digestive System. Mr. Socha was an officer of BCN from December 1997 to November 1998. At that time, he became Vice President of BCN, a position he held until July 1999, and Vice-President of ABECIP, Brazilian Association of the Entities of Home Loans and Savings, from November 1999 to March 2002, when he became a Member of the Deliberation Council from March 2002 to November 2003.

Julio de Siqueira Carvalho de Araújo, Vice President: 50 years old; secondary education. Mr. Carvalho de Araújo began his career in March 1978 at Banco BCN S.A., a financial institution that was acquired by us in 1997. He has held a variety of positions within the banking career, being appointed Officer in October 1989; Vice President of BCN from May 1995 to August 2000. Since August 2000 he is one of our Vice Presidents. He also holds positions as member of the Board of Trustees and Managing Officer of Fundação Bradesco and member of the Board of Directors and Managing Director of the Institute of Diseases of the Digestive System. He also serves as a member of the board of directors of Companhia Brasileira de Liquidação e Custódia (CBLC) and of the Bolsa de Mercadorias & Futuros BM&F; director of Câmara Interbancária de Pagamentos CIP and member of the Deliberation Council of Associação Brasileira das Entidades de Crédito Imobiliário e Poupança - ABECIP.

Milton Almicar Silva Vargas, Vice President: 48 years old. Mr. Vargas received a degree in business administration from UNIFIEO University Center FIEO of Osasco. He began his career joining us in July 1976. Mr. Vargas has held a variety of positions within the banking career, being appointed as Departmental Officer in December 1997; as Managing Officer in March 2000 and since March 2002 he is one of our Vice Presidents. He also holds positions as member of the Board of Trustees and Managing Officer of Fundação Bradesco and member of the Board of Directors and Managing



Director of the Institute of Diseases of the Digestive System. Mr. Vargas is also an alternate member of the National Board of Banking Ethics and Auto-Regulation; director of CPM S.A., member of the Conselho Fiscal of FGC and our representative in the Managing Board of Instituto Brasileiro de Pesquisas Contábeis, Atuariais e Financeiras IPECAFI. Prior to that, he also served as an Effective Member of the Board of Directors of ASSOESP Associação de Bancos no Estado de São Paulo; FEBRABAN; FENABAN and Sindicato of banks in the states of São Paulo, Paraná, Mato Grosso and Mato Grosso do Sul from February 2001 to March 2004.

José Luiz Acar Pedro, Vice-President: 52 years old. Mr. Pedro received a business administration degree from the Santana College of Economic and Accounting Sciences at São Judas Tadeu University in São Paulo, SP. He began his career in January 1971 at Banco BCN S.A., a financial institution that was acquired by us in December 1997. Mr. Pedro has held a variety of positions within the banking career, being appointed as an Officer in June 1986; an Executive Officer in May 1996; and from March 1999 to March 2004 he was CEO of BCN. Since February 2003 he is one of our Executive Officers and Vice-Presidents. He also holds positions as member of the Board of Trustees and Managing Officer of Fundação Bradesco and member of the Board of Directors and Managing Director of the Institute of Diseases of the Digestive System. Prior to that, until March 2004 Mr. Pedro was also the CEO of Banco Mercantil de São Paulo S.A. and of Banco Boavista Interatlantico S.A., where he is currently an Officer. He has been a member of the Board of Directors of ABRASCA; Chairman of the Instituto Brasileiro de Relações com Investidores IBRI; Vice-President of FEBRABAN and FENABAN; Treasury Officer of the banks unions in the states of São Paulo, Paraná, Mato Grosso and Mato Grosso do Sul. He also served as Chairman of BCN Corretora de Títulos e Valores Moiliários S.A.; CEO of Potenza S.A. Processamento de Dados; and Officer of Financiadora BCN S.A. Crédito, Financiamento e Investimentos.

Norberto Pinto Barbedo, Vice-President: 53 years old. Mr. Barbedo received an accounting degree from Tibiriçá College of Accounting Sciences. He began his career in January 1968 at Banco BCN S.A., a financial institution that was acquired by us in December 1997. Mr. Barbedo has held a variety of positions within the banking career, being appointed an Officer in October 1989, and Executive Officer and Vice-President of Banco BCN S.A. from December 1997 to March 2004. In February 2003 Mr. Barbedo was appointed one of ours Executive Officers and Vice-Presidents. He also holds positions as member of the Board of Trustees and Managing Officer of Fundação Bradesco and member of the Board of Directors and Managing Director of the Institute of Diseases of the Digestive System. Prior to that, until March 2004, Mr. Barbedo was also Vice-President of Banco Mercantil de São Paulo S.A. and of Banco Boavista Interatlantico S.A., where he is currently an Officer. He also served as director of BCN Corretora de Títulos e Valores Moiliários S.A.; Officer of Financiadora BCN S.A. Crédito, Financiamento e Investimentos and Vice-President of Banco Zogbi S.A. and Potenza S.A. Processamento de Dados;

Armando Trivelato Filho, Managing Officer: 58 years old. Mr. Filho received a degree in civil engineering from Minas Gerais University. He began his career joining us in May 1977. Mr. Barbedo has held a variety of positions within the banking career, being appointed as Departmental Officer in July 1988; Deputy Managing Officer in March 1998 and since March 1999 he is one of our Managing Officers. He also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. Prior to that he was an Engineer of Bradesco S.A. Crédito Imobiliário, Officer of the Digilab - Laboratório Digital Ltda., director of Matel Tecnologia de Teleinformática S.A. - MATEC, alternate director of the Companhia Siderúrgica Nacional - CSN, Officer and director of Matel S.A. - Participação and Administração, Vice-Chairman of Teletrim Telecomunicações S.A. and director of VICOM S.A.

Carlos Alberto Rodrigues Guilherme, Managing Officer: 61 years old. Mr. Guilherme received a law degree from Pinhalense Education Foundation. He began his career joining us in December 1957. Mr. Guilherme has held a variety of positions within the banking career, being appointed as Departmental Officer in March 1986; Deputy Managing Officer in March 1998 and since March 1999 he is one of our Managing Officers. He also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. Prior to that, he served as Officer of Banco de Crédito Real de Minas Gerais S.A. from April 1998 until April 2003, and of Credireal Leasing S.A. Arrendamento Mercantil from April 1998 to September 1999.

José Alcides Munhoz, Managing Officer: 56 years old; secondary education. Mr. Munhoz began his career joining us in October 1970. He has held a variety of positions within the banking career, being appointed as Regional Officer in March 1989; Departmental Officer in January 1995; Deputy Managing Officer in March 1998; and since March 1999, he is one of our Managing Officers. He also holds positions as member of the Board of Trustees of Fundação Bradesco, member of the Board of Directors of the Institute of Diseases of the Digestive System, and Officer of Bradesco Consórcios Ltda.

José Guilherme Lembi de Faria, Managing Officer: 59 years old. Mr. Lembi de Faria received a degree in economics from the Fluminense Federal University. He began his career in January 1967 at Banco Mineiro do Oeste S.A., which was acquired by us in 1973. In September 1981 he was designated General Manager of our New York Branch. Returning to Brazil, he became a Regional Officer in March 1993; then was appointed as Departmental Officer in February 1995; Deputy Managing Officer in March 1998; and since 1999 he is one of our Managing Officers. He also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. He also serves as CEO of Banco Bradesco Argentina S.A., Vice-President of the Bradesco Services Co., Ltd. and Officer of Cidade Capital Markets Ltd.

Luiz Pasteur Vasconcellos Machado, Managing Officer: 56 years old. Mr. Machado received a law degree from the United Metropolitan Colleges FMU. He began his career joining us in June 1962. He has held a variety of positions within the banking career, being appointed as a Regional Officer in March 1986; Departmental Officer in March 1992; Deputy Managing Officer in March 1998; and since March 1999, he is one of our Managing Officers. Mr. Machado also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. He is also director of Companhia Brasileira de Meios de Pagamento since April 1998. From June to November of 2004, he was Chairman of the Smart Club do Brasil Ltda., where previously he served as a director.

Milton Matsumoto, Managing Officer: 59 years old. Mr. Matsumoto received a degree in business administration from UNIFIEO University Center FIEO of Osasco. He began his career joining us in September 1957. He has held a variety of positions within the banking career, being appointed as Departmental Officer in March 1985, Assistant Officer in March 1998, and since March 1999 he has been our Managing Officer. Mr. Matsumoto also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. He also serves as an alternate member of the Board of Directors of CPM S.A. and Secretary Officer of the union of the credit, financing and investing companies of the State of São Paulo, where he previously was the Vice-President and alternate officer. He was an Officer of Bradesco S.A. Corretora de Títulos e Valores Mobiliários from January 1984 to March 1985 and the first Secretary Officer of the Bank Union in the States of São Paulo, Paraná, Mato Grosso and Mato Grosso do Sul from June 1989 to May 1998.

Cristiano Queiroz Belfort, Managing Officer: 49 years old. Mr. Belfort received a degree in Legal and Economic Sciences for the Pontifical University Catholic of São Paulo, with a Post graduation





degree in Economics for the FEA-USP; MBA - PDE INSEAD from Fundação Dom Cabral; MBA Programa de Desenvolvimento Gerencial - PDG EXEC from IBMEC; and also MBA in Marketing of Services from ESPM. Since March 2000 he serves as one of our Managing Officers. Mr. Belfort also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. Prior to that, he was an officer of Banco BCN S.A. from August 1997 until March 2000.

Sérgio de Oliveira, Managing Officer: 55 years old. Mr. Oliveira received a degree in business administration from UNIFIEO - University Center FIEO of Osasco. He began his career joining us in April 1970. He has held a variety of positions within the banking career, and since March 2000 he is one of our Managing Officers. Mr. Oliveira also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. He is also Vice-chairman of the Bradesco Securities, Inc.; Managing Officer of BRAM - Bradesco Asset Management S.A. Distribuidora de Títulos e Valores Mobiliários; member of the consulting board of ADEVAL - Associação das Empresas Distribuidoras de Valores; alternate member of the Managing Board of Associação Brasileira das Companhias Abertas ABRASCA; Vice-President of ANBID; and director of Instituto Nacional de Investidores - INI. Prior to that, from July 1997 to March 2000, Mr. Oliveira served as CEO of Bradesco S.A. Corretora de Títulos e Valores Mobiliários, where he held an Officer position from March 1985 to July 1997; member of the Advisory Chamber of Boi Gordo of Bolsa de Mercadorias & Futuros from July 1998 to November 2000; alternate director of the Stock Exchange of São Paulo from December 1999 until April 2000.

Odair Afonso Rebelato, Managing Officer: 59 years old; accountant technician. Mr. Rebelato began his career joining us in August 1960. He has held a variety of positions within the banking career, being appointed as a Regional Officer in March 1989; Departmental Officer in 1998; and since August 2001 he is one of our Managing Officers. Mr. Rebelato also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System.

Aurélio Conrado Boni, Managing Officer: 53 years old; business administration technician. He began his career joining us in February 1971. He has held a variety of positions within the banking career, being appointed as a Departmental Officer in December 1997 and since December 2001 he is one of our Managing Officers. Mr. Boni also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System.

Domingos Figueiredo de Abreu, Managing Officer: 46 years old. He received a degree in economics from College of Economic Sciences of Mogi das Cruzes and a degree in accounting from College of Economic Sciences and Administration of OSASCO - FEAO. He began his career joining us in December 1981. He has held a variety of positions within the banking career, being appointed as a Departmental Officer in June 2001 and since March 2002 he is one of our Managing Officers. Prior to that, he served as an officer of BCN S.A. from December 1997 to June 2001. Mr. Abreu also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. Since October 2001, he holds the position of alternate director of CPM S.A., where he was also a member of the Board of Technical Administration from June 1998 to May 1999.

Paulo Eduardo D. Avila Isola, Managing Officer: 49 years old. Mr. Isola received a business administration degree from Brás Cubas College, São Paulo, SP. He began his career as a Director of Continental Promotora de Venda Ltda, now called Finasa Promotora de Vendas Ltda, in July 1997, and then in March 2002 he became Managing Officer. He was designated Managing Officer of Banco BCN S.A. until February 2003, when he became one of our Managing Officers. Mr. Isola also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the



Institute of Diseases of the Digestive System. He is also Vice-President of ACREFI - Associação Nacional das Instituições de Crédito, Financiamento e Investimento, alternate director of CIBRASEC - Companhia Brasileira de Securitização and director of Clicar Central On-Line de Financiamentos Sociedade Simples Ltda. Prior to that, he served as Technician Officer of the ABEL - ABEL - Associação Brasileira das Empresas de Leasing, from 1996 until 2000.

Ademir Cossliello, Managing Officer: 49 years old. Mr. Cossliello received a degree in economics from Faculdades Padre Anchieta. He began his career joining us in October 1973. He has held a variety of positions within the banking career, being appointed as a Regional Officer in January 1995; Departmental Officer from March 1998 until September 1999, and since June 2003 he is one of our Managing Officers. Mr. Cossliello also holds positions as member of the Board of Trustees of Fundação Bradesco and member of the Board of Directors of the Institute of Diseases of the Digestive System. Since August 2003, he is also a member of the Deliberative Council of the Commerce Association of São Paulo, where he previously held the position of member of the deliberative board from February to September 1999. He was an Officer and Managing Officer at Banco Baneb S.A. from June 1999 to October 2001. From October 2001 to March 2004 he served as Managing Officer of Banco BCN S.A., and from January 1995 to January 1997, he was a director of ASBAN - Associação de Bancos no Estado de Goiás.

## Compensation

At the annual shareholders assembly, our shareholders establish the maximum global compensation of the members of our Board of Directors and Board of Executive Officers for the ensuing year. In 2004, our shareholders set the global compensation for our Directors and Executive Officers at R\$130 million.

In 2004, our directors and executive officers received global compensation of R\$114.4 million for their services, whether as members of the Board of Directors or Board of Executive Officers, as applicable, or as providers of services to our subsidiaries. No part of the aggregate compensation was paid as part of a profit sharing plan or in the form of stock options.

Our directors and executive officers have the right to participate in the same complementary retirement pension plans available to all our employees. In 2004, we contributed R\$97.3 million to pension plans on behalf of our directors and executive officers.

## Board Practices

Our shareholders elect the members of our Board of Directors at the annual general shareholders meeting for one-year terms; the directors can be reelected for consecutive terms. The Board of Directors appoint the members of our Board of Executive Officers for one-year terms, which can also be extended for consecutive terms.

To become a member of our *Diretoria Executiva*, a person must have worked for us or our affiliates for a minimum of ten consecutive years and be less than sixty-five years old at the time of appointment. There are thirty-eight departmental directors and eleven regional directors on the Board of Executive Officers. The departmental and regional directors direct the business of each of our various divisions and branches and report to the *Diretoria Executiva*. To become a departmental or regional director, a person must be an employee or executive officer at Bradesco or one of our affiliates and be less than sixty-two years old, in the case of departmental directors, or sixty years old, in the case of regional directors, at the time of appointment. Our Board of Directors may waive the fulfillment of the period of



employment requirement with respect to up to 25% of our Managing Officers and Departmental and Regional Directors, with the exception that the requirement cannot be waived with respect to persons appointed as President or Vice-President. The members of our Board of Directors are required to work exclusively for us, unless granted an exception by the Board of Directors itself.

Members of our Board of Directors are not required to be or to have been our employees, and service, as a member of our Board of Directors does not constitute employment with us.

### ***Fiscal Council***

Under Brazilian law, corporations may have a *conselho fiscal*, or fiscal council, which is an independent corporate body, with general monitoring and supervision powers as set forth in the Brazilian accounting practices. Our bylaws provide for a fiscal council and specify that, if our shareholders convene a fiscal council, it shall have from three to five members.

Our fiscal council has three members (Domigos Aparecido Maia, José Roberto Aparecido Nunciaroni and Ricardo Abecassis Espírito Santo Silva) and three alternates (Nelson Lopes de Oliveira, Jorge Tadeu Pinto de Figueiredo and Renaud Roberto Teixeira), all of whom were appointed when the fiscal council was formed on March 10, 2005, and all of whose terms will expire in March 2006. In accordance with Brazilian corporate law, our fiscal council has the right and obligation to, among other things:

- through any of its members, supervise the actions of our managers and to verify their fulfillment of their duties;
- review and issue opinions regarding our financial statements prior to their disclosure, including the explanatory notes to the financial statements, the independent auditor's report and any management reports;
- opine on any management proposals to be submitted to the shareholders' meeting related to:
  - changes in our social capital,
  - issuances of debentures or rights offerings entitling the holder to subscribe for equity,
  - investment plans and capital expenditure budgets,
  - distributions of dividends, and
  - transformation of our corporate form and corporate restructuring, as mergers, incorporações and spin offs;
- inform our management of any error, fraud, or felony it discovers and suggest measures management should take in order to protect our best interests, and, if our management fails to take these necessary steps, to inform the shareholders' assembly; and
- call general shareholders' assemblies if management delays the general shareholders' assembly for more than one month and call special shareholders' meetings in case of material or important matters.

***Board Committees***

At an extraordinary shareholders meeting held on December 17, 2003, our shareholders created three new board committees: an audit committee, an internal control and compliance committee, and a compensation committees.

***Audit Committee***

Pursuant to our by-laws and to Central Bank regulations since July 2004, we have appointed an audit committee, which is comprised of three to five members, each of whom serves a term of one year, and all of whom are independent of our management. Members are appointed by, and may be replaced by, the Board of Directors. The current members of the committee are Mário da Silveira Teixeira Júnior, Hélio Machado dos Reis, Paulo Roberto Simões da Cunha and Yves Louis Jacques Lejeune. Of the members, only Mr. Mario Teixeira is a member of our Board of Directors. In addition, under Brazilian law, the function of hiring independent auditors is reserved for the board of directors of a company. As a result, our board of directors acts as our audit committee, as specified in Section 3(a)(58) of the Exchange Act, for purposes of approving, on a case-by-case basis, any engagement of our independent auditors for audit and non-audit services provided to our subsidiaries or to us. Except in these respects, our audit committee is comparable to and performs the functions of audit committees of U.S. companies. Since our audit committee is not comparable to audit committees of U.S. companies with regard to the engagement of our independent auditors for audit and non-audit services, we have relied on the exemption set forth in Exchange Act Rule 10A-3(c)(3) in this regard.

The responsibilities of the audit committee include:

- establishing its own rules of operation;
- recommending to the Board of Directors which outside firm should be hired to provide independent audit services, the amount of compensation such firm should receive and providing recommendations as to substitute auditors;
- reviewing financial statements prior to their disclosure, including the explanatory notes to the financial statements, the independent auditor's report and any management reports;
- establishing policies and procedures for responding to any reports or allegations of a failure to comply with applicable legal requirements or internal codes and regulations, including procedures to ensure the confidentiality and protection of any persons providing information regarding such failures;
- evaluating the work of both the internal and the independent auditors, including their compliance with applicable legal obligations and internal regulations and codes;
- meeting with the Directors and both the independent and the internal auditors at least quarterly;
- assessing the Board of Directors' responsiveness to any recommendations made by both the independent and internal auditors;
- advising the Board of Directors regarding any conflicts between the external auditors and the Board of Executive Officers;
- recommending policies, practices and procedures for improving the performance of the Board of Directors; and

- following up on its recommendations and requests for information, including confirmation that its recommendations and reports are memorialized in our records.



*Internal Control and Compliance Committee*

The internal control and compliance committee has three to six members, each with a term of one year. Members are appointed by, and may be replaced by, the Board of Directors. All committee members must be on the Board of Directors and the Board of Officers.

The committee's primary responsibility is to assist the Board of Directors with the performance of its duties related to the adoption of strategies, policies and measures governing internal controls, mitigation of risks, and compliance with applicable rules.

*Compensation Committee*

The compensation committee has three to five members, all of whom are members of the Board of Directors, and each of whom serves a term of one year. Members are appointed by, and may be reappointed or replaced by, the Board of Directors. The committee's primary responsibility is to provide the Board of Directors with proposed policies and guidelines related to the compensation of our managers. The compensation is to be based on performance targets established by the Board.

**Employees**

At December 31, 2004, we had 73,644 employees (of which 62,013 were employed by Bank Bradesco and 11,631 were employed by our subsidiaries), as compared to 75,781 employees at December 31, 2003 and 74,393 employees at December 31, 2002.

The following table sets forth the number of our employees and a breakdown of employees by main category of activity and geographic location as of the dates indicated:

|                                       | <b>December 31,</b> |             |             |
|---------------------------------------|---------------------|-------------|-------------|
|                                       | <b>2002</b>         | <b>2003</b> | <b>2004</b> |
| Total number of employees             | 74,393              | 75,781      | 73,644      |
| <b>Number by category of activity</b> |                     |             |             |
| Banking                               |                     |             |             |
| Bradesco                              | 53,732              | 59,430      | 62,013      |
| BCN                                   | 6,105               | 5,203       |             |
| Banco Mercantil                       | 3,970               |             |             |
| Insurance activities                  | 6,056               | 5,944       | 4,957       |
| Pension plan activity                 | 1,420               | 1,527       | 1,504       |
| Other categories                      | 3,110               | 3,677       | 5,170       |
| <b>Number by geographic location</b>  |                     |             |             |
| Cidade de Deus, Osasco                | 8,510               | 9,535       | 9,786       |
| Alphaville, Barueri                   | 1,068               | 1,238       | 1,397       |
| São Paulo                             | 17,739              | 16,630      | 15,390      |
| Other locations in Brazil             | 46,976              | 48,282      | 46,979      |
| International                         | 100                 | 96          | 92          |

During the period between 2002 and 2004, we acquired Banco BEA, Banco BBV, Banco Mercantil, Banco BEM and Zogbi institutions. Our number of branches increased from 2,954 to 3,004,

and due to our increased operational efficiency, we reduced the number of employees in the same period of time.

Our part-time employees work six hours a day, while our full-time employees work eight hours a day. We had 29,830 part-time employees and 43,814 full-time employees as of December 31, 2004, compared to 31,316 part-time and 44,465 full-time employees as of December 31, 2003 and 39,147 part-time and 35,246 full-time employees as of December 31, 2002.

We generally hire our employees at the entry level, and encourage them to remain with us throughout their careers. In filling all positions, we give preference to candidates from within Bradesco, including middle management and senior positions. We also hire professionals from the marketplace, but to a lesser extent.

At December 31, 2004, approximately 57% of our employees were associated with one of the labor unions, which represents bank or insurance employees in Brazil. We consider our relations with our employees as well as with the labor unions to be good, in large part due to our philosophy of internal recruiting and open communication. We have not experienced any strikes during the past four years. We are a party to two collective bargaining agreements: one relating to our banking employees and the other to our insurance sector employees.

We offer our employees benefits which include a Bradesco Saúde health plan which permits beneficiaries to choose their doctors, hospitals and dentists throughout the country, supplementary retirement and pension plans, and subsidized life and accident insurance. We also have a team of social workers who work with our employees and their dependents. These benefits apply regardless of the employee's position. Currently, 27% of our employees participate in our Bradesco Vida e Previdência pension plan. In accordance with our collective bargaining agreement, we also offer our employees profit-sharing compensation plans.

We also offer professional training to our employees. In 2004, we invested approximately R\$52.7 million in training for 467,215 of our employees. In 2003, we invested approximately R\$61.2 million in courses for 414,314 participants. Our professional training department prepares and delivers personnel training and development courses in operating, technical and behavioral areas.

## Share Ownership

As of December 31, 2004, the members of our Board of Directors and *Diretoria Estatutária* indirectly held 3.98% of our voting capital and 2.01% of our total capital stock, in the aggregate, through a company called Elo Participações S.A., which we call Elo Participações. In addition, some of our directors and executive officers directly hold shares of our capital stock. However, as of December 31, 2004, each of our directors and senior managers individually owned, directly or indirectly, less than 1% of any class of our shares.

## Item 7. Major Shareholders and Related Party Transactions.

### Major Shareholders

We are a publicly held corporation with 238,351,329 common shares and 236,081,796 preferred shares on December 31, 2004, all of which are nominative and book-entry shares with no par value. The total amount of common and preferred shares we have reflects a split of our shares which was approved by our Shareholders Extraordinary Meeting held on December 9, 2004 and ratified by the Central Bank, during which time the Shareholders authorized a capital increase in the amount of R\$700 million, with the



issuance of 8,791,857 new common shares and 8,708,143 new preferred shares. All the shares issued by the time of the capital increase were subscribed and fully paid for by February 15, 2005. The Extraordinary Shareholders Meeting held on March 10, 2005 ratified this capital increase, and therefore, the total capital became divided into 247,143,186 common shares and 244,789,939 preferred shares.

It was further resolved during this Extraordinary Shareholders Meeting that the shares issued by Bradesco Seguros S.A., our controlled company, and owned by minority shareholders would be merged into Bradesco, with the issuance of 182,504 common shares and 180,767 preferred shares to be delivered to these minority shareholders. Such merger was approved by the competent authorities and our capital will now be divided into 247,325,690 common shares and 244,970,706 preferred shares. For information on shareholders' rights and our dividend distributions, see Item 8. Financial Information Policy on Dividend Distributions and Item 10. Additional Information Memorandum and Articles of Incorporation Allocation of Net Income and Distribution of Dividends.

The following chart illustrates our capital ownership structure as of December 31, 2004:

As illustrated, a holding company, Cidade de Deus Participações, directly owns 47.95% of our voting capital and 24.20% of our total capital stock. Cidade de Deus Participações, in turn, is owned by the Aguiar family, Fundação Bradesco, and another holding company, Nova Cidade de Deus Participações S.A., which we call Nova Cidade de Deus. Nova Cidade de Deus is largely owned by Fundação Bradesco and Elo Participações. Other than the 1999 share acquisitions by Elo Participações and the 2003 share acquisitions by BBVA and the increase of BES participation interest in our voting stock, which are described below, to the best of our knowledge there has been no significant change in the percentage ownership held by any major shareholders during the past five years.

The following table shows the direct ownership of our outstanding common and preferred shares on December 31, 2004. To the best of our knowledge, only those shareholders mentioned in the table below directly hold five percent or more of our securities with voting rights.

| Shareholder   | Number of<br>common<br>shares | Percentage<br>of common<br>shares | Number of<br>preferred<br>shares | Percentage<br>of<br>preferred<br>shares | Total<br>number of<br>shares | Percentage<br>of total<br>shares |
|---|-------------------------------|-----------------------------------|----------------------------------|---|------------------------------|----------------------------------|
| *(in thousands, except percentages)                   |                               |                                   |                                  |   |                              |                                  |
| Cidade de Deus Participações                          | 114,301,296                   | 47.95%                            | 510,540                          | 0.22%                                   | 114,811,836                  | 24.20%                           |
| Fundação Bradesco(1)                                  | 31,387,307                    | 13.17%                            | 11,839,617                       | 5.02                                    | 43,226,924                   | 9.11%                            |
| Banco Bilbao Vizcaya<br>Argentaria                    | 11,984,103                    | 5.03%                             | 11,812,091                       | 5.00                                    | 23,796,194                   | 5.01%                            |
| Banco Espírito Santo S.A                              | 16,061,429                    | 6.74%                             | 43,845                           | 0.02%                                   | 16,105,274                   | 3.39%                            |
| Board of Directors:                                   |                               |                                   |                                  |   |                              |                                  |
| Lázaro de Mello Brandão                               | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Antônio Bornia  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Mário da Silveira Teixeira<br>Júnior                  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Márcio Artur Laurelli                                 | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Cypriano  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| João Aguiar Alvarez                                   | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Denise Aguiar Alvarez                                 | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Valente   | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Raul Santoro de Mattos                                | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Almeida   | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Ricardo Espírito Santo Silva                          | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Salgado   | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| <b>Total Board of<br/>Directors</b>                   | 2,272,398                     | 0.95%                             | 2,345,118                        | 0.99%                                   | 4,617,516                    | 0.97%                            |
| Members of the <i>Diretoria</i><br><i>Executiva</i> : |                               |                                   |                                  |   |                              |                                  |
| Décio Tenerello                                       | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Laércio Albino Cezar                                  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Arnaldo Alves Vieira                                  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Luiz Carlos Trabuco Cappi                             | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Sérgio Socha  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Julio de Siqueira Carvalho<br>de Araújo               | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Milton Almícar Silva                                  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Vargas  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| José Luiz Acar Pedro                                  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Norberto Pinto Barbedo                                | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Armando Trivelato Filho                               | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Carlos Alberto Rodrigues                              | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Guilherme   | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| José Alcides Munhoz                                   | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| José Guilherme Lembi de<br>Faria                      | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |
| Luiz Pasteur Vasconcellos<br>Machado                  | (*)                           | (*)                               | (*)                              | (*)                                     | (*)                          | (*)                              |

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|                              |             |         |             |         |             |         |
|------------------------------|-------------|---------|-------------|---------|-------------|---------|
| Milton Matsumoto             | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| Cristiano Queiroz Belfort    | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| Sérgio de Oliveira           | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| Odair Afonso Rebelato        | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| Aurélio Conrado Boni         | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| Domingos Figueiredo de Abreu | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| Paulo Eduardo D. Avila       | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| Isola                        | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| Ademir Cossielo              | (*)         | (*)     | (*)         | (*)     | (*)         | (*)     |
| <b>Total Diretoria</b>       |             |         |             |         |             |         |
| <b>Executiva</b>             | 139,170     | 0.06%   | 363,785     | 0.15%   | 502,955     | 0.11%   |
| Subtotal                     | 176,145,703 | 73.90%  | 26,914,996  | 11.40%  | 203,060,699 | 42.79%  |
| Other shareholders           | 62,205,626  | 26.10%  | 209,166,800 | 88.60%  | 271,372,426 | 57.21%  |
| <b>Total</b>                 | 238,351,329 | 100.00% | 236,081,796 | 100.00% | 474,433,125 | 100.00% |

(1) Also indirectly owns, through its interest in Cidade de Deus Participações and Nova Cidade de Deus, 31.22% of our common shares and 15.75% of our total shares.

\* None of the members of our Board of Directors, Board of Executive Officers or other administrative, supervisory or management bodies directly or beneficially holds 1% or more of any of our classes of shares, and their individual share ownership has not been previously disclosed to our shareholders or otherwise made public. See Item 6. Directors, Senior Management and Employees Share Ownership for more information.

The following is a brief description of our principal beneficial shareholders. None of the principal beneficial shareholders have voting rights that differ from those of the other holders of our



common shares, except that pursuant to the June 9, 2003 Shareholders Agreement, BBVA has the right to name one member of our board of directors. For more information, see Item 4. Information on the Company The Company History Recent Important Acquisitions and Joint Ventures Acquisition of BBV Banco.

### ***Cidade de Deus Participações***

Cidade de Deus Participações is a holding company that was organized in 1946 in order to hold investments in other companies. It also administers, purchases and sells securities and other assets on its own account. Its shareholders are Nova Cidade de Deus, with 44.22% of its common and total shares, Fundação Bradesco, with 32.69% of its common and total shares, and the Aguiar family, with 23.09% of its common and total shares as of December 31, 2004. The company's capital stock is made up of common, nominative book-entry shares, with no par value.

### ***Nova Cidade de Deus***

Nova Cidade de Deus is a holding company that was organized in 1976 in order to hold investments in other companies, particularly those that directly or indirectly own our voting capital. As of December 31, 2004 the company directly owned 0.77% of our common shares, 0.39% of our total shares, and indirectly owned, through its participation in Cidade de Deus Participações, 21.20% of our common shares and 10.70% of our total shares.

The stock of Nova Cidade de Deus is divided in class A and class B common shares and one class of preferred shares. Ownership of the class B common shares is limited to:

- members of our *Diretoria Executiva*;
- former members of our *Diretoria Executiva* who have become members of our Board of Directors;
- former members of our *Diretoria Executiva* who have become members of the board of directors of one or more of our subsidiaries; and
- companies in which the majority of the voting interest is owned by the individuals above.

Ownership of Nova Cidade de Deus Class A common shares is limited to the persons entitled to own Class B common shares and any commercial or civil associations and private foundations managed by them or their appointed representatives. Only the class A and class B common shareholders in Nova Cidade de Deus have voting rights.

### ***The Aguiar Family***

As of December 31, 2004, three members of the Aguiar family, along with the estate of Mr. Amador Aguiar, indirectly owned, by way of their participation in Cidade de Deus Participações, 11.07% of our common shares and 5.59% of our total shares. In addition, the same parties directly held a total of 1.12% of our common shares, 0.96% of our preferred shares and 1.04% of our total shares. None of the individual members of the Aguiar family directly holds more than 1.0% of our voting shares.

### ***Fundação Bradesco***

As of December 31, 2004, Fundação Bradesco, directly and indirectly through its participation in Cidade de Deus Participações and Nova Cidade de Deus, owned 44.38% of our common shares, 5.16% of



our preferred shares, and 24.86% of our total shares. Under the terms of Fundação Bradesco's bylaws, all of our directors, members of the *Diretoria Executiva* and departmental directors, as well as all directors and officers of Cidade de Deus Participações, serve as members of the board of trustees of Fundação Bradesco, known as the *Mesa Regedora*. They receive no compensation for their service on the *Mesa Regedora*.

Fundação Bradesco, the center of our social activities, was founded in