BANK BRADESCO
Form 20-F
June 27, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2002

Commission File Number: 1-15250

Banco Bradesco S.A.

(exact name of registrant as specified in its charter)

Bank Bradesco

(translation of registrant s name into English)

Federative Republic of Brazil

(jurisdiction of incorporation or organization)

Cidade de Deus, s/n, Vila Yara, 06029-900, Osasco, SP, Brazil

(address of principal executive offices)

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

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 5,000 Preferred Shares, without par value (ADSs)	New York Stock Exchange
Preferred Shares, without par value (Preferred Shares)	New York Stock Exchange (for listing purposes only)

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

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

The number of outstanding shares of each of the issuer s classes of capital or common stock as of December 31, 2002 was:

719,342,690,385	Common Shares
708,537,611,452	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, 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 December 31, 2001 and 2002 for the years ended December 31, 2000, 2001 and 2002 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 the Brazilian real, the official currency of Brazil. References to U.S. dollars or U.S.$ are to United States dollars.

The exchange rate of reais to U.S. dollars was R$1.9510 to U.S.$1.00 at December 31, 2000, R$2.3120 to U.S.$1.00 at December 31, 2001, R$3.5400 to U.S.$1.00 at December 31, 2002 and R$ 2.8600 to U.S. $1.00 at June 25, 2003, based on the noon buying rate in New York City as reported by the Federal Reserve Bank of New York. The exchange rate of reais to U.S. dollars was R$1.9554 to U.S.$1.00 at December 31, 2000, R$2.3204 to U.S.$1.00 at December 31, 2001, R$3.5333 to U.S.$1.00 at December 31, 2002 and R$2.8559 to U.S. $1.00 at June 25, 2003 based on the U.S. dollar selling rate as reported by the Central Bank of Brazil, which we call the Central Bank, at closing. As a result of recent fluctuations in the real/U.S. dollar exchange rate, the closing selling exchange rate at December 31, 2002 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, 1996.

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 December 31, 1998, 1999, 2000, 2001 and 2002 and for the years ended December 31, 1998, 1999, 2000, 2001 and 2002. 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 accountants 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.

Income Statement Data	1998	1999	2000	2001	2002	2002
			(R$ in millions)			(U.S.$ in millions)[1]
Net interest income	R$5,646	R$7,021	R$6,846	R$9,493	R$13,467	U.S.$4,541
Provision for loan losses	(1,322)	(1,845)	(1,244)	(1,763)	(2,543)	(857)
Net interest income after provision for loan losses	4,324	5,176	5,602	7,730	10,924	3,684
Fee and commission income	1,775	2,100	2,593	2,866	2,894	976
Insurance premiums	3,133	3,581	3,701	4,616	4,981	1,680
Pension plan income	531	557	592	1,043	348	117
Equity in earnings (losses) of unconsolidated companies[2]	(53)	(173)	145	109	150	51
Other non-interest income[3]	616	479	2,103	972	(410)	(138)
Operating expenses(4)	(4,537)	(4,767)	(5,816)	(6,197)	(7,413)	(2,500)
Insurance claims	(2,095)	(2,388)	(2,511)	(3,251)	(3,614)	(1,219)
Changes in provisions for insurance, pension plans, certificated savings plans and pension investment contracts	(954)	(1,270)	(1,265)	(1,847)	(2,261)	(762)
Pension plan operating expenses	(116)	(249)	(378)	(459)	(370)	(126)
Insurance and pension plan selling expenses	(469)	(635)	(645)	(690)	(669)	(226)
Other non-interest expense[5]	(1,460)	(1,689)	(1,887)	(2,054)	(2,272)	(766)
Income before income taxes and minority interest	695	722	2,234	2,838	2,288	771
Income taxes	(136)	61	(417)	(550)	(161)	(54)
Change in accounting principle[6]	–	–	–	–	27	9
Minority interest	(20)	(39)	(18)	(18)	(12)	(4)
Net income	R$539	R$744	R$1,799	R$2,270	R$2,142	U.S.$722

Per Share Data[7]	1998 (R$, except numbers of shares)	1998 (U.S.$)[1]	1999 (R$, except numbers of shares)	1999 (U.S.$)[1]	2000 (R$, except numbers of shares)	2000 (U.S.$)[1]	2001 (R$, except numbers of shares)	2001 (U.S.$)[1]	2002 (R$, except numbers of shares)	2002 (U.S.$)[1]
Net income per 1,000 shares[8]										

Common	R$0.44	U.S.$0.15	R$0.58	U.S.$0.20	R$1.31	U.S.$0.44	R$1.51	U.S.$0.51	R$1.42	U.S.$0.48
Preferred	0.48	0.16	0.64	0.22	1.44	0.49	1.66	0.56	1.57	0.53
Dividends/interest on capital per 1,000 shares										
Common	0.56	0.19	0.68	0.23	0.56	0.19	0.57	0.19	0.63	0.21
Preferred	R$0.62	U.S.$0.21	R$0.73	U.S.$0.25	R$0.62	U.S.$0.21	R$0.62	U.S.$0.21	R$0.69	U.S.$0.23
Weighted average number of shares per outstanding (in millions of shares)										
Common	600,647	–	623,378	–	666,143	–	726,678	–	724,466	
Preferred	568,325	–	599,978	–	643,827	–	705,804	–	709,830	

	December 31,					
	1998	1999	2000	2001	2002	2002
			(R$ in millions)			(U.S.$ in millions)(1)
Consolidated Balance Sheet Data						
Assets						
Cash and due from banks	R$822	R$717	R$1,155	R$1,715	R$2,725	U.S.$919
Interest-bearing deposits in other banks	1,204	1,136	1,299	2,051	2,379	802
Federal funds sold and securities purchased under agreements to resell	9,232	7,847	12,328	11,896	12,674	4,274
Brazilian Central Bank compulsory deposits	6,410	8,540	5,271	8,232	16,057	5,414
Trading and available for sale securities, at fair value	14,823	24,331	22,814	29,872	27,549	9,290
Securities held to maturity					4,001	1,349
Loans	24,989	28,019	39,439	44,994	52,324	17,644
Allowance for loan losses	(1,178)	(1,783)	(2,345)	(2,941)	(3,455)	(1,165)
Equity investees and other investments	598	428	447	521	550	185
Premises and equipment, net	2,582	2,630	2,680	2,727	2,993	1,009
Intangible assets, net	467	400	875	783	1,778	600
Other assets	6,245	7,771	7,889	8,445	10,300	3,473
Total assets	66,194	80,036	91,852	108,295	129,875	43,794
Liabilities						
Deposits	28,235	34,595	36,506	41,092	56,333	18,995
Federal funds purchased and securities sold under agreements to repurchase	9,307	7,814	12,114	14,037	7,633	2,574
Short-term borrowings	5,033	6,013	7,018	8,320	9,639	3,250
Long-term debt	5,415	8,336	9,060	11,499	13,389	4,515
Other liabilities	11,848	15,647	19,175	23,471	31,826	10,732

Total liabilities	59,838	72,405	83,873	98,419	118,820	40,066
Minority interest in consolidated subsidiaries	223	288	98	87	203	69
Shareholders Equity						
Common shares(9)	1,769	1,933	2,408	2,638	2,638	890
Preferred shares(10)	1,695	1,867	2,338	2,562	2,562	864
Capital stock	3,464	3,800	4,746	5,200	5,200	1,754
Total shareholders equity	6,133	7,343	7,881	9,789	10,852	3,659
Total liabilities and shareholders equity	66,194	80,036	91,852	108,295	129,875	43,794
Average assets(11)	58,976	69,604	91,275	101,298	123,447	41,626
Average liabilities(11)	52,884	62,733	84,540	92,293	113,216	38,176
Average shareholders equity(11)	R$5,846	R$6,574	R$6,596	R$8,861	R$10,015	U.S.$3,377

(1) Amounts stated in U.S. dollars have been translated from Brazilian reais at an exchange rate of R$2.9656 = U.S.$1.00, the Central Bank exchange rate of May 31, 2003. We used the exchange rate of May 31, 2003, instead of December 31, 2002, because there has been a material devaluation in the real - U.S. dollar exchange rate since December 31, 2002. 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) 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.

(3) 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.

(4) Operating expenses consists of salaries and benefits and administrative expenses.

(5) Other non-interest expense consists of amortization of intangible assets, depreciation and amortization and other non-interest expense.

(6)For more information, see note 11 to our consolidated financial statements in Item 18.

(7) Per share data reflects, 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.

(8) Preferred shares are common stock equivalents for the purposes of calculating earnings per share in accordance with U.S. GAAP. For a description of our two classes of shares, see Item 10. Additional Information - Memorandum

and Articles of Incorporation. We do not have outstanding any obligations exchangeable for or convertible into our equity securities. Accordingly, diluted net income per share does not differ from net income per share.

(9) Common shares outstanding, no par value: 719,342,690,385 authorized and issued at December 31, 2002; 730,598,990,385 authorized and issued at December 31, 2001; and 706,227,545,166 authorized and issued at December 31, 2000.

(10) Preferred shares outstanding, no par value: 708,537,611,452 authorized and issued at December 31, 2002; 709,947,011,452 authorized and issued at December 31, 2001; and 685,808,656,671 authorized and issued at December 31, 2000.

(11) 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. In January 1999, in response to increased pressure on Brazil s foreign currency reserves, the Central Bank 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. Under the current free convertibility exchange system, the real may undergo further devaluation or may appreciate against the U.S. dollar and other currencies.

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

	Noon Buying Rate for U.S. dollars R$ per U.S.$1.00			
Period	**Period-End**	**Average(1)**	**High**	**Low**
1998	R$1.2085	R$1.1604	R$1.2090	R$1.1162
1999	1.8090	1.8135	2.2000	1.2074
2000	1.9510	1.8330	1.9840	1.7230
2001	2.3120	2.3220	2.7850	1.9720
2002	3.5400	R$2.9420	3.8030	2.3260
December	3.5400		3.7980	3.4390
2003				
January	3.5130		3.6590	3.2650
February	3.5650		3.6640	3.5350

March	3.3320		3.5700	3.3320
April	2.8870		3.3290	2.8870
May	R$2.9790		R$3.0340	R$2.8750

(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 25, 2003, the noon buying rate reported by the Federal Reserve Bank of New York was R$2.8600 to U.S.$1.00.

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

	Closing Rate Selling Rate for U.S. dollars R$ per U.S.$1.00			
Period	**Period-End**	**Average(1)**	**High**	**Low**
1998	R$1.2087	R$1.1607	R$1.2087	R$1.1165
1999	1.7890	1.8019	2.1647	1.2078
2000	1.9554	1.8313	1.9847	1.7234
2001	2.3204	2.3226	2.7828	1.9711
2002	3.5333	R$2.9461	3.8949	2.3236
December	3.5333		3.7980	3.4278
2003				
January	3.5258		3.6623	3.2758
February	3.5632		3.6580	3.4930
March	3.3531		3.5637	3.3531
April	2.8898		3.3359	2.8898
May	R$2.9656		R$3.0277	R$2.8653

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

On June 25, 2003, the U.S. dollar selling rate reported by the Central Bank at the close of the day was R$2.8559 to U.S.$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 has been characterized by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles in the past. During 2001 the real declined in value by 18.67% against the U.S. dollar and during 2002 the real declined in value by 52.27% against the U.S. dollar. During the first five months of 2003 the value of the real increased from R$3.5333 per U.S. dollar at December 31, 2002 to R$2.9656 per US dollar at May 31, 2003, with a high of 3.6623 reais per U.S. dollar and a low of 2.8653 reais per U.S. dollar during the period.

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). During 2002 the Central Bank raised Brazil s base interest rate by a total of 6.00 percentage points, to 25.00%. These changes were largely the result of political uncertainty related to the 2002 presidential election, the economic crisis in Argentina, one of Brazil s primary trading partners, and the lower level of growth of the U.S. economy. In January 2003 and February 2003, the Central Bank increased the base interest rate, to 26.50%. The base interest rate remained at 26.50% until June 18, 2003, when the Central Bank decreased it to 26.00%.

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

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

- fluctuations in exchange rates;
- base interest rate fluctuations;
- 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, adversely affect our financial condition and results of operations, and impact the market price of the preferred shares and ADSs.

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 U.S. dollar real exchange rate fell from R$2.3204 per U.S. dollar at December 31, 2001 to R$3.5333 at December 31, 2002. However, during the first five months of 2003, the value of the real increased 16.1% against the U.S. dollar to R$2.9656 per U.S. dollar at May 31,

2003. At June 25, 2003, the U.S. dollar-real exchange rate was R$2.8559 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.

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 during the last ten 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 9.8% in 2000, 10.4% in 2001, 26.4% in 2002 and 5.25% for the five months ended May 31, 2003. 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 the 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 meet their other obligations to us. If the Brazilian economy worsens because of, among other factors:

- the level of economic activity;

- devaluation of the real;
- inflation; or
- an increase in domestic 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 two years, as a result of economic problems in various emerging market countries, including the ongoing 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 continues to deteriorate, 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 recent Brazilian energy crisis 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 60 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 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 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, reaching approximately 45% in March 1999 and falling to 15.25% at January 17, 2001. From February to July 2002 the Central Bank decreased the base interest rate, from 19.00% to 18.00% as of July 17, 2002. From October 2002 to February 2003 the Central Bank increased the base interest rate by 8.5 percentage points, to 26.5% on February 19, 2003. The base interest rate remained at 26.50% until June 18, 2003, when the Central Bank decreased it to 26.00%. 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. Accordingly, 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 a R$1,004 million non-recurring gain on sale 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 Spun-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 Spun-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 Spun-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, public and private. Brazilian regulations raise limited barriers to market entry and do not differentiate between local or foreign commercial and investment banks and insurance companies. As a result, the presence of foreign banks and insurance companies in Brazil, some of which have greater resources than we do, has grown and competition both in the banking and insurance sectors generally and in markets for specific products has increased. The privatization of publicly owned banks has also made the Brazilian markets for banking and other financial services more competitive.

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

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

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

Brazil s federal government had announced the privatization of Instituto de Resseguros do Brasil S.A., known as IRB, the state controlled reinsurance company. The date of privatization has been indefinitely delayed 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.

A majority of our common shares are held by two shareholders, whose interests may conflict with our investors interests

At December 31, 2002, Cidade de Deus Participações held 50.49% of our common shares and Fundação Bradesco held 16.80% 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. 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 addition, it could in the future increase reserve requirements or impose new reserve or compulsory deposit requirements. The recently reimposed reserve requirements required us, as of the date of their implementation, to hold a total of R$1.2 billion of Brazilian government securities that we previously had not been required to hold. 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 such changes 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 and the rural sector.

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 past 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, which we record when investments in securities are sold, or in certain limited circumstances where they 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.

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 has only recently begun to develop, 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 the Brazilian Corporate Law Method, 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 receive notice directly from us 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 a 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 stock. 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 the Brazilian Corporate Law Method, 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 the Brazilian Corporate Law Method, 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 common shares than under the laws of other jurisdictions outside Brazil.

Although the Brazilian Corporate Law Method 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 Method 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 shareholders derivative suits, and shareholders in Brazilian companies ordinarily do not have standing to bring a class action.

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

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

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

Sales of a substantial number of shares after the consummation of this registration, 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 investing in ADSs

Devaluation of the real would reduce the U.S. dollar value of distributions and dividends on the ADSs and could 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, guideline, should and 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 or 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; 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

We believe we are the largest private-sector (non-government-controlled) bank in Brazil and in Latin America as a whole 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 midsized companies in Brazil 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, insurance, leasing, payment collection and processing, pension plans, asset management and brokerage services.

According to information published by SUSEP and by 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, 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 ranked first among Brazilian banks for gross revenues and overall performance according to Forbes Brasil magazine and are the largest Brazilian bank and largest private company in Brazil according to a 2002 ranking published in Forbes magazine.

The following three of our subsidiaries rank as the largest companies in Brazil in their respective market segments, according to the sources cited in parentheses:

- Bradesco Seguros S.A., our insurance subsidiary, which we call Bradesco Seguros, together with its subsidiaries, in terms of insurance premiums, net worth and reserves (SUSEP);
- Bradesco Vida e Previdência S.A., our pension and life insurance management subsidiary, which we call Bradesco Vida e Previdência, in terms of pension plan contributions, investment portfolio and reserves (SUSEP); and
- Bradesco Capitalização S.A., which we call Bradesco Capitalização and which offers certificated savings plans to the public, in terms of the amount of reserves (SUSEP).

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 2002, according to information published by the Brazilian Federal Revenue Service, we accounted for 20.1% of the total nationwide collections of a tax called the Provisional Contribution on Financial Transactions, known as CPMF. Since the CPMF tax is levied on virtually all Brazilian financial transactions, this statistic provides a measure of the percentage of Brazilian financial transactions that we handle.

In recent years, we have taken important steps to offer our products and services through the Internet and to help our customers and employees gain access to the Internet. We were one of the first banks worldwide to introduce on-line Internet banking. In December 1999 we became the first bank in Latin America, and among the first in the world, to provide free limited Internet access to clients. We also provide computers in many of our branches and service centers that permit clients to access the Internet in order to conduct banking transactions, pay bills and shop on-line. Our Internet banking services, along with our customer service center, makes our banking services available to our customers 24 hours a day, seven days a week.

As of December 31, 2002, we had, on a consolidated basis:

- R$129.9 billion in total assets;
- R$52.3 billion in total loans;
- R$56.3 billion in total deposits;
- R$10.9 billion in shareholders equity;
- R$19.2 billion in insurance claim reserves, pension plans, certificated savings plans and pension investment contract operations;
- R$9.2 billion of import and export financing;
- 8.6 million insurance policyholders;
- 13.0 million checking accounts;
- 29.4 million savings accounts;
- 2.5 million certificated savings plans holders;
- 1,159 of the largest Brazilian and multinational groups of affiliated companies in Brazil as customers;
- 4.7 million clients using Internet banking;
- 229.0 million calls received by our customer service center during 2002;
- 880.0 million visits to our Internet website during 2002;
- a nationwide network consisting of 2,954 branches, 21,210 ATMs and 1,849 special banking service posts and outlets located on the premises of selected corporate clients; and
- six branches and seven subsidiaries located in New York, the Cayman Islands, the Bahamas, Tokyo, Buenos Aires and Luxembourg.

Although our customer base includes individuals of all income levels as well as large, midsized and small businesses, the common citizens of Brazil have traditionally formed the backbone of our clientele. Since the 1960s, we have been a leader in the middle to low-end 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 of 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 9.3 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. The following diagram provides summary information for our two business areas at and for the year ended December 31, 2002, by segment. See Note 25 to our consolidated financial statements in Item 18 for additional segment information. Figures provided under Insurance, Pension Plans and Certificated Savings Plans include pension investment contracts and so may differ from information provided elsewhere herein.

As of December 31, 2002 we were:

- the leader among private-sector banks in savings deposits, with 18.5% of all savings accounts in Brazil and R$20.7 billion on deposit (Central Bank);
- the largest provider of insurance and private pension plans, with R$9.1 billion in net premiums written and revenues from private pension plans as measured under the Brazilian Corporate Law Method (SUSEP/ANS);
- the leader in Brazilian leasing operations, with R$1.5 billion outstanding (Brazilian Association of Leasing Companies, known as ABEL);
- one of the leaders in the placement of debt instruments in Brazil, having participated in 59.1% of the issuances of debt and equity securities registered with the CVM during 2002 (ANBID);
- one of the largest private-sector fund and portfolio managers in Brazil, with approximately R$64.3 billion in total third-party assets under management, representing 14.6% of the total Brazilian market (ANBID);
- one of the largest independent private-sector credit card issuers in Brazil, with 6.1 million cardholders (Brazilian Association of Credit Card Service Companies - ABECS, known as ABECS); and
- the leader in payment processing and collection in Brazil, with a market share of 26.0% (Settlement System of the Central Bank).

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

	December 31,		
	2000	**2001**	**2002**
Banking		**(R$ in millions)**	
Lending Income			
Housing loans	R$427	R$349	R$366
Rural loans	385	375	509
Leasing	513	451	402
Other loans (1)	6,380	10,497	15,748
Total	7,705	11,672	17,025
Income from services			

Asset management fees	552	540	466
Collection fees	499	544	556
Credit card fees	233	288	327
Fees charged on checking account services	696	802	828
Fees for receipt of taxes	146	144	158
Interbank fees	179	225	254
Other services	288	323	305
Total	2,593	2,866	2,894
Insurance and pension plans			
Insurance Income			
Health	1,549	2,178	2,333
Life and accident	753	866	930
Automobile, property and liability	1,399	1,572	1,718
Total	3,701	4,616	4,981
Total pension plan income[(2)]	R$592	R$1,043	R$348

(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 Item 4. Information on the Company - 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 2000 through December 31, 2002, see Item 5. Operating and Financial Review and Prospects - Capital Expenditures.

The following is a simplified chart of our principal material subsidiaries in the financial and insurance services businesses and our voting and ownership interest in each of them as of December 31, 2002 (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 Important Acquisitions and Joint Ventures

Acquisition of BCN, BANEB and Boavista

In December 1997 we acquired 94.0% of the voting shares and 53% of the total shares of Banco de Crédito Nacional, which we call BCN, for R$760 million. By the end of July 1998 we had bought all the outstanding shares of BCN, transforming it into our wholly-owned subsidiary. BCN has traditionally focused on midsized corporate clients as well as on high-net-worth individuals, with credit to large corporate clients and smaller retail clients, both corporate and individual, assuming a secondary role. BCN s success in establishing itself in its target markets was one of the key reasons we acquired it.

In June 1999 we purchased 94.0% of the shares of Banco do Estado da Bahia, which we call BANEB, for R$260 million at a privatization auction. BANEB s banking business was concentrated in the State of Bahia, and its business operations were focused on retail banking. BANEB s customer base consisted primarily of employees and government agencies of the State of Bahia. BANEB s strong brand recognition and large customer base were the key reasons we acquired it.

In October 2000 we acquired Banco Boavista S.A., which we call Boavista, which thereby became our wholly-owned subsidiary. As part of the transaction we made a capital increase of R$946 million and issued new common and preferred shares of Banco Bradesco to the former shareholders of Boavista. Boavista was a traditional banking institution focused on midsized corporate clients. In connection with the acquisition of Boavista, we acquired 3% of the total and voting capital of Banco Espírito Santo, S.A., the second-largest bank chartered in Portugal.

We used the purchase method of accounting to account for the acquisition of BCN, BANEB and Boavista, which are consolidated in our U.S. GAAP consolidated financial statements on an ongoing basis from the date of their acquisition.

In general, we continue to operate BCN as a separate financial institution, maintaining its distinct identity, branch network and market niche. Boavista s branches operated under Boavista s name, but under BCN s management, until April 2001. 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 for book value. BANEB s branches operated under BANEB s name, but under Bradesco s management, until September 2001. On September 17, 2001 BANEB transferred its branches and related assets and liabilities to Bradesco at book value. We have adopted common criteria for credit risk and exposure limits with BCN, BANEB and Boavista as well as for human resources management and policies. We have also consolidated our subsidiaries treasury operations, services to large corporate clients and foreign exchange services with our own.

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 its affiliates. Portugal Telecom is affiliated with leading telecommunications and internet service providers in Brazil and Portugal. 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. As a result, we and Unibanco became the sole shareholders of BUS Holding. The book value of our transferred assets was R$18 million, and we recorded our investment in BUS Holding for R$18 million in our December 31, 2000 financial statements.

Under the joint venture agreement, we and Unibanco agreed to have BUS Holding transfer all of its shares of BUS to a subsidiary of Portugal Telecom, once the proposed transfer was approved by the Agência Nacional de Telecomunicações, known as ANATEL. 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 in reais equivalent to U.S.$258 million, of which R$335 million corresponds to our ownership share of BUS Holding. For U.S. GAAP accounting purposes, the transaction was not reflected in our December 31, 2000 financial statements, as the sale was still subject to regulatory approval at December 31, 2000. The transaction is reflected on our December 31, 2001 financial statements and will continue to be reflected in our financial statements for the next five years. Also as part of the BUS transaction, in December 2000 we bought shares in Portugal Telecom for our own account for a total of R$50 million, and in February 2001 Portugal Telecom s subsidiary paid to BUS Holding an amount in reais equivalent to U.S.$23 million as a capital subscription.

In June 2001, under the terms of an amendment to the joint venture agreement, we and Unibanco caused BUS Holding to transfer 19.9% of the common (voting) 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 as of July 1, 2001. The transaction became final 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.

Postal Service Banking

On August 22, 2001, we won a public bidding process organized by the Empresa Brasileira de Correios e Telégrafos - ECT, the government owned postal company, which we call the Postal Service, to offer banking services through correspondent offices established in post offices for a period of five years, under a project in which the national network of post offices will be used to supplement the national financial system. The Postal Service banking project was created by the National Currency Council and the Central Bank. Through our service contract with the Postal Service we have the exclusive right to offer banking services at the approximately 5,320 post offices of the Postal Service.

Upon signing the agreement in September 2001 and in consideration for services to be provided by their network of post offices, we paid the Postal Service approximately R$200 million, which will be amortized through 2008. The agreement with the Post Office extends for five years after the launch of the last correspondent office, which we expect to occur prior to August 2004. In addition, we pay the Postal Service a percentage of the fees that we receive from customers that use the points of service created under the agreement.

We opened the first agency on March 25, 2002, in São Francisco de Paula, a town with a population of 6,533 people, and by December 31, 2002, we had opened correspondent offices in approximately 2,500 of the approximately 5,320 Postal Service offices, with 310,000 new accounts.

At the time we entered into the agreement, 1,590 of the cities and towns served by the Post Office had no banking services. Through our correspondent offices, we now offer banking services in 861 of those towns. At our correspondent offices we offer our clients services including:

- opening bank accounts;
- making deposits in and withdrawals from accounts;
- providing balance and account information;
- extending collection and payment services under agreements with third parties; and
- collecting negotiable instruments.

Banco do Brasil S.A., which we call Banco do Brasil, and Caixa Econômica Federal also offer banking services with their own correspondent offices in locations such as bakeries, pharmacies, and grocery stores. However, we believe that we offer more services through our correspondent offices than other banks do through theirs.

The project is consistent with our strategy of expanding our presence in the retail market throughout Brazil by reaching the estimated 40 million Brazilians who do not have bank accounts. We anticipate that the project will improve access for both new and existing customers to our services and will increase our distribution network to over 9,200 points in Brazil.

Other Acquisitions and Joint Ventures in 2002 and 2003

On January 3, 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. 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. We expect that this partnership will increase our customer base. A company in the BCN Group, 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.

On January 13, 2002, we acquired control of Banco Mercantil de São Paulo S.A., known as Banco Mercantil, and its controlled companies. Banco Mercantil is a 64-year-old financial institution with 220 branches in Brazil, three branches abroad and 162 banking posts. At December 31, 2001 its assets totaled R$8,391 million (under the Corporate Law Method). The transaction was concluded on March 25, 2002. In the transaction we acquired 2.8 billion common shares and 2.3 billion preferred shares of Banco Mercantil, representing 90.1% of its voting capital and 74.2% of its nonvoting capital, for R$1,324.0 million, at a purchase price of R$0.270047 per share. We financed R$528.0 million of this amount through the issuance of subordinated notes with a term of ten years and, on September 30, 2002, acquired 4.46% of the voting capital of Banco Mercantil through BOVESPA for R$62.0 million.

On March 31, 2003, we purchased the minority shareholders shares of Banco Mercantil and converted it into a wholly-owned subsidiary of Bradesco. The remaining shares of Banco Mercantil were purchased for 23.94439086 shares of Bradesco, of which 12.06279162 of those were common shares and 11.88159924 were preferred shares. On May 19, 2003, Banco Mercantil transferred control of its agencies, assets and liabilities to Bradesco for their book value.

On January 24, 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 36 branches and 49 banking posts as well as R$560 million in total assets (under the Corporate Law Method). We purchased 5.8 billion common shares and 4.1 billion preferred shares, representing 89.5% of BEA s voting capital and 87.5% of its nonvoting capital, for a purchase price of R$182.9 million. On June 10, 2002, BEA transferred its branches, assets and liabilities to Bradesco for their book value.

On January 8, 2002, we signed a service agreement with Deutsche Bank S.A., which we call Deutsche Bank, a German 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. BRAM - Bradesco Asset Management Ltda., manages these assets with the assistance of a Consulting Committee formed by professionals of Bradesco and Deutsche Bank.

On February 24, 2002 we acquired 100% of the shares of Banco Cidade S.A. and its controlled companies, which we call Banco Cidade. This transaction was concluded on June 7, 2002, at a cost of R$385.4 million. On June 24, 2002, Banco Cidade s branches, assets and liabilities were merged into BCN at book value.

On January 10, 2003, we entered into an agreement to acquire 99.99% of the shares of Banco Bilbao Vizcaya Argentaria Brasil S.A. and its controlled companies, which we call BBV Banco. Under the agreement, we acquired the shares from Banco Bilbao Vizcaya Argentaria S.A., which we call BBVA. In return, we issued, for distribution to BBVA, common and preferred shares equal to 4.4% of our share capital, valued at R$630 million. We also made a one-time cash payment of R$1,864 million to BBVA. As of September 30, 2002, BBV Banco had total assets of R$16.8 billion, net equity of R$2.3 billion, 439 branches and 76 banking posts. The Central Bank approved the transaction on May 21, 2003 and BBV Banco became our wholly-owned subsidiary on June 9, 2003 when we and BBVA approved the merger.

None of our acquisitions made since January 1998 has been significant as measured in accordance with U.S. GAAP.

Insurance and Other Operations

We acquired control of Bradesco Seguros, previously Atlântica Companhia Nacional de Seguros, in 1983. Between 1983 and 2000, Bradesco Seguros acquired interests in six other entities through joint ventures and acquisitions, and maintained 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 health insurance subsidiary in Miami, in order to provide insurance services to our clients who are travelling abroad.

Spin-off

In February and March 2000 we transferred the Spun-off Interests, which were our holdings in companies operating in the mining, steel, energy, telecommunications and e-commerce sectors, to an unrelated entity through a transfer, sale and spin-off in 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. By spinning off these non-financial assets, we are better able to focus on our core banking businesses.

We carried out the Spin-off in several steps. As a first step, we transferred the Spun-off Interests to Bradesplan, one of our wholly-owned subsidiaries. Bradesplan acted as a holding company for the Spun-off Interests. We recorded the transfers at historical cost in a manner similar to a pooling of interests. As a result, immediately prior to February 29, 2000, Bradesplan held as assets available for sale securities with a fair value of R$2,440 million and had among its liabilities debentures with a book value of R$1,070 million. 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 at its book value. In connection with the sale, Paiol assumed an intercompany payable to us of R$623 million. We did not recognize any gain on this sale, nor did we realize the related holding gain.

On the same date, we spun off Paiol (including its investment in Bradesplan) to Bradespar in a transaction similar to a capital distribution. We do not own Bradespar, and although we and Bradespar have substantially the same shareholders, we are not under common control with Bradespar for U.S. GAAP purposes because no shareholder owns more than 50% of both Bradespar and us, and there is no voting agreement among the shareholders. The assets transferred to Bradespar had a fair market value of R$2.6 billion, and 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. Paiol subsequently paid the outstanding account payable to us during 2000.

In connection with the Spin-off, we reduced our shareholders equity by R$993.2 million, of which R$500.0 million was taken from the capital account and the remainder from retained earnings.

We have not included financial information reflecting the Spin-off on a pro forma basis because we do not consider the Spun-off Interests to be a business. The Spun-off Interests did not generate a significant impact on our revenue-producing activities in the period during 2000 leading up to the Spin-off, and the Spin-off produced no significant impact on our physical facilities, employee base, market distribution system, sales force, customer base, operating rights, production techniques, or trade names. In addition, we did not treat these investments as a segment. We did not record any significant income or gains in our statement of operations from January 1, 2000 through February 29, 2000 related to the Spun-off Interests.

Contact Information

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

Business Strategy

Our principal objective is to consolidate our position as the leading private full service financial institution in the Brazilian market, increasing our profitability, maximizing our shareholders value and generating an above-average return in comparison with other Brazilian financial institutions. The key elements of our business strategy are to:

- expand through organic growth;
- increase revenues, profitability and shareholder value from our banking operations by strengthening our traditional operations and expanding new ones;
- build on the business model of a large banking institution with a major insurance subsidiary, which we call the Bank-Insurance Model, to maintain our profitability and consolidate our leadership in the insurance sector;
- maintain our commitment to technological innovation;

- build profitability and shareholder return through efficiency; and
- enter into strategic alliances and selective acquisitions when advantageous.

Expand through organic growth in core business areas

Despite the recent devaluations of the real, increases in interest rates and the currently uncertain economic situation, we believe that the Brazilian economy is fundamentally sound and will, over time, produce strategic opportunities for growth in the financial and insurance industries. We plan to take advantage of these opportunities when they arise to increase our revenue, build profitability and maximize shareholder value by:

- taking advantage of our existing distribution channels, including our traditional branch network and newer Internet technologies, to identify demand for new products and to cross-market our banking and insurance products;
- expanding 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 servicing platforms;
- using our customer base to offer our products and services more widely and to increase the average number of products used per customer checking account from 4.9 as of December 2002 to 5.0 by December 2003;
- capitalizing on the opportunity in the Brazilian market to capture new customers with underserved credit and financial needs, as opposed to competing for a small stratum of customers in upper income brackets; and
- developing diverse products tailored to the needs of both our existing and potential customers.

Increase banking revenues, profitability and shareholder value by strengthening traditional operations and expanding new ones

We are focused on increasing the revenues from and profitability of our banking operations by:

- building our traditional deposit-taking activities;
- 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;
- aggressively focusing 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, capitalizing on changes in consumer behavior in the consumption of financial services; and
- continuing to expand our pension and asset management revenues.

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 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 to cross-sell our traditional banking products and our insurance and pension products through our branch network and through our Internet distribution services.

At the same time, we look to grow our insurance and pension plan business, using as our measure of success levels of profitability instead of the volume of premiums underwritten or amounts deposited, by:

- maintaining our existing policy of careful evaluation of vehicle insurance risks and declining insurance in cases where such risks are unacceptable;
- 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 - that is, 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 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 IRB to reduce exposure to large risks; and
    - ♦ after the privatization of IRB, engaging in the reinsurance business through partnership with well-known reinsurers, building on our 20% interest in IRB.

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 capitalize on opportunities for organic growth. 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 customers and transactions handled over the Internet by techniques such as:

- installing Internet access stations, which we call WebPoints, in public places, enabling clients to reach our Internet banking system whether or not they have access to a personal computer; and
- 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.

Build profitability and shareholder return through efficiency

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

- maintaining austerity as the basis of our policy of cost control;
- continuing to reduce our operational costs through investments in technology that reduce our per-transaction operational costs, emphasizing our existing automated channels of distribution, including our telephone, Internet and ATM distribution systems; and
- continuing to merge the back-office platforms of acquired institutions such as BCN, and BBV Banco into our existing system to eliminate overlaps, redundancies and potential inefficiencies.

Enter into strategic alliances and selective acquisitions

We continually 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. Nonetheless, 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 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 both individuals and large, midsized and small 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 persons. In the 1990s, we reached out to corporations and high-net-worth individuals to complement our traditional market. In the last four years we created a Corporate Department, which is responsible for our corporate clients with annual revenue of R$180 million or more, and a Private Banking Department, which serves individual clients who have a minimum of R$1.0 million available for investment. In 2002, we created the Bradesco Empresas Department, which is responsible for corporate clients with annual income of between R$15 and R$180 million, with the goal of expanding our business in the middle market sector. In May 2003, a division of Bradesco, which we call Bradesco Prime, began operations. Bradesco Prime was created to offer services to individual Bradesco clients who have either income of at least of

R$4,000 per month or R$50,000 immediately available for investment.

The following diagram shows the principal elements of our banking area as of December 31, 2002:

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;
- traditional savings accounts, which currently earn the Brazilian reference rate, the taxa referencial, known as the TR, plus 0.5% per month;
- time deposits, which are represented by certificados de depósito bancário, certificates of bank deposits, or CDBs, and earn interest at a fixed or floating rate; and
- deposits from financial institutions, which are represented by certificates of interbank deposits, or CDIs, and which earn the interbank deposit rate.

At December 31, 2002, we had 13.0 million checking accounts, with 12.0 million individual account holders, 1.0 million corporate account holders and 29.4 million savings accounts. As of December 31, 2002, deposits (excluding deposits from financial institutions) totaled R$56.3 billion. At that date, we had an 18.5% 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,					
	2000		**2001**		**2002**	
	(R$ in millions, except percentages)					
Deposits from Customers						
Demand deposits	R$7,503	20.6%	R$8,061	19.6%	R$13,374	23.7%
Brazilian currency	7,475	20.5	8,043	19.5	12,837	22.7
Foreign currency	28	0.1	18	0.1	537	1.0
Savings deposits	17,836	48.8	18,311	44.6	20,731	36.8
Brazilian currency	17,739	48.6	18,311	44.6	20,731	36.8
Foreign currency	97	0.2	-	-	-	-
Term deposits/certificates of deposit	10,584	29.0	14,679	35.7	22,202	39.4
Brazilian currency	9,407	25.8	13,154	32.0	19,574	34.7
Foreign currency	1,177	3.2	1,525	3.7	2,628	4.7
Total deposits from customers	35,923	98.4	41,051	99.9	56,307	99.9

Deposits from financial institutions	583	1.6	41	0.1	26	0.1
Total	R$36,506	100.0%	R$41,092	100.0%	R$56,333	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 between our customers checking accounts.

Credit Operations

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

	December 31,		
	2000	**2001**	**2002**
Loans outstanding by product type			
Consumer credit operations	R$6,138	R$8,184	R$9,302
Real estate financing	2,170	1,789	1,627
Loans from Banco Nacional de Desenvolvimento Econômico e Social (BNDES)	5,842	7,020	7,848
Other local corporate loans	10,433	11,122	12,309
Rural credit	2,910	2,959	3,922
Leasing	2,028	1,667	1,506
Credit cards	655	973	1,164
Import and export financings	6,070	6,635	9,154
Other foreign loans	1,499	2,388	3,151
Loans to public sector	5	-	-
Total	37,750	42,737	49,983
Non-performing loans	1,689	2,257	2,341
Total	R$39,439	R$44,994	R$52,324

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, which had an average maturity of six months and on which interest accrued at an average rate of 3.3% per month as of December 31, 2002;

- automobile financing, which had an average maturity of eight months and on which interest accrued at an average rate of 2.8% per month as of December 31, 2002; and
- overdraft loans on checking accounts, which are, on average, repaid in one month and which carried interest rates varying from 2.7% to 9.0% per month as of December 31, 2002.

We also provide revolving credit loan facilities and traditional term loans. At December 31, 2002 we had outstanding advances, overdrafts, automobile financings, consumer loans and revolving credit loans of R$9.3 billion. This consumer lending represented 17.8% of our credit portfolio at that date. On the basis of loans outstanding at that date, we had a 7.0% share of the Brazilian consumer loan market according to information published by the Central Bank.

Real Estate Financing

At December 31, 2002, we had 39,776 residential mortgage loans outstanding, which represented 20% of the private banking residential mortgage loans in the Brazilian market, according to information published by the Central Bank. On December 31, 2002, the aggregate outstanding amount of our residential mortgage loans amounted to R$1.6 billion, representing 3.1% 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.

Residential loans from the SFH:

- have a stated maturity of 5 to 15 years; and
- are subject to fewer taxes than loans made by the CHH.

Residential loans from the CHH:

- typically have a 5 year maximum maturity; and
- are subject to greater taxes than the SFH loans.

Loans from both portfolios are made at annual interest rates of 12% to 18% plus TR.

Our financings to individuals for construction have a stated maturity of up to 18 months and a repayment period lasting between 2 and 10 years. Payments are made on a floating-rate basis of TR plus 12% for SFH loans and TR plus 20% for CHH loans.

We also extend financing to corporate customers under the SFH. These financings, which are for construction, typically have a maturity of up to 24 months and repayment begins within two years after the formal conclusion of the construction. We make these loans on a floating-rate basis of TR plus 14% during the construction stage and TR plus a margin of 12% after construction has been completed.

Central Bank regulations obligate 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 financings, mortgage notes, charged-off residential real-estate loans, and certain other financings, all as specified in guidance issued by the Central Bank. At December 31, 2002, we were in compliance with the legal minimum requirement. We generally do not finance more than 70% 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 which 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, 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. BNDES loans, totaling R$7.8 billion at December 31, 2002, represented 15.0% of our credit portfolio at that date. We believe that the privatization process in Brazil, particularly in the domestic infrastructure sectors, may provide an opportunity for further growth in this type of lending.

Other Corporate Lending

We provide traditional loans for the ongoing needs of our corporate clients. We had approximately R$12.3 billion of outstanding corporate loans, accounting for approximately 23.5% of our credit portfolio, at December 31, 2002. We offer a variety of lending options to our Brazilian corporate clients, including:

- short-term loans of 29 days or less;
- working capital loans to cover our customers cash needs;
- guaranteed checking accounts;
- rotating credit lines;
- discounting of trade receivables; and
- merchandise financing.

These lending products generally bear an interest rate of between 1.9% and 4.4% per month.

Rural Credit

We extend loans to the rural sector that are financed from our compulsory deposits and our own resources. At December 31, 2002, we had outstanding 36,493 rural loans totaling R$3.9 billion, representing 7.5% of our credit portfolio. In accordance with Central Bank regulations, we make loans using funds from our compulsory deposits at a fixed rate, which was 8.75% per annum at December 31, 2002. The maturity of these loans generally matches the cycle of the corresponding crop. 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 rural 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. We have been making loans to the agricultural sector for 37 years.

Leasing Operations

According to ABEL, as of December 31, 2002, our leasing operations were the largest private leasing operations in Brazil as measured by the discounted present value of the leasing portfolio by ABEL. According to ABEL, the aggregate discounted present value of the leasing portfolios of leasing companies in Brazil on December 31, 2002 was R$9.6 billion, of which we had a market share of 16.9%.

On December 31, 2002, we held approximately 57,000 outstanding leases with an aggregate value of R$1.5 billion, representing 2.9% of our credit portfolio. The size of our leasing portfolio was R$2.0 billion (under approximately 145,000 contracts) at December 31, 2000 and R$1.7 billion (under approximately 91,000 contracts) at December 31, 2001.

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

As of December 31, 2001, U.S. dollar indexed leases made up 6.6% of our portfolio, a decline from 12.0% as of December 31, 2000. During 2002 the proportion of our U.S. dollar indexed leasing operations remained stable, making up 6.7% of our portfolio at December 31, 2002.

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 2002, approximately 55.3% of our outstanding leases were automobile leases, as compared to 58.8% for the Brazilian leasing market as a whole.

Prior to December 31, 2002, we conducted our leasing operations through our wholly-owned subsidiaries Banco Finasa, Boavista S.A. Arrendamento Mercantil, Potenza S.A. Arrendamento Mercantil, Bradesco Leasing, BCN Leasing and Finasa Leasing. At the end of 2002 we merged their operations into BCN Leasing through a transfer of their assets and liabilities.

On December 2002, we did a spin-off of assets transaction involving Boavista S.A. Arrendamento Mercantil, Bancocidade Leasing Arrendamento Mercantil S.A. and Potenza S.A. Arrendamento Mercantil, based on the balances of November 30, 2002, in which the spun-off portions of these companies were transferred to BCN Leasing. On February 28, 2003, Bradesco Leasing & BCN Leasing merged into a new entity, Bradesco BCN Leasing Arrendamento Mercantil S.A., which we call Bradesco BCN Leasing.

We enter into leasing contracts through our branch network, as well as directly through our subsidiary Bradesco BCN Leasing.

We obtain funding for our leasing operations primarily through the issuance of debentures and notes in the domestic and international markets and through borrowings of 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, 2002 Bradesco Leasing had R$630 million of debentures outstanding in the domestic market, which have characteristics similar to subordinated notes and 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 24 months for transactions with respect to goods with an average life of five years or less, and 36 months for transactions with respect to goods with an average life greater than five years. There is no legally imposed maximum term for leasing contracts. At December 31, 2002, the remaining average maturity of the contracts in our lease portfolio was 18 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, 2002 we were one of the largest independent credit card issuers in Brazil, having issued 6.1 million credit cards, corresponding to 15.0% of the approximately 40 million credit cards issued in Brazil, according to information published by Visa and MasterCard. We offer Visa, MasterCard and American Express credit cards to our existing customers and to potential clients with no previous relationship to the bank. As of December 31, 2002 our credit cards were accepted in over 19 million commercial and services establishments in 249 countries. At that date, 97.2% of our credit card holders were individual customers, of which 78.6% had checking accounts with us.

We earn revenues from our credit card operations through:

- issuance fee/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 Bradesco 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 by MasterCard and Gold and Infinite by Visa;
- multiple cards, which combine the features of a credit card (known as Visa Fácil) and a debit card (known as Visa Electron). Holders of multiple 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.

As of December 31, 2002 we had 76 partners with which we offered co-branded and affinity credit cards. Offering credit cards to these potential customers is a component of our cross-selling strategy, just as we offer banking products such as savings accounts, mutual funds and insurance to our existing credit card holders.

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

	December 31,					
	2000		2001		2002	
	Number of cards outstanding	% of total number	Number of cards outstanding	% of total number	Number of cards outstanding	% of total number

Visa	3,891,330	89%	4,301,320	91%	5,592,474	92%
MasterCard	408,673	9	329,686	7	450,341	7
American Express	29,906	1	28,694	1	30,431	1
Diners	25,686	1	29,067	1	3,171	0
Total	4,355,595	100%	4,688,767	100%	6,076,417	100%

Our credit card billing totaled R$8.3 billion during 2002, an increase of 22.0% over 2001. This increase was largely attributable to an expansion of our customer base and selling efforts.

Debit Cards

We began issuing debit cards in 1981 under the name Bradesco Instantâneo. Beginning in 1999, we converted 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 advances at the BDN network in Brazil and the Plus Visa 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 fee of 0.7% of the value of each Visa Electron transaction. The total income from debit cards totaled $4.0 billion in 2002, a 59.0% increase from 2001 due to improvements in service technology and the expansion of our customer base.

Payment Processing and Collections and Third-Party Resource Management

Payment Processing and Collections

In Brazil, consumers make most bill payments in person at banks, rather than through the mail. Accordingly, we offer our corporate clients payment collection and processing services. In 2002 we processed 655.6 million bills and processed or collected accounts with a total value of R$585.9 billion. In 2001 we processed 657.8 million bills and processed or collected accounts with a total value of R$590.8 million. In 2002 we processed 206.4 million payments to suppliers and to beneficiaries of the social security system and taxes with a total value of R$97.0 billion. We processed approximately 196.6 million payments to suppliers and to beneficiaries of the social security system during 2001 with a total value of R$84.9 billion.

We receive revenues for these services from the fees we charge for collection services and processing payments on behalf of third parties and from the interest we earn on funds before we remit them to the companies. Although most of our collection services are limited to receiving bill payments, in some circumstances we will, at a client s request, also pursue delinquent payments. We do not assume any credit risk in connection with our collection and processing services.

During periods of inflation, we have been able to derive substantial revenue on our payment processing and collection operations from the interest on money received (the float) from the day we receive payment until the day we remit the payment to our client. In a low inflation environment, however, our payment processing and collection operations generate lower revenues, consisting primarily of fee income. In either case, these operations give us opportunities to do business with selected companies. As a general rule, any person, regardless of whether he or she is our client, may pay their bills at our branches.

We also collect and process taxes and utility bills on behalf of a number of entities, including federal, state and municipal governmental and public utility agencies. Our tax and utility collections and payment processing totaled R$97.0 billion during 2002 including:

- R$12.2 billion paid during 2002 in electricity, water, gas and telephone bills, of which 44.6% was paid through the automatic debit of current accounts and saving accounts;
- R$13.6 billion paid during 2002 to Social Security beneficiaries and pensioners, representing 17.7% of total enrollments with the Brazilian public social security system, known as the INSS, in 2002; and
- R$71.2 billion paid during 2002 in taxes.

We offer our corporate clients a computer-registered payment system called Pag-For which allows them to make payments to their suppliers and creditors on-line. As of December 31, 2002 more than 35,000 companies were using these services. In 2002, we processed more than 65.1 million payments, totaling R$217.6 billion in value, through the Pag-For system, compared with R$147.2 billion in payments, corresponding to more than 50.2 million payment transactions, in 2001.

In 1989, we started offering a debit card called the Benefits Payment Card to INSS beneficiaries. Prior to the introduction of this magnetic card system, INSS payments were made by monthly vouchers, a system that was extremely burdensome for all parties and potentially facilitated fraud and error. The Benefits Payment Card streamlined administrative procedures and reduced the risk of error and fraud. With the Benefits Payment Card and the relevant password, a beneficiary can receive benefits at any of our branches in the country. In addition, this system is on-line, real time, preventing the fraudulent withdrawal of welfare benefits from one branch after receipt of such benefits previously at another branch. To receive a Benefits Payment Card, an INSS beneficiary does not need to have an account with us. We earn revenues from the Benefits Payment Card through a fee paid by the INSS.

Benefits Payment Card holders can also use our ATM network to receive their benefits and can use their card to:

- pay bills;
- make purchases at over 100,000 commercial establishments nationwide;
- obtain credit with reduced fees; and
- purchase credits for pre-paid cellular telephone service.

Third-Party Administrative Services

We offer our corporate clients several administrative services, including payroll processing, employee checking accounts, known as salary accounts, in which salaries are directly deposited and an employee traveler s card, which allows companies to advance funds to their employees for business trips, which funds can then be withdrawn at our ATM network. We earn revenues from these services through fees we charge our corporate clients.

Check-Custody Services

We offer our individual and corporate clients custody services for post-dated checks they receive. Post-dated checks are a popular means of term payment in Brazil, in which customers pay for merchandise and services with future dated bank checks, effectively allowing payment over a long term. We also present such checks for payment at their respective future payment date. In connection with check custody services, we offer our corporate clients various alternatives for receiving advances using such instruments, such as by discounting a check or by accepting it as collateral for working capital loans. As of December 31, 2002, we had 169,360 check custody services accounts and more than 7.2 million checks in our custody in a total amount of R$1.8 billion.

Capital Markets and Investment Banking Services

Underwriting Services

We have been the leading domestic debt and equity underwriter in Brazil for more than 10 years, according to statistics published by the CVM. On December 31, 2002, according to ANBID, we were ranked:

- third in originations of transactions, with R$350.3 million in equity transactions and R$1.3 billion in debt transactions; and
- third in placement of securities, with a total R$254.2 million in equity transactions and R$1.1 billion in debt transactions.

During 2002 we coordinated R$14.6 billion in equity and debt transactions, representing 59.1% of the issuances registered with the CVM during the period. During 2001, we coordinated public issuances of equity and debt securities in the Brazilian market totaling R$15.2 billion, corresponding to 57.4% of all transactions registered with the CVM during 2001.

In March 2002 we were the co-lead underwriter for the secondary public offering of ordinary shares of Companhia Vale do Rio Doce, which were sold for a total amount of R$4.5 billion. In August 2002 we were the lead manager in the public offering of debentures totaling R$750 million and in October 2002 we were the co-lead underwriter in the public offering of debentures totaling R$775 million; both offerings were made by Petróleo Brasileiro S.A. - Petrobras.

In June 2000 we were the lead managers of the first public offering of Brazilian Depositary Receipts, or BDRs, in history. The BDRs represent shares of Telefónica, S.A., the Spanish telecommunications company, and were sold for a total amount of R$23.8 billion. We also acted as one of the lead managers in the public offerings of voting shares of Petróleo Brasileiro S.A. - Petrobras, for a total amount of R$7.8 billion and of the preferred shares for a total amount of R$1.8 billion.

Starting in 1999, we have increasingly had to rely on volume to achieve profitability in this area as 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

We offer our customers investment advisory services with respect to mergers and acquisitions, project financing, privatizations and corporate restructurings. In 2002, we advised on 12 transactions, totaling R$1.9 billion in value. In 2001 we advised on eight transactions, totaling R$220.3 million in value. As of December 31, 2002, as compared to our capital markets transactions, in most cases our fees for mergers and acquisitions advisory work were higher than those recorded in previous years.

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.

During 2002 Bradesco Corretora traded in excess of R$10.3 billion on the São Paulo Stock Exchange, known as BOVESPA, and, according to BOVESPA, was ranked seventh in Brazil in terms of trading volume. During 2002, Bradesco Corretora traded approximately 6.3 million futures, swaps, options and other contracts, with a total value of approximately R$685.2 billion, on the Bolsa de Mercadorias e Futuros, which we call BM&F, and, according to BM&F, was ranked sixth in the Brazilian market, in terms of the aggregate value traded and number of options, futures and swaps contracts executed. In 2002 Bradesco Corretora was one of Brazil s main firms in the brokerage of tender offers carried out on Brazilian stock exchanges. Bradesco Corretora traded in excess of R$501.5 million during 2002.

Bradesco Corretora has 15 brokers covering retail investors and assisting our branch managers, nine brokers dedicated to Brazilian and foreign institutional investors and six brokers dedicated to the BM&F. Bradesco Corretora has 13 traders on the floor of the BM&F and five traders on the floor of BOVESPA. Our branch managers are charged with the task of marketing the services that Bradesco Corretora offers.

In November 2002, Bradesco Corretora entered into a partnership with the Market for Latin-American Stocks in euros, known as Latibex, at the Madrid Stock Exchange in Spain, to provide Brazilian investors direct access to Latibex. Bradesco Corretora, the first brokerage firm in Brazil to offer this service, is connected to Latibex in real time, allowing Brazilian investors to enter into transactions without having a representative in Spain.

With the assistance of our technology department and in order to enhance its client base, in March 1999 Bradesco Corretora began offering its clients the ability to trade securities via the Internet through its ShopInvest service. In 2002 trading through ShopInvest totaled R$605.7 million, corresponding, according to BOVESPA, to 7.2% of all transactions carried out via the Internet on BOVESPA. In 2001 trading through ShopInvest totaled R$393.3 million, corresponding to 6.5% of all transactions carried out via the Internet on BOVESPA during that time according to BOVESPA.

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, debentures and mutual funds, and administration of DR and BDR programs. All of these services have received ISO 9001/2000 certification. As of December 31, 2002:

- 178 companies with 5.6 million shareholders made up the Bradesco System for Registered Shares;
- we provided services to 29 companies with registered debentures with a total market value of R$10.9 billion;
- 322 clients used our custodial services, with total assets of R$63.7 billion;
- we provided services to 542 mutual funds and portfolios with net worth of R$74.7 billion;
- we provided services to 14 registered mutual funds, with a market value of R$1.3 billion;
- we provided services to nine DR registered programs, with a market value of R$13.5 billion; and
- we provided services to two BDR registered programs, with a market value of R$226.0 million.

International Banking

As a private commercial bank, we offer a range of international services such as exchange transactions, trade financing, lines of credit, and offshore banking in general. Our overseas facilities consist of:

- in New York City, our branch and Bradesco Securities Inc., a 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 Bahamas subsidiary, which we call Boavista Bahamas ;
- in Buenos Aires, Banco Bradesco Argentina S.A., our subsidiary, which we call Bradesco Argentina ;
- in Luxembourg, two subsidiaries, Banco Mercantil de São Paulo International S.A., which we call Mercantil Luxembourg, and Banco

Bradesco Luxembourg S.A., which we call Bradesco Luxembourg ; and

- in Tokyo, Bradesco Services Co. Ltd., our subsidiary, which we call Bradesco Services Japan.

Our international operations are supported by 18 specialized units, 12 of which support Bradesco, five of which support BCN and one of which supports Banco Mercantil. These specialized units operate in Brazil s principal exporting and importing centers, and their activities are coordinated by our foreign exchange desk in São Paulo.

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:

	2000		**2001**		**2002**	
	R$ in millions	**%**	**R$ in millions**	**%**	**R$ in millions**	**%**
Brazilian operations	R$22,175	98.6%	R$27,955	98.9%	R$35,810	98.5%
Foreign operations	317	1.4	303	1.1	547	1.5
Total	R$22,492	100.0%	R$28,258	100.0%	R$36,357	100.0%

Foreign Branches

Our foreign branches are principally involved in sourcing funds in the international markets to provide us with credit lines, which we then extend to our customers in Brazil for export and import financing. Our branches also take deposits in foreign currency from corporate and individual clients and extend credit to Brazilian and non-Brazilian clients, generally related to supporting trade with Brazil. The total assets of our foreign branches, excluding transactions between related parties, were R$11.1 billion as of December 31, 2002.

Our foreign branches periodically issue debt securities, assisting us in gaining access to the international capital markets. In addition to short-term financings obtained from international banks for foreign trade financing, our foreign branches and our head office in Brazil raised U.S.$955.6 million during 2002 and U.S. $1.2 billion during 2001 through public and private placement of short-term and long-term securities in the international market. The securities had maturities of three to 10 years.

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, however, 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 risk generally.

Foreign Subsidiaries

Bradesco Argentina. With a view to expanding our operations in the Mercosur area, in December 1999 we established our subsidiary Bradesco Argentina with an initial capitalization of R$54.0 million. As of December 31, 2002, its total assets were R$71.4 million. The goal of Bradesco Argentina is to provide financing, principally to Brazilian corporate customers operating in Argentina and, to a lesser extent, Argentine corporate customers doing business in Brazil. We expect to offer services and business development and support for selected corporate clients out of Bradesco Argentina in the future.

Boavista Bahamas. We acquired our Bahamian subsidiary Boavista Banking Limited as part of our acquisition of Boavista in October 2000. On December 31, 2002, its total assets were R$407.3 million.

Bradesco Luxembourg. In April 2002, we acquired Banque Banespa International S.A. of Luxembourg and changed its name to Banco Bradesco Luxembourg S.A. On December 31, 2002, its total assets were R$140.4 million.

Bradesco Services Japan. In October 2001, we incorporated Bradesco Services Japan to offer specialized services to Brazilians who live and work in Japan. This subsidiary provides services and advises the Brazilian community in Japan on funds transfers, bank accounts, investments and quotations, among other services. On December 31, 2002, its total assets were R$1.4 million.

Bradesco Securities U.S. On April 28, 2000, we opened Bradesco Securities U.S. In August 2000, we effectuated the initial capitalization of Bradesco Securities U.S. in the amount of R$3.6 million. Bradesco Securities U.S. focuses on advising non-Brazilian investors making investments in Brazil, as well as in assisting Brazilian companies with ADR programs issued outside of Brazil. On December 31, 2002, its total assets were R$3.6 million.

Cidade Capital Markets. In February 2002, we acquired Cidade Capital Markets, a subsidiary of Banco Cidade S.A. in the Cayman Islands, as part of our acquisition of its parent company. We made the acquisition through Banco BCN S.A., our wholly-owned subsidiary. On December 31, 2002, Cidade Capital Markets had R$105.5 million in assets.

Mercantil Luxembourg. In January 2002 we acquired Mercantil Luxembourg, a subsidiary of Banco Mercantil, as part of our acquisition of its parent company. On December 31, 2002, its assets totaled R$1.3 billion.

Foreign Trade Financing

Our foreign trade finance activities consist of import and export financing. Import financing generally takes the form of a loan or a letter of credit in the relevant foreign currency, which is linked to the receipt of a local currency payment from an importer. Export financing generally takes the form of pre-export financing, an advance to an exporter in local currency in exchange for an assignment of foreign currency export receivables. Two major forms of this type of export financing include Advances on Exchange Contracts, which we call ACCs, and Advances on Export Contracts, which we call ACEs. ACCs provide exporters with funding necessary for production and shipment of goods. ACEs are advances to exporters who have already shipped their goods and are awaiting payment. Our trade-related portfolio is funded primarily through credit facilities provided by a number of foreign correspondent banks. Through our units in Brazil and abroad, we maintain relationships with U.S., European, Asian and Latin American financial institutions for this purpose, relying on our network of approximately 1,000 correspondent banks around the world.

At the end of 2002, the balance of our export financing transactions was R$7.9 billion and the balance of our import transactions was R$1.3 billion. In 2002, according to Central Bank information, we were the largest private financial institution in Brazil in terms of volume of foreign exchange contracts for export, with 20.5% of the Brazilian market. The majority of these transactions were denominated in U.S. dollars.

The following table sets forth a breakdown by product type of our foreign trade financing operations (excluding non-performing loans) as of the date indicated:

	December 31, 2002
	(R$ in millions)
Export Financing	
Advances on Exchange Contracts (ACCs)	R$5,455
Advances on Export Contracts (ACEs)	1,399
Pre-payment of future exports	817
On-lending of funds borrowed from BNDES/EXIM	151
Other	41
Total Export Financing	7,863
Import Financing	
Foreign-exchange-denominated import financings	1,291
Total Import Financing	1,291
Total Export & Import Financing	R$9,154

Other Foreign Exchange Products

In addition to trade financing, we provide other foreign exchange products to our corporate and individual clients, such as:

- purchase and sale of foreign currencies in cash;
- travelers checks;
- collecting foreign currency checks abroad;
- international payment orders; and

- on-line access to the exchange rate of the real against certain foreign currencies.

Private Banking Services

Bradesco Private Banking provides high-net-worth individuals with a range of services, including domestic and foreign investment advice and financial and tax advice as well as consulting services related to the allocation of the client s investment portfolio and strategies for reaching the client s financial goals. To be eligible for this service, the client must have a minimum of R$1 million of net equity in investments.

Asset Management

We manage assets for:

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

As of December 31, 2002, we had R$64.3 billion in total assets under management, including R$45.4 billion in investment funds and R$18.9 billion in managed portfolios.

As of December 31, 2002 we offered 370 funds and portfolios to 2.2 million investors. Most of our funds are fixed income funds that take advantage of the relatively high prevailing Brazilian interest rates. We also offer funds with a basket of equity securities structured to reflect the BOVESPA Index, a broad-based stock index calculated by BOVESPA. We currently do not offer any highly leveraged hedging funds.

The following tables sets forth the net assets of our funds, the number of customers and the number of funds and customer portfolios as of the dates indicated.

	Net assets as of December 31,		
	2000	**2001**	**2002**
	(R$ in millions)		
Mutual Funds			
Fixed Income	R$36,512	R$40,536	R$43,744
Equity	1,585	1,369	1,672
Total	38,097	41,905	45,416
Managed Customer Portfolios			

Fixed Income	9,528	12,544	13,309
Equity	5,372	4,593	5,544
Total	14,900	17,137	18,853
Total	R$52,997	R$59,042	R$64,269

	Number of Funds			**Number of Clients**		
	Fixed Income	**Variable Income**	**Total**	**Fixed Income**	**Variable Income**	**Total**
Funds	231	64	295	1,026,101	1,201,587	2,227,688

	Number of Portfolios	**Number of Clients in Portfolios**
Portfolios	75	75

In April 2001 we created BRAM-Bradesco Asset Management Ltda., which we call BRAM, and consolidated all our asset management activities into BRAM.

We market our asset management products through our branch network, our telephone banking service and our Internet-based investment site, ShopInvest. ShopInvest offers 20 asset management funds, which are less risky (in terms of leverage) and sophisticated than some of the other funds offered by our branches. Current CVM regulations do not permit us to offer more sophisticated or riskier funds through ShopInvest.

We earn revenues from our asset management operations principally from management and performance fees. Our management fees are typically calculated as a percentage of the amount invested in the fund on a monthly basis. In certain funds we charge a performance fee on an annual or semiannual basis.

We have traditionally marketed our asset management services to institutions in order to increase the amount of assets under management. Recently, however, our focus has shifted to increasing the amount of assets invested by individual investors, who generally pay relatively higher fees than institutional investors. While there has been downward pressure on management and performance fees, most of this pressure has been on the fees charged to institutional customers and high-net-worth individuals. Furthermore, the fees we charge our qualified investors depend on other economic factors, such as interest rates. A decrease in market interest rates generally leads to a reduction in management fees. Despite these downward trends, our management believes that our branch network and large client base will allow us to continue to increase the size and profitability of our asset management operations.

Insurance, Pension Plans and Certificated Savings Plans

The diagram below shows the principal elements of our insurance, pension plans and certificated savings plans area as of December 31, 2002.

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,		
	2000	2001	2002
	(R$ in millions, except percentages)		
Selected results of operations data:			
Insurance premiums			
Life insurance premiums	R$753	R$866	R$930
Health insurance premiums	1,549	2,178	2,333
Automobile, property and casualty insurance premiums	1,399	1,572	1,718
Total	3,701	4,616	4,981
Pension plan income	592	1,043	348
Interest income related to insurance, pension plan, certificated savings plans and pension investment contracts	1,515	1,976	3,021
Changes in provisions for insurance, pension plans, certificated savings plans and pension investments contracts	(1,265)	(1,847)	(2,261)
Insurance claims	(2,511)	(3,251)	(3,614)
Pension plan operating expenses	R$(378)	R$(459)	R$(370)
Operations ratios:			
Loss ratio(1)	71.9%	74.4%	72.0%
Expense ratio(2)	15.9	13.3	11.9
Combined ratio(3)	103.0	102.3	100.3
Extended combined ratio(4)	92.4	95.4	94.6

(1) Claim expenses/earned premiums.

(2) Acquisition costs/earned premiums.

(3) (Claim expenses, costs of acquisition, tax expense, operational and administrative expenses)/(earned premiums).

(4) (Claim expenses, costs of acquisition, tax expense, operational and administrative expenses)/(earned premiums and investment income).

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 2002 based on net worth, according to information published by SUSEP. In 2002, our insurance, pension plan and certificated savings plans businesses had net income of R$750 million, as measured in accordance with the Corporate Law Method. 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 under contracts with corporations under which their employees are insured. Its products include health, life, accident, automobile and property and casualty insurance, with health insurance comprising the largest segment of its insurance business.

Health Insurance

Health insurance insures policyholders for medical expenses. At December 31, 2002, Bradesco Saúde had 2.3 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. At that date, approximately 13,000 companies in Brazil, including 35 of the country s 100 largest companies, held health insurance policies underwritten by Bradesco Saúde. Bradesco Saúde ranked first in Brazil in terms of number of health insurance beneficiaries at December 31, 2002, according to information published by ANS.

Bradesco Saúde currently has one of the largest health insurance networks in Brazil: as of December 31, 2002, approximately 9,500 laboratories, 9,100 specialized clinics, 21,500 physicians, 2,800 hospitals and 7,000 dentists located throughout the country and 80 hospitals in the United States and Europe accepted its policies.

Life Insurance

Bradesco Seguros offers its term life insurance directly and through its subsidiaries. At December 31, 2002, Bradesco Seguros had 4.6 million life insurance policyholders and was ranked first in Brazil in number of individuals insured, according to information published by SUSEP.

Automobile, Property and Liability Insurance

Bradesco Seguros offers automobile, property, shipping, maritime, aviation and liability insurance. Bradesco Seguros automobile insurance covers policyholders losses resulting from vehicle theft, damage to vehicles, personal injury and injury to third parties. Bradesco Seguros property and casualty insurance covers loss or damage to property, buildings, equipment and inventory from natural disasters such as tornados, hail storms, lightning, and floods. We will also insure against fire, theft, electrical damage, collapse and other events.

At December 31, 2002, Bradesco Seguros had 1.1 million automobile and property and casualty insurance policyholders and was ranked first in Brazil in number of insured vehicles and number of property and casualty insurance policies, according to information published by SUSEP. The majority of our property and casualty policyholders are individuals. Policies sold to individuals have lower average premiums but yield higher average revenues. In 2002, Bradesco Seguros targeted its property and casualty insurance products towards retail customers. Consequently, the number of property and casualty policyholders increased by 8.0% in 2002 in comparison with 2001.

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 on a commission basis. At December 31, 2002, 27,750 brokers offered our insurance policies to the public. We also offer certain automobile, health and property and casualty insurance products through our website.

Pricing

The costs of medical care as well as the frequency of claims drive pricing for individual health care in Brazil. The same factors apply to pricing and group health insurance, although discounts may be granted depending on the number of insured individuals and in accordance with actuarially analysis.

With respect to life insurance, Bradesco Seguros uses information from the insured s application in determining its pricing and requires medical examinations for certain applicants. This approach, designed to maintain a quality pool of insurance holders and allow more accurate pricing, utilizes proprietary data we have gathered and analyzed with respect to our different insurance lines. This information provides us with specialized knowledge about industry segments and risk management and helps Bradesco Seguros analyze risk based on account characteristics and pricing parameters. This process is coupled with the sharing of information between Bradesco Seguros underwriters and our branch network.

Pricing for term life insurance is based on actuarial tables, with adjustments for accidental death and disability coverages and our rate of return criteria. The premiums are a function of the insured s age and medical condition at the time a policy is issued.

Pricing for personal automobile insurance is influenced by the frequency and degree of severity of an individual s claims, and takes into consideration many other factors, such as the location of the use of the vehicle and the year and model of the vehicle. Contrary to market practice, we do not consider the 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 disparities 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 policy holders increased 16.9% in 2002 in relation to 2001, largely as a result of increased marketing efforts.

Pricing in the property and casualty business is also driven by the frequency of claims as well as by the costs of relevant goods. In addition to the normal risks associated with any multiple-peril coverage, the profitability and the pricing of homeowner s insurance are generally affected by the incidence of natural disasters, particularly tornadoes, earthquakes and hurricanes, which generally do not occur in Brazil.

Reinsurance

Brazilian regulations set retention limits on the amount of risks insurance companies may underwrite. Pursuant to the regulations, Bradesco Seguros reinsures with 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 IRB, it may assist IRB in entering into reinsurance agreements with international reinsurers in connection with those risks.

Bradesco Seguros reinsured approximately R$552 million in insurance risks with IRB in 2002. Although the reinsurer is liable to Bradesco Seguros to the extent of the amount reinsured, Bradesco Seguros remains primarily liable as the direct insurer on all reinsured risks. Reinsurance recoverables are reported net of losses.

Pension Plans

We began managing individual and corporate pension plans in 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 reserves, based on information published by the National Association of Private Pension Plans, known as ANAPP. As of December 31, 2002, Bradesco Vida e Previdência accounted for 33.2% of the open-end pension plan market based on contributions, and 52.1% of assets under management, according to ANAPP.

During the first quarter of 2002, Bradesco Vida e Previdência began selling VGBL - Vida Gerador de Benefícios Livres, which we refer to as VGBL, a pension investment contract product 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, 2002, Bradesco Vida e Previdência accounted for 70.7% of VGBL sales in Brazil, 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 groups of people such as the employees of a specific company or group of companies in the same sector, professionals in the same field, or members of a union. Private pension entities function in a manner similar to the public social security system, granting 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 43.3% 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 1,238,491 participants, 81.2% of whom are members of individual plans, and the remainder of whom are individual members of corporate plans. Corporate plans account for 43.4% of our technical reserves.

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 Fundo de Aposentadoria Individual, which is known as FAPI, and the Plano Gerador de Benefícios Livres, which is known as PGBL. FAPIs are organized as normal investment mutual funds. PGBLs are organized as pension plans. PGBLs and FAPIs are not subject to taxation on income generated by the fund portfolio. Participants in both types of funds are taxed upon redemption of their shares.

Under both FAPI and PGBL plans, participants are allowed to make contributions either in installments or in lump-sum payments. Participants in pension plans are released from the obligation to pay income taxes on amounts contributed to a plan, up to 12% of the participant s taxable income. Companies in Brazil can establish PGBL and FAPI plans for the benefit of their employees. According to the Brazilian financial newspaper Gazeta Mercantil, Bradesco Vida e Previdência was the leading FAPI and PGBL underwriter in Brazil in 2002. As of December 31, 2002, it managed R$2.6 billion in PGBL plans and R$310 million in FAPI plans.

We are using FAPIs and PGBLs to replace a number of guaranteed-return plans, as the 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 treasuries. Conversely, FAPIs and PGBLs do not have such a guarantee.

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

Bradesco Vida e Previdência also offers pension plans to its corporate customers, most of which 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) for all plans that do not guarantee a minimum return, a percentage of the contributions to the plan and the management fee or part of it; and
- from death-benefit plans, fees based on the estimated positive difference between the plan s claims 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$5,000.00 and earns interest at a rate of TR plus 0.5% per month. From time to time we have drawings at which some holders of the certificated savings plans win cash prizes of up to R$5 million. The certificated savings plans are redeemable by the holder after 12 months. As of December 31, 2002, we had 12.7 million certificated savings plans outstanding. Bradesco Capitalização grew 37.2% in its number of clients from December 31, 2001 to December 31, 2002, from 1.8 million to 2.5 million clients.

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

Treasury Activities

We have a single treasury for all our and our subsidiaries activities. Our treasury enters into transactions, including derivative financial instruments transactions, mainly for hedging purposes (called the macro hedge) , in accordance with limits set forth by our risk management area utilizing a value at risk methodology. For more discussion of the value at risk methodology, see Item 11. Quantitative and Qualitative Disclosures About Market Risks - Risk and Risk Management - Market Risk. Our treasury is based in Osasco and is headed by a vice-president.

Distribution Channels

We have the largest private-sector banking network in Brazil. In 2002 we opened 344 branches, including 65 Bradesco branches, and acquired an additional 279 branches through our acquisition of Banco Mercantil, Banco Cidade and BEA. 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. We received 229.0 million calls to our customer service center in 2002 and 225.7 million calls during 2001. We installed 1,132 new ATMs during 2002 and 2,078 new ATMs during 2001.

In addition, in order to foster stronger ties with our corporate clients, we established an additional 465 special banking service posts on the premises of selected corporate clients during 2002 and 156 special banking service posts in 2001, reaching a total of 1,849 special banking service posts and outlets as of December 31, 2002. We offer through such special posts all products and services existing in our branches.

As of December 31, 2002, we:

- executed an average of 9.3 million transactions daily, including 2.2 million directly through our 2,954 branches and 7.1 million by telephone, over the Internet and through ATMs;
- operated 21,210 ATMs, of which 10,406 are available 24 hours per day, seven days per week, processing on average 4.5 million on-line, real time transactions per day;
- operated six overseas branches in New York, the Cayman Islands and the Bahamas branches; and
- operated seven foreign subsidiaries in Argentina, the Bahamas, the Cayman Islands, Japan, Luxembourg, and our broker-dealer in New York.

In August 2001, we won a public bidding process to offer banking services, for five years, in 5,320 Brazilian post offices. For further information about this project, see – History – Recent Important Acquisitions and Joint Ventures.

Corporate Area

In 1999 we created our corporate area to offer our products and services on an individualized basis to groups of affiliated companies with annual revenues of over R$180 million. The approximately 100 sales professionals of our corporate area serve 1,159 Brazilian and multinational enterprises in Brazil.

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 subsidiaries BCN Leasing, Banco Finasa, Finasa Leasing, Bradesco Leasing and Boavista Leasing. Bradesco Corretora also markets our brokerage and trading services through our branches. Bradesco Vida e Previdência sells its products on a commission basis through 5,857 independent agents nationwide most of whom are based in our facilities.

We sell our insurance products and pension plan products not only through exclusive brokers based in our network of bank branches, but also through other, non-exclusive brokers throughout Brazil, all of whom are compensated on a commission basis, and through our website. At December 31, 2002, 27,750 non-exclusive brokers offered our insurance policies to the public. Our certificated savings plans are offered through our branches, 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:

	2000	2001	2002
	(percentage of total sales, per product)		
Insurance products			

Sales through the branches	42.6%	33.7%	29.4%
Sales outside the branches	57.4	66.3	70.6
Pension plan products			
Sales through the branches	81.8	69.2	85.8
Sales outside the branches	18.2	30.8	14.2
Leasing products			
Sales through the branches	79.0	90.5	97.0
Sales outside the branches	21.0	9.5	3.0
Certificated savings plans			
Sales through the branches	97.5	96.5	94.9
Sales outside the branches	2.5%	3.5%	5.1%

Processing

We have two data processing centers, with 18 large scale computers, which can execute approximately 27,000 MIPS (millions of instructions per second). These larger computers are complemented by 607 medium scale computers that form a second tier. All our branches and other distribution channels are connected to one of the data processing centers through available telecommunications services. This system, with storage space equivalent to 99 terabytes, processes all transactions of Banco Bradesco, BCN and our other affiliates, except for the transactions of Bradesco Seguros, which has its own structure. Each of the two processing centers not only stores its own data but also maintains a backup copy of the other center s data.

Internet

Utilizing new technologies to provide faster, more reliable and more efficient banking services is an integral part of our ongoing strategy. The Internet is at the forefront of these efforts. In 1996 we were one of the first banks worldwide to introduce on-line Internet banking. We were also the first Brazilian bank to have a website. In December 1999, we began offering free Internet access to our customers in the State of São Paulo. Largely as a result of these efforts, we:

- had developed a base of 4.7 million Internet banking customers by December 31, 2002, an increase of 25% over December 31, 2001;
- registered 264 million Internet banking transactions during 2002, an increase of 45% over 2001;
- registered an average of 2,650 new clients daily in 2002; and
- offered more than 210 on-line services as of December 31, 2002.

In 2002 the magazine Global Finance named Bradesco as having the best Internet banking service in Brasil and Latin America.

Using our on-line Internet banking service, our clients can make balance inquiries, transfer money between accounts, order checkbooks, pay bills and taxes and obtain credit from their homes, offices or anywhere else in the world. The cost to us of transactions done through the Internet and electronic commerce is notably lower than the costs of transactions conducted in our branches. Our goal is to use technology to increase the number of self-service transactions so as to reduce the number of transactions occurring at our branches, and to focus on the utilization of our branches as points of sale for other products and services, such as loans, insurance and leasing.

In March 1999 we introduced ShopInvest, the first Internet stock trading service in Brazil. Through ShopInvest, investors who are not our customers can access a wide range of financial information, invest in mutual funds and trade shares on BOVESPA. They can also enter into currency exchange transactions, monitor their pension funds and savings accounts, obtain loans and purchase Certificated savings plans through ShopInvest. As of December 31, 2002 ShopInvest had 593,804 registered users. In 2002, 301,567 transactions valued at over R$1.4 billion were carried out through ShopInvest.

In February 2000 we became the first Brazilian bank to offer services through which clients can receive updates of their bank balances and other financial information by email or on the screens of their mobile phones. In March 2000 we introduced our Mobile Banking Service, which allows clients to carry out banking transactions and access websites and other Internet services using the displays of their mobile phones. We offer more than 100 WebPoints Internet access stations. WebPoint allows customers who do not own a computer to access the Internet.

In May 2001, we introduced ShopCredit, our loan and financing website. ShopCredit allows individuals and corporate entities to find lines of credit and financing. Through the site, customers can apply for instant personal credit or make term calculations. In 2002 ShopCredit registered 409,000 transactions, valued at R$113.5 million.

In September 2001, Bradesco presented Bradesco Net Empresa, a website for corporate entities. Through the site, they can transfer funds between bank accounts and make payments, charges or other transactions without having to visit a branch office. As of December 31, 2002, we had registered approximately 56,400 participating companies and during 2002 approximately 1,700,000 transactions were carried out over Bradesco Net Empresa.

In 2002, we introduced the first system allowing use of the Smart Card to charge payments over the Internet. Also in 2002, we became the first bank in Brazil to sell travelers checks over the Internet in three currencies, the U.S. dollar, the euro, and the yen.

During 2002 we implemented the system of Consulta de Ordens de Pagamento through Internet Banking, aiming to serve the Japanese-Brazilian public. This service allows users to make online yen deposits directly into reais-denominated Bradesco accounts.

In 2002, highlighting our Internet presence, we received the Global Finance Best Internet Site award, awarding our site as the world s best in integrating product offerings, market and design. Global Finance also awarded our site as the best Internet banking site in Latin America.

Customer Service Center

Our clients may conduct their banking activities by telephone without having to visit a branch or ATM through the use of our customer service center. Our 1,520 customer service center telephone operators service our commercial banking as well as credit card clients. Customers may use the telephone customer service center, among other things, to:

- obtain account balances and check on the status of transactions by fax;
- order checkbooks;
- transfer funds between accounts, including to other banks;
- pay bills;
- apply for loans or credit cards;
- execute and manage their investments;
- make use of their revolving credit cards; and
- purchase certificated savings plans and enroll in private pension plans.

Use of our customer service center increased from 225.7 million telephone calls in 2001 to 229.0 million telephone calls in 2002, with an aggregate transaction value of approximately R$4.2 billion in 2001 and R$4.9 billion in 2002.

In December 2001, Bradesco was the first Brazilian bank to launch voice authentication technology. This technology increases the security of transactions through our Call Center, as each user s voice is used to confirm their password and in turn provide access to the system.

Capital Expenditures

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

Risk Management

We have an independent risk management department which is responsible for planning, controlling and managing our market, credit, liquidity and operating risks. Our risk management department is headed by an executive director who, in turn, reports directly to our president. This department is responsible for monitoring our risk exposure.

We generally employ a sensitivity analysis methodology to evaluate market risks. For further discussion, see Item 11. Quantitative and Qualitative Disclosures About Market Risk - Risk and Risk Management - Market Risk. Beginning in the first half of 2000, we also began to use a value at risk, or VaR, methodology to evaluate our market risk for our treasury operations. The VaR limits for our market risk exposure and the exposure of each of our subsidiaries are defined by our senior management.

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:

- whose proposed loan 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 midsized corporations, are reviewed at least every 90 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.

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	
	Guaranteed loan	**Collateralized loan**
Decision-making authority	**(R$ in thousands)**	
Manager of very small branch	0 to 5	0 to 10
Manager of small branch	0 to 10	0 to 20
Manager of average branch	0 to 15	0 to 30
Manager of large branch	0 to 20	0 to 50

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:

	Amount of loan	
	Minimum	**Maximum**
Decision-making authority	**(R$ in thousands)**	
Credit department	51	4,000
Credit director	4,001	6,000
Daily credit committee	6,001	20,000
Executive credit committee	20,001	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:

	Range of loan approval authority	
	Guaranteed loan	**Collateralized loan**
Decision-making authority	**(R$ in thousands)**	
Manager of very small branch	0 to 10	0 to 60
Manager of small branch	0 to 20	0 to 120
Manager of average branch	0 to 30	0 to 240
Manager of large branch	0 to 50	0 to 400

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

	Amount of loan	
	Minimum	**Maximum**
Decision-making authority	**(R$ in thousands)**	
Credit department	401	4,000
Credit director	4,001	6,000
Daily credit committee	6,001	20,000
Executive credit committee	20,001	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 section 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 56 hours, and our Alphaville (Barueri) operations center has the energy capacity to be self-sufficient for 65 hours. If we have sufficient access to fuel, we have the capacity to provide ourselves with electricity indefinitely.

Funding

Deposit-Taking

Our principal source of funding is deposits from Brazilian individuals and businesses. At December 31, 2002, our total deposits were R$56.3 billion, representing 47.4% of our total liabilities.

We provide the following types of deposit accounts:

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

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

	December 31,			**% of total deposits**
	2000	**2001**	**2002**	**2002**
	(R$ in millions, except percentages)			
From customers				
Demand deposits	R$7,503	R$8,061	R$13,374	23.7%
Savings deposits	17,836	18,311	20,731	36.8
Time deposits	10,584	14,679	22,202	39.4
From financial institutions	583	41	26	0.1
Total	R$36,506	R$41,092	R$56,333	100.0%

Under Central Bank regulations which entered into effect as of February 19, 2003, we must place 60% of our checking account deposits with the Central Bank as compulsory deposits in non-interest-bearing accounts; as of December 31, 2002, the requirement was 45%. We must place an additional 8% of our checking account deposits with the Central Bank in accounts bearing interest at the SELIC rate. In addition, if we do not use at least 25% of our checking account deposits to provide rural credit, we must deposit the unused amount in a non-interest-bearing account with the Central Bank.

We are the leader among Brazilian private banks in aggregate savings deposits. The Central Bank establishes the interest rates on savings accounts. The current interest rate is TR plus a spread of 0.5% per month. Current Central Bank regulations require that we:

(1) place 20% of the average aggregate balance of savings account deposits during the prior week with the Central Bank as compulsory deposits in an account bearing interest at TR plus 3% per year for savings accounts linked to housing financing, or TR plus 6.17% for other savings accounts;

(2) place an additional 10% of the average aggregate balance of savings account deposits in excess of R$100 million with the Central Bank in an account bearing interest at the SELIC rate; and

(3) 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, in addition to 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 after funds have been left on deposit for at least one calendar month by individuals and not-for-profit entities and 90 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. Central Bank regulations require that we maintain deposits at the Central Bank equivalent in value to approximately 23% of the value of our CDBs, calculated on the basis of our average weekly CDB balance. Of the 23%, 15% must be invested in securities issued by the Brazilian federal government. The remaining 8% is adjusted by the SELIC rate and a cash amount equal to this adjusted value is deposited with the Central Bank. 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, savings accounts and CDBs are guaranteed by the Credit Guarantee Fund, known as FGC, up to R$20,000 per person, in the event of a bank s liquidation.

We issue to other financial institutions Interbank Deposit Certificates, known as CDIs, the trading of which is restricted to the interbanking 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,		
	2000	2001	2002
	(R$ in millions)		
Funding Sources			
Import/export	R$5,102	R$5,106	R$7,741
BNDES/FINAME	5,093	5,831	7,000
Borrowings in foreign currency	172	396	127
Leasing obligations	356	275	443
Capital markets			
Domestic	12,114	14,037	7,633
Euronotes	2,710	3,260	2,077
Debentures	1	–	51
Mortgage-backed securities	728	767	369
Subordinated notes	–	970	3,322
Commercial paper	1,906	3,211	1,884
Other	10	3	14
Total	R$28,192	R$33,856	R$30,661

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 Interamerican Development Bank 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 agencies supplying the funds.

Property, Plant and Equipment

As of December 31, 2002, we owned 1,432 properties and leased 1,836 properties throughout Brazil, and we owned 1 property and leased 7 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, a neighborhood of Osasco near the City of São Paulo in the State of São Paulo, Brazil. Substantially all of our leased property is leased under renewable contracts with terms of an average of ten 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, 2002, there were 143 multiple-service banks providing a full range of commercial banking, consumer finance, investment banking and other services, 23 commercial banks, 23 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 bank 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 two largest Brazilian financial institutions in terms of assets, Banco do Brasil and Caixa Econômica Federal, are government-owned. Each of these public institutions has more extensive branch networks than we do.

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 commercial and individual 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 2000 Banco Itaú increased its presence in southern Brazil through its acquisition of Banestado, a 376 branch institution previously owned by the State of Paraná and, more recently, it purchased Banco BBA-Credinstalt S.A., a bank serving the wholesale market. Banco Santander became the third largest private bank in Brazil in terms of assets through the acquisition in November 2000 of the majority of the voting stock of Banco do Estado de São Paulo S.A., known as Banespa, a bank previously owned by the state of São Paulo which had 571 branches.

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, which we call 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, 2002, foreign banks held approximately 22% 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 40 million credit card holders in Brazil as of December 31, 2002. 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.

We also face competition in the credit card market from companies that issue restricted use cards, known as Private Label cards, which target customers in the same segments of the population that we do.

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 Volkswagen and IBM) and large banks (such as Banco Itaú, Banco Safra, Unibanco, BankBoston and Sudameris). 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 as customers have shifted increasingly away from traditional investment products such as savings accounts and CDBs to mutual funds. 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 - Bradesco Asset Management, 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 the 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, 2002, the Brazilian insurance market consisted of 132 insurance companies of varying sizes. Our primary competitors are the Sul América Group, Itaú Seguros, Porto Seguro, Unibanco, AGF Brasil, Caixa Seguradora and HSBC Seguros, who represent in the aggregate approximately 41.2% of the total net income generated in the market, pursuant to information from the National Insurance Federation, FENASEG. 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, 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; MetLife; Nationwide and ING, 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 52.1% of assets under management in the sector as of December 31, 2002, according to ANAPP.

We believe that the Bradesco brand name, together with our extensive branch network, which as of December 31, 2002 was associated with a network of 5,857 brokers specialized in pension plan products, 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, 2002 Bradesco Capitalização had an estimated 19.6% of the market based on revenues and 22.1% based on provisions, according to SUSEP.

Our primary competitors in the certificated savings plan area are Brasilcap, Banco Itaú, Caixa Econômica Federal, Icatu and Liderança. Offering low-cost products with a high number of drawings for prizes, financial soundness and brand recognition by the clients are the principal competitive factors in this industry.

REGULATION AND SUPERVISION

Principal Financial Institutions

As of December 31, 2002, 14 public sector commercial and multiple-service banks controlled by federal and state governments and 152 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 five 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 provides 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, 2002, private sector financial institutions operating in the Brazilian financial sector included:

- 152 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;
- 23 investment banks engaged primarily in specialized credit operations and securities underwriting and trading; and
- 46 consumer credit companies, 149 securities dealerships, 202 brokerage companies, 65 leasing companies, 18 savings associations and real estate credit companies and 4,964 mutual funds under Central Bank supervision.

The 152 commercial and multiple-service banks operating in Brazil on December 31, 2002 included 70 banks controlled by Brazilian individuals and entities, 57 banks controlled by non-Brazilian persons and entities, and 25 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, currently 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, establishments or transfers of principal places of business or branches (whether 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.

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

- imposes a minimum capital requirement of 11% in lieu of the 8% minimum capital requirement of the Basle Accord;
- requires an additional amount of capital with respect to off-balance sheet interest rate and foreign currency swap transactions; and
- 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.

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:

- 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. Over the last 11 months, the Central Bank has increased the reserve requirements, reducing the liquidity of Brazilian financial institutions in an attempt to reduce the devaluation of the real against the U.S. dollar. 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.

Demand Deposits. Banks and other financial institutions are generally required to deposit 60% of the average daily balance of their demand deposits and certain other amounts in excess of R$44 million with the Central Bank on a non-interest-bearing basis. They are also required to deposit 8% of the average daily balance of their demand deposits and certain other amounts in excess of R$100 million in an account with the Central Bank bearing interest at the SELIC rate.

Time Deposits. Banks and other institutions are generally required to deposit 15% of the average daily balance of their time deposits and of their repurchase agreements that exceed R$30 million with the Central Bank. In addition, they are also required to deposit 8% of the average daily balance of their time deposits and of their repurchase agreements in excess of R$100 million in an account with the Central Bank bearing interest at the SELIC rate.

Savings Accounts. Brazilian financial institutions are generally required to deposit on a weekly basis, an amount in cash equivalent to 20% of the average aggregate balance of savings account deposits during the prior week plus 10% of the portion of the average aggregate balance in excess of R$100 million in an account with the Central Bank bearing interest at TR plus 3% per year for savings accounts linked to housing finance, or TR plus 6.17% for other savings accounts. In addition, a minimum of 65% of the total amount of deposits in saving accounts must be used to finance residential real estate or housing construction. Amounts that can be used to satisfy this requirement include, in addition to direct residential real estate financings, mortgage notes, charged-off residential real-estate loans and certain other financings, all as specified in guidance issued by the Central Bank.

Foreign Currency and Gold Exposure. 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%, the financial institution must hold additional capital at least equivalent to 100% of the exposure.

Other Compulsory Deposit Requirements. In the past the Central Bank has imposed on other types of transactions certain compulsory deposit requirements that are no longer in effect, and could reimpose these requirements or impose similar restrictions in the future. For more information on Central Bank restrictions, see Item 3. Key Information - Risk Factors - Risks Relating to Bradesco and the Brazilian Banking Industry.

Asset Composition Requirements

Brazilian financial institutions may not allocate more than 25% 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 (either through direct loans or through 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, the Brazilian foreign exchange market is divided into two segments, the commercial rate exchange market (which we call the Commercial Market) and the floating rate exchange market (which we call the Floating Market). The Commercial Market is reserved primarily for foreign trade transactions and transactions that generally require registration with the Central Bank. The Floating Market applies to all transactions to which the Commercial Market does not apply. Only banks, brokers, dealers and the Central Bank have access to the Commercial Market, whereas the Floating Market is open to all institutions authorized by the Central Bank. Since 1997, the difference between the exchange rates in these two markets has not been significant.

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 foreign exchange markets. 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 commercial and floating rate exchange markets up to a certain proportion of the amount of their adjusted shareholders equity. If a bank s combined long position in the commercial and floating-rate exchange markets is more than U.S.$6.0 million on any given day, then the bank is required to deposit the excess amount with the Central Bank.

Interest Rates

On May 29, 2003, the Brazilian Congress promulgated an amendment to the Brazilian Constitution that among other things, removed the Constitution s previously unimplemented 12% ceiling on interest rates.

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:

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

Loans the collection of which is doubtful are classified as follows, based on the percentage of expected loss:

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. If a loan becomes past due it is reviewed monthly.

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

Number of Days Past Due(1)	Maximum Classification
15 to 30 days	B
31 to 60 days	C

61 to 90 days	D
91 to 120 days	E
121 to 150 days	F
151 to 180 days	G
More than 180 days	H

(1) The period should be doubled in the case of loans with maturity in excess of 36 months.

Financial institutions are required to determine, on a monthly basis, whether any loans must be reclassified as a result of these maximum classifications, 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 6 months after it is ranked 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. Such 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 60 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 60 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 60 days after falling into arrears. We were required to make a 100% provision for export financings 20 days (in case of pre-export financing) and 30 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 60 days overdue.

During the period when a loan was due and unpaid, we only recognized interest as income for the first 60 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 new 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 systems 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 clearing houses 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 testing 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 the amounts over R$5,000.00 can no longer be covered by checks, but must instead be covered by direct electronic transfers between institutions or previously deposited funds.

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

Intervention in and Administrative Liquidation of Financial Institutions

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 90 days, or if initiated, the Central Bank determines that the pace of the liquidation may harm the institution s creditors.

As a consequence of administrative liquidation:

- 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.

Program for Consolidation of the Financial Sector

In 1997 and 1998, the Brazilian government issued several rules designed to facilitate consolidation of the Brazilian financial industry. Under these rules:

- the Central Bank may determine the transfer of control or the corporate restructuring of financial institutions;and
- financial institutions may obtain funds under a special credit facility known as PROER to acquire the control or the assets and obligations of other banks.

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 regulations applicable to them.

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.

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. Foreign investors without specific authorization may also 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; and
(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.

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) and (d) 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.

In June 11, 2003, the Central Bank passed new regulations requiring financial institutions to keep records and inform it of any cash deposits or cash withdrawals in amounts above R$100,000.

Change of Independent Accountants

All financial institutions must:

- be audited by independent accountants; and
- replace their independent accounting firm responsible for auditing their financial statements for Brazilian regulatory purposes at least every five consecutive fiscal years. A former accountant can be rehired three complete fiscal years after its prior service.

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

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 the Brazilian Corporate Law Method. 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 independent auditors 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. Under these new 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 new regulation, financial institutions which have an adjusted net worth in excess of R$200 million 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. The audit committee must be fully operational by December 31, 2003. The audit committee will be responsible for recommending to management which independent auditors 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 auditors, among other things. After December 31, 2003, we will be required to publish a report of the audit committee along with our financial statements. If we make the fiscal council into a permanent entity through shareholder vote, it could function as the audit committee.

Asset Management Regulation

Asset management is regulated by the CMN, Central Bank and CVM.

Financial Investment Funds, which are funds that predominantly hold fixed income assets, are subject to the regulation and supervision of the Central Bank and the CMN. Financial Investment Funds may be managed by multiple service banks, commercial banks, savings banks, investment banks, credit, finance and investment companies, brokerage and dealer companies within certain operational limits. CMN regulations provide that institutions must segregate their asset management activities from their other activities.

Financial Investment Funds may invest up to 49% of their assets in equity securities and interests in investment funds regulated and supervised by the

CVM.

Financial Investment Funds may not:

- have more than 10% of their net worth invested in securities of a single issuer that is not a financial institution, its controlling shareholders, subsidiaries and affiliates or of a federal, state, municipality or other investment fund; and
- have more than 20% of their net worth invested in securities issued by a financial institution (including the fund manager), its controlling shareholders, subsidiaries and affiliates.

Variable income mutual funds, which we refer to as Variable Income Funds, are subject to the authorization, regulation and supervision of the CVM. Variable Income Fund portfolios may include:

- fixed income securities which are registered in trading and clearance systems administered by the CVM or the Central Bank, subject to a maximum of 49% of net worth;
- shares of companies registered with the CVM;
- securities whose distribution has been registered with the CVM;
- debt instruments issued by the national treasury, the Central Bank or financial institutions;
- quotas of financial investment funds and investment funds abroad;
- positions in the organized derivative markets relating to contracts involving shares and interest rates;
- share loan transactions; and
- repurchase transactions.

These Variable Income Funds may not:

- have more than 10% of their net worth in debt securities issued by the fund manager or any related party; or
- invest in equity securities issued by the fund manager or any related party.

On July 5, 2002, the Central Bank and the CVM entered into an agreement to coordinate their efforts in exercising joint supervision of the financial and capital markets, jointly preparing regulations, including fund regulations that are expected to have cross-market impact, and exchanging information on activities in the financial and capital markets.

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 Bolsa de Mercadorias e Futuros 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 it 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, Miami, 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 we need the prior approval of the Central Bank 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%; and
- 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 2% of premiums paid in the case of private health insurance and at a rate of 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 June 2002, the Brazilian Senate approved an extension of the CPMF tax regime until December 31, 2004. The CPMF has been levied at a rate of 0.38% since 2002 and is scheduled to decrease to 0.08% in 2004. However, there is a proposed constitutional amendment that would change this temporary contribution into a permanent tax.

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

Income Tax and Social Contribution on Profits

Federal income tax, known as IRPJ, includes two components, a federal income tax 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 and an additional income tax. As of December 31, 2002, 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. Prior law provided that, as of January 1, 2003, the rate of the Social Contribution Tax would be reduced to 8%. However, starting January 1, 2003, the federal government decided to maintain the Social Contribution Tax rate at 9%. 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. 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 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. Such interest is limited to the amount that would have been payable under the federal government s long-term interest rate as determined by the Central Bank from time to time 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 the Corporate Law Method; 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 the Corporate Law Method.

The deductibility is limited to the product of (x) the long-term interest rate disclosed by the Brazilian government, known as TJLP, times (y) the corporation s net worth calculated in accordance with the Corporate Law Method. 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 carried out on a stock exchange; or
- 15% if the transaction is carried out outside of a stock exchange.

As of January 1, 2002, the 10% tax rate applicable to transactions carried out on a Brazilian stock exchange increased from 10% to 20%.

Gains realized on any disposition of preferred shares in Brazil by non-Brazilian holders who are resident in a jurisdiction that under Brazilian law is deemed to be a tax haven (in other words, a country that imposes income tax at a rate of less than 20%) 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 taxable 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 CMN Resolution 2,689.

If neither of the above criteria is met, non-Brazilian holders are taxed at the same rates as Brazilian residents.

PIS and COFINS

Two federal taxes, the Programa de Integração Social contribution, known as PIS, and the Contribuição para Financiamento de Seguridade Social, known as COFINS, are imposed on our gross revenues at a combined rate of 3.65%. After September 1, 2003, this combined rate will increase to 4.65% for financial institutions. Nonetheless, many revenues, such as dividends, equity pick up, 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.

PIS is charged based on the revenues of entities incorporated or authorized to operate in Brazil. In November 1999, the calculation base was expanded from revenues to gross revenues. Brazilian laws authorize certain adjustments to the calculation base of those taxes depending on the business segment and on other aspects. Until February 1999, PIS was imposed at a rate of 0.75%. Since that date the rate has been 0.65%.

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 will increase 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 net profits. A committee of the Brazilian Congress is currently considering a proposed constitutional amendment to change COFINS into a non-cumulative tax credit system.

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 and supervisor 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 the Private Insurance Superintendency, which we call SUSEP. The SUSEP is responsible for implementing and overseeing the CNSP s policy and ensuring compliance with this policy by insurance companies, insurance brokers and insured persons. Insurance companies require government approval to operate, as well as specific approval from the SUSEP to offer each of their products. Insurance companies may sell policies only through qualified brokers.

Insurance companies must set aside reserves, funds and provisions in accordance with CNSP criteria. The investments backing up the reserves 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 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.

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.

Brazil s federal government has announced the privatization of IRB. The date of the privatization auction has not been set. Insurance companies must reinsure an amount with IRB equal to the amount of their liabilities that exceeds the applicable technical limit on liabilities and, in the case of co-insurance, the quota established by the CNSP.

Insurance companies must file unaudited monthly and audited quarterly, semiannual and annual reports with the 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 Supplemental Health Council.

Prior to December 31, 2001, insurance companies were able to offer private health assistance plans. Subsequent to that date, only operators of private health assistance plans may offer such plans. We created Bradesco Saúde S.A. 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 National Council of Private Insurance 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 provisions as collateral for their liabilities.

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, 2000			**December 31, 2001**			**December 31, 2002**		
	Average balance	**Interest**	**Average yield/rate (%)**	**Average balance**	**Interest**	**Average yield/rate (%)**	**Average balance**	**Interest**	**Average yield/ra (%)**
				(R$ in millions, except %)					
Interest-earning assets (1)									
Loans	R$31,621	R$7,705	24.4%	R$40,928	R$11,672	28.5%	R$49,590	R$17,025	34.
Federal funds sold and securities purchased under agreements to resell	9,657	1,407	14.6	10,569	2,263	21.4	10,322	2,947	28
Trading assets	17,532	3,442	19.6	19,785	3,833	19.4	19,537	3,595	18
Available for sale securities (2)	2,839	279	9.8	3,793	352	9.3	3,045	487	16
Securities held to maturity	-	-	-	-	-	-	5,295	1,954	36
Interest-bearing deposits in other banks	1,607	148	9.2	1,996	219	11.0	2,154	296	13
Other interest-earning assets									
Central Bank compulsory deposits	3,135	324	10.3	3,580	299	8.4	8,149	2,058	25

	December 31, 2000			December 31, 2001			December 31, 2002		
Other assets	851	53	6.2	167	14	8.4	340	32	9
Total interest-earning assets	67,242	13,358	19.9	80,818	18,652	23.1	98,432	28,394	28
Non-interest-earning assets[3]									
Cash and due from banks	1,145	–	–	1,630	–	–	2,746	–	
Central Bank compulsory deposits	2,559	–	–	2,756	–	–	3,371	–	
Available for sale securities	2,220	–	–	2,735	–	–	1,772	–	
Non-performing loans[4]	1,301	–	–	2,193	–	–	2,282	–	
Allowance for loan losses	(2,200)	–	–	(2,599)	–	–	(3,360)	–	
Investment in unconsolidated companies and other investments	437	–	–	841	–	–	552	–	
Premises and equipment	2,240	–	–	2,473	–	–	3,176	–	
Intangibles assets	561	–	–	834	–	–	2,340	–	
Other assets	15,770	–	–	9,617	–	–	12,136	–	
Total non-interest-earning assets	24,033	–	–	20,480	–	–	25,015	–	
Total assets	R$91,275	R$13,358	14.6%	R$101,298	R$18,652	18.4%	R$123,447	R$28,394	23.
Interest-bearing liabilities									
Deposits from banks									
Domestic[3]	R$627	R$74	11.8%	R$176	R$24	13.6%	R$223	R$36	16.
Total	627	74	11.8	176	24	13.6	223	36	16
Savings deposits									
Domestic[3]	17,193	1,311	7.6	17,386	1,374	7.9	19,033	1,585	8
International[5]	87	7	8.0	100	7	7.0	–	–	
Total	17,280	1,318	7.6	17,486	1,381	7.9	19,033	1,585	8
Time deposits									
Domestic[3]	9,845	1,439	14.6	11,223	1,776	15.8	18,392	2,936	16
International[5]	1,183	69	5.8	1,374	100	7.3	2,955	252	8
Total	11,028	1,508	13.7	12,597	1,876	14.9	21,347	3,188	14
Federal funds purchased and securities sold under agreements to	9,543	1,366	14.3	12,278	1,921	15.6	9,670	2,051	21

	December 31, 2000			December 31, 2001			December 31, 2002		
repurchase									
Borrowings									
Short-term									
International[5]	6,266	806	12.9	8,751	1,928	22.0	10,137	3,975	39
Total	6,266	806	12.9	8,751	1,928	22.0	10,137	3,975	39
Long-term									
Domestic[3]	4,542	786	17.3	5,489	946	17.2	7,324	1,716	23
International[5]	3,161	654	20.7	4,300	1,083	25.2	5,093	2,376	46
Total	7,703	1,440	18.7	9,789	2,029	20.7	12,417	4,092	33
Total interest-bearing liabilities	52,447	6,512	12.4	61,077	9,159	15.0	72,827	14,927	20
Non-interest-bearing liabilities									
Demand deposits									
Domestic(3)	6,790	-	-	7,417	-	-	9,678	-	
International[5]	25	-	-	47	-	-	182	-	
Total	6,815	-	-	7,464	-	-	9,860	-	
Other non-interest-bearing liabilities	25,278	-	-	23,752	-	-	30,529	-	
Total non-interest-bearing liabilities	32,093	-	-	31,216	-	-	40,389	-	
Total liabilities	84,540	6,512	7.7	92,293	9,159	9.9	113,216	14,927	13
Shareholders equity	6,596	-	-	8,861	-	-	10,015	-	
Minority interests in consolidated subsidiaries	139	-	-	144	-	-	216	-	
Total liabilities and shareholders equity	R$91,275	R$6,512	7.1%	R$101,298	R$9,159	9.0%	R$123,447	R$14,927	12.

(1) Primarily denominated in reais.

(2) We calculate the average balance and the interest on available for sale securities based upon the historical average of the amortized cost of investments.

(3) Denominated in reais.

(4) In 2000, includes an increase in average non-performing loans as a result of change in policy for the charge-off of loans. See --Credit Operations--Charge-offs.

(5) 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, 2001/2000			December 31, 2002/2001		
	Increase (decrease) due to changes in					
	Average Volume	Average yield/rate	Net change	Average Volume	Average yield/rate	Net change
	(R$ in millions)					
Interest-earning assets						
Loans	R$2,513	R$1,454	R$3,967	R$2,727	R$2,626	R$5,353
Federal funds sold and securities purchased under agreements to resell	143	713	856	(54)	738	684
Trading assets	437	(46)	391	(48)	(190)	(238)
Available for sale securities	89	(16)	73	(80)	215	135
Securities held to maturity[1]	–	–	–	967	987	1,954
Interest-bearing deposits in other banks	40	31	71	18	59	77
Central Bank compulsory deposits	42	(67)	(25)	680	1,079	1,759
Other assets	(53)	14	(39)	16	2	18
Total interest-earning assets	3.211	2,083	5,294	4,226	5,516	9,742
Interest-bearing liabilities						
Deposits from banks						
Domestic	(60)	10	(50)	7	5	12
Total	(60)	10	(50)	7	5	12
Savings deposits						
Domestic	15	48	63	135	76	211
International	1	(1)	–	(7)	–	(7)
Total	16	47	63	128	76	204
Time deposits						
Domestic	212	125	337	1,144	16	1,160
International	12	19	31	132	20	152
Total	224	144	368	1,276	36	1,312

	December 31, 2001/2000			December 31, 2002/2001		
Federal funds purchased and securities sold under agreements to repurchase	419	136	555	(462)	592	130
Borrowings						
Short-term						
International	401	721	1,122	346	1,701	2,047
Total	401	721	1,122	346	1,701	2,047
Long-term						
Domestic	163	(3)	160	371	399	770
International	268	161	429	230	1,063	1,293
Total	431	158	589	601	1,462	2,063
Total interest-bearing liabilities	R$1,431	R$1,216	R$2,647	R$1,896	R$3,872	R$5,768

(1) We began treating securities as securities held to maturity in 2002.

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.

	2000	2001	2002
	(R$ in millions, except %)		
Average balance of interest-earning assets	R$67,242	R$80,818	R$98,432
Average balance of interest-bearing liabilities	52,447	61,077	72,827
Net interest income(1)	R$6,846	R$9,493	R$13,467
Interest rate on the average balance of interest-earning assets	19.9%	23.1%	28.8%
Interest rate on the average balance of interest-bearing liabilities	12.4	15.0	20.5
Net yield on interest-earning assets(2)	7.5	8.1	8.3
Net interest margin(3)	10.2%	11.7%	13.7%

(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.

	2000	2001	2002

	(R$ in millions, except % and per share information)		
Net income	R$1,799	R$2,270	R$2,142
Average total assets	91,275	101,298	123,447
Average shareholders equity	R$6,596	R$8,861	R$10,015
Net income as a percentage of average total assets	2.0%	2.2%	1.7%
Net income as a percentage of average shareholders equity	27.3	25.6	21.4
Average shareholders equity as a percentage of average total assets	7.2%	8.7%	8.1%
Dividends payout ratio per class of shares[1]			
Preferred	0.43	0.37	0.44
Common	0.43	0.37	0.44

(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 December 31, 2000, 2001 and 2002. The amounts below exclude our investments in unconsolidated companies. For additional information on our equity investees, see note 9 to our consolidated financial statements included in Item 18. The amounts also exclude our compulsory holdings of Brazilian government securities, as required by the Central Bank. For more information on our compulsory holdings, see note 3 to our consolidated financial statements included in Item 18. We state trading assets and available for sale securities at market value. See notes 2(e), 2(f), 2(g), 2(h), 4, 5 and 6 to our consolidated financial statements included in Item 18 for a further description of our treatment of trading assets and available for sale securities and securities held to maturity.

	December 31,		
	2000	**2001**	**2002**
	(R$ in millions, except %)		
Trading securities			
Brazilian government securities	R$4,543	R$6,284	R$6,920
Mutual funds	12,625	16,542	15,415
Derivative financial instruments	617	1,508	282
Others	-	-	166
Total	R$17,785	R$24,334	R$22,783
Trading securities as a percentage of total assets	19.4%	22.5%	17.5%
Available for sale securities			
Brazilian government securities	R$108	R$212	R$1,222
Brazilian securities issued abroad	258	633	143
State and municipal securities	56	46	-
Corporate debt securities	858	408	849
Bank debt securities	1,714	2,121	125
Equity securities in public companies	2,035	2,118	2,427

	December 31,		
Total	R$5,029	R$5,538	R$4,766
Available for sale securities as a percentage of total assets	5.5%	5.1%	3.7%
Held to maturity securities			
Brazilian government securities	–	–	R$2,929
Brazilian securities issued abroad	–	–	1,072
Total	–	–	R$4,001
Held to maturity securities as a percentage of total assets	–	–	3.1%

Maturity Distribution

The following table sets forth the maturity dates and weighted average yield, as of December 31, 2002, of our trading securities, available for sale securities and securities held to maturity. As of December 31, 2002 we held no tax-exempt securities in our portfolio.

	December 31, 2002											
	Due in 1 year or less		Due after 1 year to 5 years		Due after 5 years to 10 years		Due after 10 years		Unspecified Maturity		Total	
	Average yield		Average yield		Average yield		Average yield		Average yield		Average yield	
	R$	%	R$	%	R$	%	R$	%	R$	%	R$	%
	(R$ in millions, except %)											
Trading bonds and securities:												
Brazilian government securities	R$4,862	–	R$1,266	–	R$651	–	R$141	–	–	–	R$6,920	–
Fixed rate	603	24.8%	83	27.0%	–	–	–	–	–	–	686	24.4%
Floating rate	3,994	19.1	1,183	19.0	651	19.2%	141	12.5%	–	–	5,969	19.0
Floating rate – bills of exchange	265	3.3	–	–	–	–	–	–	–	–	265	3.3
Others	88	–	59	–	4	–	15	–	–	–	166	–
Floating rate – bills of exchange	88	31.4	59	40.3	4	20.1	15	13.1	–	–	166	32.1
Mutual Funds[(1)]	–	–	–	–	–	–	–	–	R$15,415	–	15,415	–
Floating rate	–	–	–	–	–	–	–	–	15,415	17.5%	15,415	17.5
Derivative financial instruments	–	–	–	–	–	–	–	–	282	–	282	–
Floating rate	–	–	–	–	–	–	–	–	282	–	282	–
	4,950	–	1,325	–	655	–	156	–	15,697	–	22,783	17.9

December 31, 2002

Total trading bonds and securities												
Available for sale securities at market value:												
Brazilian government securities	–	–	769	–	381	–	72	–	–	–	1,222	–
Floating rate	–	–	769	19.0	381	20.4	72	21.3	–	–	1,222	20.9
Brazilian sovereign bonds issued abroad	–	–	–	–	–	–	143	–	–	–	143	–
Floating rate – bills of exchange	–	–	–	–	–	–	143	68.0	–	–	143	68.0
Bonds issued by non-financial institutions	124	–	218	–	363	–	144	–	–	–	849	–
Floating rate	124	20.4	218	19.6	363	24.1	144	16.1	–	–	849	21.0
Bonds issued by financial institutions	80	–	10	–	–	–	35	–	–	–	125	–
Floating rate	–	–	10	36.0	–	–	35	36.0	–	–	45	36.0
Floating rate – bills of exchange	80	22.5%	–	–	–	–	–	–	–	–	80	22.5
Securities portfolio (open companies)	–	–	–	–	–	–	–	–	2,427	–	2,427	–
Total available for sale securities	204	–	997	–	744	–	394	–	2,427	–	4,766	21.3
Total securities held to maturity, at amortized cost:												
Brazilian government securities	–	–	471	–	192	–	2,266	–	–	–	2,929	–
Floating rate	–	–	–	–	192	31.9	2,266	33.7	–	–	2,458	33.2
Floating rate – bills of exchange	–	–	471	37.8%	–	–	–	–	–	–	471	37.8
Brazilian sovereign bonds issued abroad	–	–	–	–	960	–	112	–	–	–	1,072	–
Floating rate – bills of exchange	–	–	–	–	960	68.0%	112	68.0%	–	–	1,072	68.0

	December 31, 2002											
Total securities held to maturity	–	–	471	–	1,152	–	2,378	–	–	–	4,001	37.0%
Total	R$5,154	–	R$2,793	–	R$2,551	–	R$2,928	–	R$18,124	–	R$31,550	–

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

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

	At fair value		Amortized Cost	
	Trading	Available for sale	Securities held to maturity	Total
		(R$ in millions)		
December 31, 2002				
Brazilian currency (*reais*)	R$22,352	R$4,051	R$2,458	R$28,861
Indexed to foreign currency[1]	–	–	471	471
Denominated in foreign currency [1]	431	715	R$1,072	2,218
December, 2001				
Brazilian currency (*reais*)	21,976	4,332	–	26,308
Indexed to foreign currency[1]	2,358	–	–	2,358
Denominated in foreign currency[1]	–	1,206	–	1,206
December 31, 2000				
Brazilian currency (*reais*)	16,301	4,401	–	20,702
Indexed to foreign currency[1]	R$1,484	–	–	1,484
Denominated in foreign currency[1]	–	R$628	–	R$628

(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,					
2000		2001		2002	
R$	% of total compulsory deposits	R$	% of total compulsory deposits	R$	% of total compulsory deposits

	December 31,					
	(R$ in millions, except %)					
Total deposits						
Non-interest-earning[1]	R$2,235	42.4%	R$3,503	42.6%	R$3,956	24.6%
Interest-earning[2]	3,036	57.6	4,729	57.4	12,101	75.4
Total	R$5,271	100.0%	R$8,232	100.0%	R$16,057	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,				
	1998	1999	2000	2001	2002
	(R$ in millions)				
Type of credit operations					
Commercial					
Industrial and others	R$10,124	R$11,336	R$16,275	R$18,142	R$20,157
Import financing	2,052	1,443	1,504	1,475	1,291
Export financing	1,787	2,814	4,566	5,160	7,863
Leasing	1,932	2,025	2,028	1,667	1,506
Real estate construction financing	681	612	545	543	427
Individuals					
Overdraft	418	467	647	1,199	1,033
Residential mortgage loans	2,357	2,109	1,625	1,246	1,200
Other financing [1]	1,487	2,259	5,491	6,985	8,269
Credit card	602	889	655	973	1,164
Rural credit	2,140	2,256	2,910	2,959	3,922
Foreign currency loans	899	1,078	1,499	2,388	3,151
Public Sector	3	3	5	–	–
Non-performing loans[2]	507	728	1,689	2,257	2,341
Allowance for loan losses[2]	(1,178)	(1,783)	(2,345)	(2,941)	(3,455)
Loans, net	R$23,811	R$26,236	R$37,094	R$42,053	R$48,869

(1) Primarily includes loans for the acquisition of vehicles and direct consumer financing.
(2) In 2000, includes an increase of R$403 million in non-performing loans, and the equivalent increase in the allowance for loan losses, as a result of the change in our policy for the charge-off of loans.

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 is primarily 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.

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

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 77% 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.

Non-performing loans – we classify all loans that are 60 days or more overdue as non-performing and subject to review for impairment in accordance with SFAS 114, Accounting for Impairment of a Loan by a Creditor, as amended by SFAS 118. We cease accruing interest on them once they are classified as non-performing. We estimate the value of non-performing 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 value as determined above. We periodically adjust the allowance for loan losses based on an analysis of the loan portfolio. We take a provision for 100% of the value of our non-performing loans at or prior to their becoming 180 days overdue, depending on their credit rating. Interest on impaired loans is recorded as a reduction in the outstanding balance, and interest income is recognized on a cash basis.

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

Charge-offs

Once a loan is 360 days overdue, we charge it off. Our current policies regarding the charge-off of non-performing loans entered into effect in March 2000. Prior to March 31, 2000, we charged off loan receivables once they were more than 240 days overdue. Accordingly, the new charge-off policy generally results in a delay of an additional 120 days before loans are charged off. Under the policy in effect prior to March 31, 2000, when we charged loans off, we reduced the allowance for loan losses by 100% of the value of the loan and reduced our assets by the same amount. Because the policy change did not change the criteria for establishing an allowance for loan losses with respect to any loan, it did not impact our determination of the adequacy of our allowance for loan losses, which we believe continues to be satisfactory. Because under both the charge off policies in place prior to and subsequent to March 31, 2000 all substantial efforts to collect the loans were or are complete at the time they were or are charged off, we believe that both policies are consistent with U.S. GAAP.

In limited circumstances, under both the previous and the current policies, we may charge off overdue loans before they become the required number of days overdue, if we consider it appropriate to do so. Under both policies, charging off overdue loans prior to the mandated time limit is a measure that we have applied only selectively, such as in the event of the bankruptcy of the debtor. The policy changes that came into effect in March 2000 did not alter our judgment as to what limited circumstances warrant an early charge off.

Under the current policies we carry overdue loans as non-performing loans for 360 days before charging them off. Because under the previous policies we carried them 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.

The following table shows the effect of the change in our charge-off policy on net loans, provision for loan losses, shareholders equity and net income as of December 31, 2000. Because under both policies we took provisions for 100% of the value of loans once they were 240 days overdue, the change in policy did not affect the amount of our net loan balances, provision for loan losses, shareholder s equity or net income.

	December 31, 2000

	December 31, 2000		
	Previous methodology	**Effect of change in charge-off policy**	**Current methodology**
	(R$ in millions)		
Performing loans	R$37,750	-	R$37,750
Non-performing loans	1,286	R$403	1,689
Allowance for loan losses	(1,942)	R$(403)	(2,345)
Loans, net	37,094	-	37,094
Provision for loan losses	1,244	-	1,244
Shareholders equity	7,881	-	7,881
Net income	R$1,799	-	R$1,799

Because the data regarding our non-performing loans, charge-offs and allowance for loan losses subsequent to the change in March 2000 is not directly comparable to the corresponding data calculated previous to the change, we continue to manage loans under the old policy in order to allow us to compare and evaluate historical and current trends in the level of our non-performing loans, charge-offs and allowance for loan losses. For analysis of what our allocation of the allowance for loan losses for 2000 would have been under the charge-off policy in place prior to March 31, 2000, see - Allocation of the Allowance for Loan Losses.

As a result of identical increases in both the allocation for loan losses and the balance of total loans, our ratio of allocation for loan losses to total loans decreased to 5.9% at year-end 2000, whereas under the policy in place prior to March 31, 2000 the ratio would have been 5.0%. Similarly, equal increases in both the allowance for loan losses and the balance of non-performing loans caused our ratio of the allowance for loan losses to non-performing loans to decrease by more under the new policy (to 138.8% at year-end 2000) than would have been the case under the old policy (151.0% at year-end 2000). As a result of the same increases, our ratio of the allowance for loan losses to the sum of non-performing loans and foreclosed assets decreased under the new policy to 123.3% at year-end 2000, whereas under the prior policy the ratio would have been 129.6%. All of the differences result from the arithmetic effect of increasing the numerator and denominator of each ratio by an identical amount. For a tabular presentation comparing the ratios under the old and new charge-off policies, see - Non-performing Loans and Allowance for Loan Losses.

As loans less than 60 days overdue are considered performing under both the prior and the current policies, our calculations of our performing loans and the related allowance for loan losses on performing loans have not been affected. There were no other 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 for the period indicated.

	December 31, 2002									
	Due within 30 days or less	**Due in 31 to 90 days**	**Due in 91 to 180 days**	**Due in 181 to 360 days**	**Due in 1 to 3 years**	**Due after 3 years**	**No stated maturity[2]**	**Total loans, gross**	**Allowance for losses**	**Total**
	(R$ in millions)									
Type of loan										
Commercial										
Industrial and others	R$4,728	R$5,555	R$2,598	R$1,695	R$2,693	R$2,719	R$1,062	R$21,050	R$(1,450)	R$19,600
Import financing	376	267	336	255	47	10	5	1,296	(42)	1,254
Export financing	2,156	3,016	1,754	475	444	17	39	7,901	(95)	7,806
Real estate construction financing	8	17	31	70	219	81	46	472	(53)	419
Leasing	100	193	244	371	558	27	80	1,573	(142)	1,431
Individuals										
Overdraft	846	–	–	–	–	–	330	1,176	(155)	1,021
Residential mortgage loans	44	60	70	188	538	287	157	1,344	(202)	1,142
Other financings[1]	1,057	1,463	1,380	2,215	1,939	27	1,063	9,144	(898)	8,246
Credit cards	–	–	–	–	–	–	1,253	1,253	(82)	1,171
Rural credit	148	295	435	771	729	1,537	38	3,953	(261)	3,692
Foreign currency loans	219	516	424	1,017	901	68	17	3,162	(75)	3,087
Total	R$9,682	R$11,382	R$7,272	R$7,057	R$8,068	R$4,773	R$4,090	R$52,324	R$(3,455)	R$48,869

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

	December 31, 2002							
	Due within 30 days or less	**Due in 31 to 90 days**	**Due in 91 to 180 days**	**Due in 181 to 360 days**	**Due in 1 to 3 years**	**Due after 3 years**	**No stated maturity**	**Total loans, gross**

	December 31, 2002							
	(R$ in millions)							
Types of loans to customer by maturity								
Floating or adjustable rates[1]	R$4,151	R$5,025	R$4,217	R$3,983	R$5,602	R$4,195	R$2,341	R$29,514
Fixed rates	5,531	6,357	3,055	3,074	2,466	578	1,749	22,810
Total by maturity	R$9,682	R$11,382	R$7,272	R$7,057	R$8,068	R$4,773	R$4,090	R$52,324

(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. For a discussion of the effect on asset quality ratios of the change in charge-off policy that we adopted in March 2000, see – Credit Operations – Non-performing Loans – Charge-Offs.

	December 31,					
	1998	**1999**	**2000[1]**	**2000**	**2001**	**2002**
	(R$ in millions, except %)					
Non-performing loans	R$507	R$728	R$1,286	R$1,689	R$2,257	R$2,341
Foreclosed assets, net of reserves	310	234	213	213	192	257
Total non-performing loans and foreclosed assets	817	962	1,499	1,902	2,449	2,598
Allowance for loan losses	1,178	1,783	1,942	2,345	2,941	3,455
Total loans	R$24,989	R$28,019	R$39,036	R$39,439	R$44,994	R$52,324

	December 31,					
Non-performing loans as a percentage of total loans	2.0%	2.6%	3.3%	4.3%	5.0%	4.5%
Non-performing loans and foreclosed assets as a percentage of total loans	3.3	3.4	3.8	4.8	5.4	5.0
Allowance for loan losses as a percentage of total loans	4.7	6.4	5.0	5.9	6.5	6.6
Allowance for loan losses as a percentage of non-performing loans	232.3	244.9	151.0	138.8	130.3	147.6
Allowance for loan losses as a percentage of non-performing loans and foreclosed assets	144.2	185.3	129.6	123.3	120.1	133.0
Net charge-offs for the period as a percentage of the average balance of loans	3.2%	4.6%	3.4%	2.2%	2.9%	4.1%

(1) Non-performing loans calculated in accordance with the charge-off policy prior to March 31, 2000.

We do not have a significant amount of foreign loans. Substantially all 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 6% 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,					
	2000		**2001**		**2002**	
	Loan portfolio	**% of loan portfolio**	**Loan portfolio**	**% of loan portfolio**	**Loan portfolio**	**% of loan portfolio**
	(R$ in millions, except %)					
Industrial						
Food, beverages and tobacco	R$1,773	4.7%	R$2,124	5.0%	R$2,769	5.5%
Electric and electronic, and communication equipment	444	1.2	609	1.4	545	1.1
Chemicals and pharmaceuticals	1,546	4.0	1,852	4.3	1,671	3.3
Civil construction	542	1.4	763	1.8	1,004	2.0
Basic metal industries	1,474	3.8	1,710	4.0	2,438	4.9

	December 31,					
Textiles, clothing and leather goods	857	2.3	854	2.0	1,163	2.3
Manufacturing of machinery and equipment	676	1.8	936	2.2	1,049	2.1
Paper, paper products, printing and publishing	1,197	3.1	1,270	3.0	1,586	3.2
Automotive	744	2.0	1,003	2.3	1,060	2.1
Non-metallic minerals	170	0.5	458	1.1	222	0.4
Rubber and plastic	365	1.0	463	1.1	484	1.0
Information technology and office equipment	63	0.2	68	0.2	95	0.2
Wood and wood products, including furniture	360	1.0	380	0.9	449	0.9
Extractive	594	1.6	328	0.8	355	0.7
Petrochemicals	292	0.8	199	0.5	78	0.2
Other manufacturing industries	1,646	4.4	1,777	4.1	1,794	3.6
Subtotal	12,743	33.8	14,794	34.7	16,762	33.5
Individuals						
Consumer loans	6,793	18.0	9,157	21.4	10,466	20.9
Residential mortgage loans	1,625	4.3	1,246	2.9	1,200	2.4
Lease financing	692	1.8	231	0.5	103	0.2
Subtotal	9,110	24.1	10,634	24.8	11,769	23.5
Real Estate						
Construction	545	1.4	543	1.3	427	0.9
Commercial						
Retail	2,576	6.8	3,056	7.2	2,919	5.8
Wholesale	2,989	7.9	3,118	7.3	4,971	10.0
Lodging and catering services	163	0.5	219	0.5	218	0.4
Subtotal	5,728	15.2	6,393	15.0	8,108	16.2
Financial services						
Financial institutions	717	1.9	675	1.6	691	1.4
Insurance companies and private pension plans	5	-	4	-	6	-
Subtotal	722	1.9	679	1.6	697	1.4
Services						
Telecommunications	1,295	3.4	1,843	4.3	2,702	5.4
Service providers	901	2.4	1,292	3.0	1,173	2.3
Transportation	1,620	4.3	1,589	3.7	1,710	3.4
Real estate	166	0.4	45	0.1	554	1.1
Health and social services	184	0.5	119	0.3	381	0.8
Leisure	219	0.6	265	0.6	444	0.9
Education	107	0.3	287	0.7	150	0.3

	December 31,					
Public administration and defense	58	0.2	12	–	8	–
Other	1,442	3.8	1,283	3.0	1,176	2.4
Subtotal	5,992	15.9	6,735	15.7	8,298	16.6
Agriculture, livestock, forestry and fishing	2,910	7.7	2,959	6.9	3,922	7.9
Total	R$37,750	100.0%	R$42,737	100.0%	R$49,983	100.0%

Classification of Credit Operations

The following table shows our loan portfolio s classification by risk category as of December 31, 2002, where AA represents minimum credit risk and H represents extremely high credit risk. At December 31, 2002, approximately 91.6% of our loan portfolio was classified between AA and C, representing loans on full accrual basis.

Risk Level	**Loans**	**Non-Performing Loans**	**Allowance for loan losses**
		(R$ in millions)	
AA	R$15,636		
A	19,550		R$134
B	3,708		53
C	9,047		335
D	976	R$383	302
E	119	212	165
F	374	229	410
G	167	191	324
H	406	1,326	1,732
Total	R$49,983	R$2,341	R$3,455

Allowance for Loan Losses

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

	1998	**1999**	**2000**	**2001**	**2002**
			(R$ in millions, except %)		
Balance at the beginning of the period	R$657	R$1,178	R$1,783	R$2,345	R$2,941
Charge-offs					
Commercial					
Industrial and others	(479)	(843)	(493)	(657)	(751)
Import financing	(10)	(16)	(2)	(22)	(5)
Export financing	(14)	(51)	(17)	–	(6)

Construction	(3)	(3)	(1)	(67)	(5)
Leasing	(1)	(4)	(59)	(29)	(31)
Individuals					
Overdraft	(114)	(75)	(15)	(9)	(287)
Real estate	(103)	(128)	(46)	(185)	(26)
Financing[1]	(144)	(176)	(60)	(88)	(900)
Credit card	(114)	(3)	(47)	(4)	(162)
Agricultural	(14)	(77)	(89)	(341)	(145)
Foreign currency loans	(28)	(48)	(70)	(12)	(2)
Total charge-offs[2]	(1,024)	(1,424)	(899)	(1,414)	(2,320)
Recoveries					
Commercial					
Industrial and others	89	86	82	52	69
Import financing	2	1	–	–	2
Export financing	1	2	–	–	1
Construction	3	5	4	3	1
Leasing	3	4	18	16	17
Individuals					
Overdraft	14	12	6	17	83
Real estate	23	17	71	76	5
Financing[1]	54	45	20	38	97
Credit card	7	6	5	33	15
Agricultural	20	5	8	5	1
Foreign currency loans	7	1	3	7	–
Total recoveries	223	184	217	247	291
Net charge-offs[2]	(801)	(1,240)	(682)	(1,167)	(2,029)
Provision for loan losses	1,322	1,845	1,244	1,763	2,543
Balance at the end of the period[2]	R$1,178	R$1,783	R$2,345	R$2,941	R$3,455
Net charge-offs during the period as a percentage of average loans outstanding	3.2%	4.6%	2.2%	2.9%	4.1%

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

(2) In 2000, includes a reduction of R$403 million in charge-offs, and an equivalent increase in the allowance for loan losses, as a result of the change in our policy for the charge-off of loans.

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

	2000	2001	2002	2001/2000	2002/2001
	(R$ in millions)				
Provision for loan losses	R$1,244	R$1,763	R$2,543	41.7%	44.2%
Loan charge-offs[1]	(899)	(1,414)	(2,320)	57.3	64.1
Loan recoveries	217	247	291	13.8	17.8
Net charge-offs[1]	R$(682)	R$(1,167)	R$(2,029)	71.1%	73.9%
Provision for loan losses[2]	3.9%	4.3%	5.1%		

(1) In 2000, includes a reduction of R$403 million as a result of the change in our policy for the charge-off of loans.

(2) 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, 1998			December 31, 1999		
	Allocated allowance	Allocated allowance as a percentage of total loans[1]	Loan category as a percentage of total loans[1]	Allocated allowance	Allocated allowance as a percentage of total loans[1]	Loan category as a percentage of total loans[1]
	(R$ in millions, except %)					
Type of loans						
Commercial						
Industrial and others	R$483	2.0%	41.4%	R$779	2.9%	41.5%
Import financing	21	0.1	8.4	13	–	5.3
Export financing	31	0.1	7.3	11	–	10.3
Construction financing	45	0.2	2.8	22	0.1	2.2
Leasing	238	1.0	7.9	311	1.1	7.4
Individuals						
Overdraft	6	–	1.7	3	–	1.7
Real estate	146	0.6	9.6	199	0.8	7.7
Financing [2]	84	0.3	6.0	90	0.3	8.3
Credit card	33	0.1	2.5	64	0.2	3.3
Agricultural	50	0.2	8.7	191	0.7	8.3
Foreign currency loans	41	0.2	3.7	100	0.4	4.0
Total	R$1,178	4.8%	100.0%	R$1,783	6.5%	100.0%

	December 31, 2000			December 31, 2001		
	Allocated allowance	Allocated allowance as a percentage	Loan category as a percentage	Allocated allowance	Allocated allowance as a percentage	Loan category as a percentage

	December 31, 2000			December 31, 2001		
		of total loans(1)	of total loans(1)		of total loans(1)	of total loans(1)
	(R$ in millions, except %)					
Type of loans						
Commercial						
Industrial and others	R$956	2.5%	43.2%	R$1,671	3.9%	42.6%
Import financing	33	0.1	4.0	45	0.1	3.5
Export financing	35	0.1	12.1	30	0.1	12.1
Construction financing	63	0.2	1.4	27	0.1	1.3
Leasing	139	0.4	5.4	123	0.3	3.9
Individuals						
Overdraft	65	0.2	1.7	92	0.2	2.8
Real estate	198	0.5	4.3	155	0.4	2.9
Financing (2)	279	0.7	14.5	374	0.9	16.1
Credit card	23	0.1	1.7	27	0.1	2.3
Agricultural	430	1.1	7.7	339	0.8	6.9
Foreign currency loans	124	0.3	4.0	58	0.1	5.6
Total	R$2,345	6.2%	100.0%	R$2,941	7.0%	100.0%

	December 31, 2002		
	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Loan category as a percentage of total loans(1)
	(R$ in millions, except %)		
Type of loans			
Commercial			
Industrial and others	R$1,450	2.9%	40.3%
Import financing	42	0.1	2.6
Export financing	95	0.2	15.7
Construction financing	53	0.1	0.9
Leasing	142	0.3	3.0
Individuals			
Overdraft	155	0.3	2.1
Real estate	202	0.4	2.4
Financing (2)	898	1.8	16.5
Credit card	82	0.2	2.3
Agricultural	261	0.5	7.9
Foreign currency loans	75	0.2	6.3
Total	R$3,455	7.0%	100.0%

(1) Excludes non-performing loans.

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

The table below sets forth what the allocation of the allowance for loan losses for 2000 would have been if our charge-off policy prior to March 31, 2000 had remained in effect throughout 2000. The allowance amount allocated and the loan category are stated as a percentage of total loans.

	Allocation of Allowance for Loan Losses under Previous Charge-off Regulations		
	December 31, 2000		
	Allocated allowance	Allocated allowance as a percentage of total loans (1)	Loan category as a percentage of total loans(1)
	(R$ in millions, except %)		
Type of loans			
Commercial			
Industrial and others	R$800	2.1%	43.2%
Import financing	25	0.1	4.0
Export financing	28	0.1	12.1
Construction financing	47	0.1	1.4
Leasing	114	0.3	5.4
Individuals			
Overdraft	52	0.1	1.7
Real estate	176	0.5	4.3
Financing(2)	230	0.6	14.5
Credit card	20	0.1	1.7
Agricultural	346	0.8	7.7
Foreign currency loans	104	0.3	4.0
Total	R$1,942	5.1%	100.0%

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

For a description of the differences between our current charge-off policy and the policy in effect prior to March 2000, see – Credit Operations and – Regulation and Supervision – Treatment of Overdue Debts.

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,					
	2000		2001		2002	
	Average balance	Average rate	Average balance	Average rate	Average balance	Average rate

	Year ended December 31,					
	(R$ in millions, except %)					
Domestic deposits						
Non-interest-bearing deposits						
Demand deposits	R$6,790	–	R$7,417	–	R$9,678	–
Interest-bearing deposits						
Deposits from banks	627	11.8%	176	13.6%	223	16.1%
Savings deposits	17,193	7.6	17,386	7.9	19,033	8.3
Time deposits	9,845	14.6	11,223	15.8	18,392	16.0
Total interest-bearing deposits	27,665	10.2	28,785	11.0	37,648	12.1
Total domestic deposits	34,455	8.2	36,202	8.8	47,326	9.6
International deposits[1]						
Non-interest-bearing deposits						
Demand deposits	25	–	47	–	182	–
Interest-bearing deposits						
Savings deposits	87	8.0	100	7.0	–	–
Time deposits	1,183	5.8	1,374	7.3	2,955	8.5
Total interest-bearing deposits	1,270	6.0	1,474	7.3	2,955	8.5
Total international deposits	1,295	5.9	1,521	7.0	3,137	8.0
Total deposits	R$35,750	8.1%	R$37,723	8.7%	R$50,463	9.5%

(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.

	December 31, 2002				
	Due in 3 months or less	Due after 3 months to 6 months	Due after 6 months to 1 year	Due after 1 year	Total
	(R$ in millions)				
Domestic deposits					
Non-interest-bearing deposits					
Demand deposits	R$12,837	–	–	–	R$12,837
Interest-bearing deposits					
Deposits from banks	14	R$1	R$9	R$2	26
Savings deposits	20,731	–	–	–	20,731
Time deposits	1,913	1,337	3,371	12,953	19,574

	December 31, 2002				
Total interest-bearing deposits	22,658	1,338	3,380	12,955	40,331
Total domestic deposits	35,495	1,338	3,380	12,955	53,168
International deposits[1]					
Non-interest-bearing deposits					
Demand deposits	537	-	-	-	537
Interest-bearing deposits					
Time deposits	1,707	535	96	290	2,628
Total interest-bearing deposits	1,707	535	96	290	2,628
Total international deposits	2,244	535	96	290	3,165
Total deposits	R$37,739	R$1,873	R$3,476	R$13,245	R$56,333

(1) 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 U.S.$100,000 (or its equivalent), by maturity, as of the date indicated.

	December 31, 2002	
	Domestic Currency	International Currency
	(R$ in millions)	
Maturity within 3 months	R$924	R$1,354
Maturity after 3 months but within 6 months	688	281
Maturity after 6 months but within 12 months	1,575	84
Maturity after 12 months	5,319	289
Total deposits in excess of U.S.$ 100,000	R$8,506	R$2,008

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$17,272 million at December 31, 2002, R$22,357 million at December 31, 2001 and R$19,132 million at December 31, 2000. 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,		
	2000	2001	2002
	(R$ in millions, except %)		
Federal funds purchased and securities sold under agreements to repurchase			
Amount outstanding	R$12,114	R$14,037	R$7,633
Maximum amount outstanding during the period	R$13,655	R$14,037	R$13,361
Weighted average interest rate at period end	13.8%	18.6%	21.1%
Average amount outstanding during period	R$9,543	R$12,278	R$9,670
Weighted average real interest rate	14.3%	15.6%	21.2%
Import and export financing			
Amount outstanding	R$5,102	R$5,106	R$7,741
Maximum amount outstanding during the period	R$5,671	R$7,072	R$10,167
Weighted average interest rate at period end	6.7%	4.0%	2.8%
Average amount outstanding during period	R$4,979	R$5,880	R$7,902
Weighted average real interest rate	8.8%	29.3%	46.4%
Commercial paper			
Amount outstanding	R$1,906	R$3,211	R$1,884
Maximum amount outstanding during the period	R$2,078	R$3,708	R$2,609
Weighted average interest rate at period end	7.2%	4.0%	1.7%
Average amount outstanding during period	R$1,684	R$2,871	R$2,235
Weighted average real interest rate	3.0%	7.1%	13.8%
Other	R$10	R$3	R$14
Total	R$19,132	R$22,357	R$17,272

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

At the end of 1997, in the aftermath of a financial crisis in Asia, Brazil experienced the beginning of an economic crisis brought about by capital flight, pressure on the Brazilian currency and increased annual interest rates. Before the economy could fully recover from the crisis, Russia devalued its currency in August of 1998, and the Brazilian economy deteriorated further as a result of renewed capital flight.

The Brazilian government s measures to mitigate the crisis were unsuccessful, and continued pressure on the currency led the government to devalue the real in January of 1999. The real was devalued by 46.4% against the U.S. dollar during the first half of 1999. The Central Bank raised base interest rates, to approximately 45% in March 1999.

The second half of 1999 brought some improvement in Brazil s economic situation. Base interest rates decreased to approximately 19% in December 1999, and the real declined in value by 1.1% against the U.S. dollar during the second half of 1999. Inflation for the year as measured by the IGP-DI was 20.0%.

The year 2000 saw additional improvement in the economy. Real gross domestic product grew 4.5% during the year and the value of the real relatively remained stable. Inflation fell to 9.8% in 2000, as measured by the IGP-DI. The Central Bank gradually reduced base interest rates to 17.5% at June 30, 2000 and further reduced them to 16.5% at December 31, 2000 and to 15.25% at January 17, 2001.

The growth of the Brazilian economy slowed in 2001, however, 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, as measured by the IGP-DI. 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 from 15.25% to 16.25% at April 18, 2001, to 16.75% on May 23, 2001, to 18.25% at June 20, 2001 and to 19.00% at July 18, 2001.

The growth of the Brazilian economy continued to slow in 2002, as political uncertainty relating to the presidential elections and lower levels of growth of 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, as the real/U.S. dollar selling exchange rate fell from 2.3204 reais per U.S. dollar at December 31, 2001 to 3.5333 reais per U.S. dollar at December 31, 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 by 7.0 percentage points, to 25.00%.

The economy has improved slightly in the first five months of 2003. During this period, the value of the real increased to 2.9656 reais per U.S. dollar at May 31, 2003, compared with 3.5333 reais at December 31, 2002 with the exchange rate reaching a low of 2.8653 reais per U.S. dollar and a high of 3.6623 reais per U.S. dollar. On June 25, 2003, the exchange rate was 2.8559 reais per U.S. dollar. The Central Bank increased the base interest rate from 25.00% to 26.50% at February 19, 2003. The base interest rate remained at 26.50% until June 18, 2003, when the Central Bank decreased it to 26.00%. Inflation for the first five months of 2003 was 5.25%. During the first three months of 2003 GDP increased by 2.0% over the same period in 2002.

The following table shows Brazilian inflation as measured by the IGP-DI, devaluation of the real against the U.S. dollar and the period-end exchange rates and average exchange rates for the periods indicated:

	December 31,		
	2000	2001	2002
	(in R$, except percentages)		
Inflation (IGP-DI)	9.8%	10.4%	26.4%
Devaluation of the real vs. dollar	9.3%	18.7%	52.3%
Period-end exchange rate - U.S.$1.00[1]	R$1.9554	R$2.3204	R$3.5333
Average exchange rate - U.S.$1.00[2]	R$1.8313	R$2.3226	R$2.9461

(1) The real/U.S. dollar exchange rate at June 25, 2003 was R$2.8559.

(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–Fundação Getúlio Vargas and the Central Bank.

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

	December 31,		
	2000	2001	2002
Change in real GDP[1]	4.5%	1.5%	1.5%
Average base interest rates[2]	15.7	19.0	25.0
Average interbank interest rates[3]	15.7%	19.0%	25.0%

(1) Calculated by dividing the real GDP of a period by the real GDP of the same period in 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 (IBGE) and CETIP.

The interbank interest rate has been relatively similar to, and sometimes lower than, the average base interest rate over the past three years, primarily due to the impact of 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 to remain competitive with each other.

Effects of Devaluation and Interest Rates on Net Interest Income

The devaluation of the real affects our net interest income, because a significant amount of our financial assets and liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars. 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. At the same time, we record gains on our monetary assets denominated in or indexed to foreign currencies, such as our dollar-indexed securities and loans, as the interest income from such assets as measured in reais also increases because of the devaluation of the real.

In addition, in periods of high interest rates, such as occurred in certain periods of 1998, 1999 and 2002, 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-yielding liabilities also rise. Changes in volumes of interest-bearing assets and 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.

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

	December 31,		
	2000	**2001**	**2002**
	(R$ in millions)		
Assets			
Cash and due from banks	R$181	R$466	R$1,050
Interest-bearing deposits in other banks	783	1,195	1,548
Federal funds sold and securities purchased under agreements to resell	7,043	5,358	285
Brazilian Central Bank compulsory deposits	-	2,377	943
Trading securities, at fair value	1,484	2,358	431
Available for sale securities, at fair value	628	1,206	715
Securities held to maturity	-	-	1,543
Net loans	8,515	11,633	14,752
Other assets	236	473	193
Total assets	18,870	25,066	21,460
Off-balance sheet accounts - notional value			
Derivatives - long position			
Futures	124	2,299	4,357
Term	-	-	123
Options	-	21	-
Swap	1,818	351	2,714
Total	20,812	27,737	28,654
Liabilities			
Deposits	1,302	1,543	3,165
Federal funds purchased and securities sold			

	December 31,		
under agreement to repurchase	10	95	730
Short-term borrowings	7,018	8,320	9,639
Long-term debt	3,253	5,129	4,487
Others	882	1,024	2,836
Total liabilities	12,465	16,111	20,857
Off-balance sheet accounts - notional value			
Derivatives - short position			
Futures	4,749	5,752	660
Term	-	-	157
Swap	3,371	4,024	4,589
Total	20,585	25,887	26,263
Net exposure	R$227	R$1,850	R$2,391

The balance of our foreign currency-denominated and -indexed assets exceeded the balance of our foreign currency-denominated and -indexed liabilities at December 31, 2000, 2001 and 2002. The excess of foreign currency-denominated and -indexed assets over foreign currency-denominated and -indexed liabilities, 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 those periods.

We have used swap and futures contracts and certain other hedging contracts to minimize the potential impact of currency devaluation. For more information on our use of derivatives for hedging purposes, see notes 2(e), 2(f) and 22 to the consolidated financial statements in Item 18.

Effects of Devaluation and Interest Rates on Lending and Treasury Activities

The general economic crisis which arose at the end of 1997, coupled with the currency devaluation and increases in interest rates that occurred at times between January 1, 1997 and December 31, 1999, caused occasional increases in overdue loans. In response to our customers decreasing ability on average to pay on schedule, we increased our provisions for loan losses from R$1,322 million in 1998 to R$1,845 million in 1999. As the economic situation in Brazil improved during 2000 our borrowers ability to meet their obligations also improved, so that our provisions for loan losses decreased to R$1,244 million in 2000. With the deterioration of the economy in 2001, 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, as a result of a 21.2% increase in the average balance of our loan portfolio and to the declining ability of certain customers to pay on schedule.

Our balance of loans outstanding grew from R$44,994 million at December 31, 2001 to R$52,324 million at December 31, 2002. This 16.3% increase in our lending activities resulted from our efforts to expand our business, our acquisition of Banco Mercantil, BEA, and Banco Cidade in the first half of 2002 and an increase in the difference between the dollar and real. Our lending activities slowed compared to 2001, and we decreased our investments in trading securities, such that the value of our trading assets, at fair value, decreased from R$24,334 million at December 31, 2001, to R$22,783 million at December 31, 2002.

Taxes

Our income tax expense is made up of two components, a federal income tax and the Social Contribution Tax. In turn, the federal income tax includes two components, a federal income tax and an additional income tax. As of December 31, 2002, 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. From May 1, 1999 to January 31, 2000, the rate was 12%. From February 1, 2000, enacted base rate for the Social Contribution Tax on net profits was 8%, with an additional rate of 1% levied until December 31, 2002. On January 1, 2003, the total Social Contribution Tax rate was to be reduced to 8%. However, the government decided to maintain the rate of 9%.

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 - Taxation.

Impact of Recent Important Acquisitions and Joint Ventures on our Future Financial Performance

In December 2000, we entered into a telecommunications joint venture agreement with Unibanco, Portugal Telecom, and two of its affiliates. Pursuant to that agreement, BUS Holding received an initial payment in reais equivalent to U.S.$258 million, of which R$335 million corresponds to our ownership share of BUS Holding. For U.S. GAAP accounting purposes, the R$335 million payment was not reflected in our December 31, 2000 financial statements, as the sale was still subject to regulatory approval at December 31, 2000. It is reflected on our December 31, 2001 financial statements and will continue to be reflected on our financial statements for the next five years. The transaction became final in 2002, with the liquidation of BUS Holding.

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. We anticipate that the agreement with the Postal Service is likely to result in an increase in our revenues and may also produce an increase in our income during the term of the agreement. However, the amount of such potential increases in revenue and income 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.

On January 13, 2002, we acquired control of Banco Mercantil and its controlled companies. On March 31, 2003, we completed the purchase of the minority shareholders shares of Banco Mercantil and converted it into our wholly-owned subsidiary. On May 19, 2003, Banco Mercantil transferred control of its agencies, assets and liabilities to Bradesco in their book value. We anticipate that the acquisition and related transfer of assets and liabilities is likely to result in an increase in our revenues and may also produce an increase in our income. However, the amount of such potential increases in revenue and income are uncertain, and we therefore cannot estimate with confidence the impact of this transaction on our future financial performance. For more information, see Item 4. Information on the Company – The Company – History – Recent Important Acquisitions and Joint Ventures.

On January 24, 2002, we acquired control of BEA at auction for a purchase price of R$182.9 million. On June 10, 2003 BEA transferred all of its agencies, assets and liabilities to Bradesco for their book value. We anticipate that the acquisition and related transfer of assets and liabilities is likely to result in an increase in our revenues and may also produce an increase in our income. However, the amount of such potential increases in revenue and income are uncertain, and we therefore cannot estimate with confidence the impact of this transaction on our future financial performance. For more information, see Item 4. Information on the Company – The Company – History – Recent Important Acquisitions and Joint Ventures.

On February 24, 2002 we acquired 100% of the shares of Banco Cidade and its controlled entities. On June 24, 2002, Banco Cidade branches, assets and liabilities were merged into BCN at book value. We anticipate that the acquisition and related transfer of assets and liabilities is likely to result in an increase in our revenues and may also produce an increase in our income. However, the amount of such potential increases in revenue and income are uncertain, and we therefore cannot estimate with confidence the impact of this transaction on our future financial performance. For more information, see Item 4. Information on the Company – The Company – History – Recent Important Acquisitions and Joint Ventures.

On January 10, 2003, we entered into an agreement to acquire 99.99% of the shares of BBV Banco. Upon completion of the transaction on June 9, 2003, BBV Banco became our wholly-owned subsidiary. We anticipate that the acquisition and related transfer of assets and liabilities is likely to result in an increase in our revenues and may also produce an increase in our income. However, the amount of such potential increases in revenue and income are uncertain, and we therefore cannot estimate with confidence the impact of this transaction on our future financial performance. For more information, see Item 4. Information on the Company – The Company – History – Recent Important Acquisitions and Joint Ventures.

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, if we had made other estimates, or if changes in the estimates occur from period to period, it could have had a material impact on our financial condition and results of operations.

Allowance for Loan Losses

We periodically adjust the 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;
- federal 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 credit losses may not be indicative of future charge-offs.

See Item 4. Information on the Company – Selected Statistical Information – Credit Operations – Non-performing Loans and – Allowance for Loan Losses for additional information regarding our practices related to the 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, there is often limited market data to rely upon when estimating the impact of holding a large or mature position. 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 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 the Company 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 a transfer between the three categories indicated above.

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 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 a conclusion as to whether the treatment applied in an analogous situation is appropriate and, finally, in determining which of the possible treatments identified is the most appropriate method of accounting for the transaction. 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 9 to our consolidated financial statements in Item 18.

Results of Operations for Year Ended December 31, 2002 Compared with December 31, 2001

The following table shows the principal components of our net income for 2001 and 2002.

	2001	**2002**	**Percentage Change**
	(R$ in millions, except percentages)		
Net interest income	R$9,493	R$13,467	41.9%
Provision for loan losses	(1,763)	(2,543)	44.2
Non-interest income	9,606	7,963	(17.1)
Non-interest expense	(14,498)	(16,599)	14.5
Income before income taxes and minority interests	2,838	2,288	(19.4)
Income taxes	(550)	(161)	(70.7)
Change in accounting principle[1]	-	27	-

Income before minority interest	2,288	2,154	(5.9)
Minority interest	(18)	(12)	(33.3)
Net income	R$2,270	R$2,142	(5.6)%

(1) For more information, see note 11 to our consolidated financial statement in Item 18.

Net Interest Income

The following table shows the principal components of our net interest income before provision for loan losses for 2001 and 2002.

	2001	**2002**	**Percentage Change**
	(R$ in millions, except percentages)		
Interest income	R$18,652	R$28,394	52.2%
Interest expense	(9,159)	(14,927)	63.0
Net interest income	R$9,493	R$13,467	41.9%

The following table shows how much of our R$3,974 million 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 devaluation of the real) in each case for the year 2002 as compared to the year 2001.

	2002/2001 Increase (decrease)
	(R$ in millions)
Due to changes in average volume of interest - earning assets and interest-bearing liabilities	R$2,330
Due to changes in average interest rates	1,644
Net change	R$3,974

The increase in net interest income in 2002 from 2001 was largely due to the net 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 19.2%) and the average volume of interest-earning assets (which increased by 21.8%) led to an increase in net interest income of R$2,330 million. These increases were primarily due to a 21.2% increase in our average balance of loans outstanding due primarily to our acquisition of Banco Mercantil, Banco Cidade and BEA in 2002, to an average increase of 127.6% of Central Bank compulsory deposits, and to the impact on our transactions indexed to or denominated in foreign currency of the greater devaluation of the real