

# Management Report

**2009 Results**

Todo  
**SEU**



Unidade Relações com Investidores

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## **Dear Shareholders,**

We present the Management Report and the Financial Statements of Banco do Brasil for the year 2009, in conformity with the requirements of the Brazilian Corporate Law, the National Monetary Council (CMN), the Brazilian Central Bank, the Brazilian Securities Commission (CVM) and Banco do Brasil's Bylaws.

### **Macroeconomic Environment**

Over 2009, the effects of anti-cyclic monetary and tax incentives in global scale were revealed through the end of the recession in central and main emerging economies, the second economic group having presented a performance better than the first. Despite of this fact, the world GDP went through its first post-war negative growth rate.

Regarding the Brazilian economy, the strength of its macroeconomic fundamentals and financial system enabled the implementation of timely anti-cyclic measures such as those adopted in the areas of monetary policy (reduction of benchmark interest rate and increase in liquidity in real and dollar) and credit (with highlight to the performance of government banks), at the fiscal level (reduction in burdens and increase in expenditures, including investments) and the new housing program.

Such measures were important for the economic activity recovery to occur already in the second quarter of the year and in a benign inflationary environment, once the variation in IPCA index was slightly below the midpoint of the inflation target for the year (4.5%).

The continued consolidation of institutional and national economic fundamentals made the country more resilient to external adverse shocks. This evaluation was also confirmed by the recent achievement of the investment grade by Moody's, the last of the main risk rating agencies to give such grade to Brazil. The investment grade status granted by Standard&Poor's and Fitch Rating, in 2008, had also occurred in the context of a global crisis.

## Highlights of the period

The year of 2009 was full of challenges to Banco do Brasil and was marked by a strong growth of financial institutions, whether by merger or acquisition. Despite of this, Banco do Brasil, by means of a unique and successful strategy in the market, increased the offer of credit, making several economic sectors stronger.

Whereupon, a profit of R\$ 10.1 billion was recorded, a growth of 15.3% as compared to the previous year. It should be highlighted that over the year Banco do Brasil merged Banco Nossa Caixa and completed a strategic partnership with Banco Votorantim.

In this context, the annualized return on shareholders' equity was 30.7% and the return on assets was 1.7%. As remuneration to shareholders, R\$ 4.1 billion was set aside, being R\$ 1.9 billion as interest on own capital and R\$ 2.2 billion as dividends, maintaining a payout rate at 40%.

The fundings ended the year with a balance of R\$ 498.4 billion, an increase of 37.7% as compared to the previous year. Saving deposits stood out, growing of 37.8% in 12 months.

Backed by this funding basis, the total loan portfolio grew 33.8% in comparison to 2008, and reached a balance of R\$ 300.8 billion. Loans to individuals grew 88.1% in 12 months, as a result of the strategy followed by the Bank in payroll and car loans. BB maintained the delinquency level under control, which stood at levels below those estimated by the Banking Industry (SFN).

It was noted a small decrease in the Operational Efficiency Ratio, which stood at 44% in 2009 and 42.3% in 2008, and in the Coverage Ratio of Personnel Expenses over Revenues from Fees stood at 114.1% in 2009 over 133.2% in 2008. These performances reflect the recent acquisitions and mergers, in a year that BB concentrated its efforts in the integration of these financial institutions.

The social investments of Banco do Brasil attained R\$ 167.2 million, including investments in culture (R\$ 40.7 million), sports (R\$ 63.5 million) and in education programs, generation of employment and income and dissemination of social technologies of Fundação Banco do Brasil (R\$ 63 million).

In relation to business strategy of Regional Sustainable Development (DRS), 4.5 thousand business plans were implemented for 1.1 million families in 4.7 thousand Brazilian municipalities in 2009.

## Outlook

Committed to staying among the leading financial groups in Latin America, Banco do Brasil outlined the following as strategies and goals for the next year:

- become a reference in performance and sustainable business;
- expand market share in loans;
- increase share in the capital market;
- expand product and service distribution capacity;
- refine the management of customers and service delivery channels;
- strengthen its activity in value chains, cooperativism and associativism;
- Increase the international activities and the use of strategic, business and operational strategies in Brazil and abroad;
- develop and refine the management of knowledge and of competencies of employees;
- participate in the Dow Jones Sustainability Index;
- Broaden and strengthen its activities of insurance, pension plan, capitalization, purchasing pools and cards.

## ECONOMIC-FINANCIAL PERFORMANCE

- Banco do Brasil recorded net income of R\$ 10.1 billion in 2009, 15.3% higher than the recorded in the previous year, with an annualized return on shareholders' equity of 30.7%. The earnings per share achieved R\$ 3.95 in the past 12 months (accumulated).
- Assets totaled R\$ 708.5 billion, growth of 35.9% in 12 months, with a return on assets of 1.7% in 2009, against 2% in 2008. This performance allowed the Bank to recover its leadership in assets in the Brazilian Financial System.
- Shareholders' equity reached R\$ 36.1 billion, an increase of 20.6% in 12 months.
- The sum of R\$ 1,6 billion was recorded in the year in non-recurring items, with an impact on net income. Among these effects those that merit special emphasis (disregarding the tax effects and statutory

profit sharing) R\$ 1.1 billion of tax credits and R\$ 900 million of revenue derived from the IPO of Cielo (former Visanet Brasil). Disregarding these effects, recurring net income reached R\$ 8.5 billion in the year.

R\$ million			
<b>Highlights</b>			
<b>Income</b>	<b>2009<sup>1</sup></b>	<b>2008</b>	<b>Δ2008 (%)</b>
Net Income	10,148	8,803	15.3
Income (without extraordinary impacts)	8,506	6,685	27.2
Net income from financial intermed.	63,285	55,641	13.7
Administrative expenses <sup>2</sup>	(23,050)	(16,787)	37.3
Net Income per Share	3.95	3.44	10.8
Return on Assets	1.7	2.0	(0.4) pp
Return on Equity	30.7	32.5	(2.8) pp
<b>Equity</b>	<b>Dec/09</b>	<b>Dec/08</b>	<b>Δ Dec/08 (%)</b>
Assets	708,549	521,273	36.0
Loan portfolio	300,829	224,808	33.8
Borrowings	498,385	361,971	37.7
Assets under Management	370,773	301,756	22.9

<sup>1</sup> Items based on Consolidated Statements, which consider BNC and BV.

<sup>2</sup> It refers to the sum of Others Administrative Expenses and Personnel Expenses.

### **BB in a Glance\***

Customer base: 52.7 million;

Export and import foreign exchange: 31.4% and 25.4% of the market share, respectively;

#### Loans

- Total portfolio: R\$ 300.8 billion;
- Payroll Loan: R\$ 36.5 billion, 34.4% of the market;
- Agribusiness: 58.1% of the National Farm Credit System;
- BNDES Onlending: R\$ 12.3 billion, market leader;
- Foreign Loan Portfolio: R\$ 17.3 billion;

Total funding: R\$ 498.4 billion;

Capitalization: 23.4% of the market (collection);

Revenues from cards: R\$ 88.6 billion;

Internet and Mobile Banking: 9.2 million clients enabled;

Payment of civil servants: 5.7 million officials;

Payment of retirees and INSS' beneficiaries: 6.8 million;

ATM Network: 45.4 thousand ATMs;

Branches Network: 4.9 thousand, distributed in 3.6 thousand Brazilian municipalities and present in 13 countries;

Banking Correspondents Network: 8.8 thousand.

\* Items based on Consolidated Statements, which consider BNC and BV.

- Income from loan operations totaled R\$ 40.5 billion, an increase of 22% in relation to the previous year, which was in line with the increase in the loan portfolio.
- Service revenues reached R\$ 13.5 billion, an increase of 14.4% in relation to 2008.
- The administrative expenses, which comprise personnel expenses and other administrative expenses, totaled R\$ 23.1 billion, which represents growth of 37.3% in 12 months, reflected in the productivity ratios shown in the table below:

<b>Productivity Ratios</b>	<b>2009</b>	<b>2008</b>
Service Revenues/Personnel Expenses	114.1	133.2
Service Revenues/Administr. Expenses	58.6	70.4
Efficiency Ratio - %	44.0	42.3

- Expenses with allowance for loan losses reached R\$ 12.4 billion in the year, growth of 44% in 12 months, accounting for 4.1% of the loan portfolio. This movement reflects the increase of delinquency in the banking sector as a whole resulting from the international financial crisis and the Bank's stringency in the management of its assets. Although the level of default of BB's loans continues at a level below the National Financial System.
- BB's investments amounted to R\$ 1.3 billion in the year, 17.5% above 2008. It is worth to highlight the investments of R\$ 505 million in properties (constructions and renovations), equipment (R\$ 50.7 million), and technology (R\$ 793.7 million).
- BIS ratio of BB, which measures its capacity to leverage assets and face risks inherent to businesses, reached at the end of 2009 13.7%, above the minimum required by the monetary authority.
- It is worth mentioning the Bank announced on January 28<sup>th</sup>, 2009 that it finishing studies aimed at carrying out primary and secondary offering of shares, in at least R\$ 8 billion and at most R\$ 10 billion, in order to reach a minimum free float of 25% required by Novo Mercado and sustain the future growth of the Bank's loan portfolio.

*See further information about the economic-financial performance of BB in the Management Discussion and Analysis Report at BB's website ([www.bb.com.br/ir](http://www.bb.com.br/ir)).*

## SHARE PERFORMANCE

Banco do Brasil's shares (BBAS3) closed the year priced at R\$ 29.70, an increase of 117% in 12 months, against appreciation of 82.7% of Ibovespa. The performance reflects the recovery of the price of shares after a time of instability in the capital market and was leveraged by the admission of foreign capital in the country.

BBAS3 was traded in all Bovespa's sessions, in the daily average amount of R\$ 74.8 million in the year, as opposed to R\$ 93.6 million in the previous year, and continued to be listed in the theoretical portfolios of the major São Paulo Stock Exchange indexes: Ibovespa, Ibrx50, Ibrx, IGC, ISE, and Itag.

At Ibovespa, BBAS3 kept the 12<sup>th</sup> place in the current theoretical portfolio. In relation to ISE, Banco do Brasil was listed in the portfolio for the 5<sup>th</sup> consecutive year of 34 participating companies.

In the second half of 2009, Brazilian Central Bank, the Brazilian Securities Commission - CVM, and afterwards the Securities and Exchange Commission - SEC authorized the registry of the program of Level I American Depositary Receipt - ADR of Banco do Brasil. This program will increase the participation of BB in global capital markets and permit a broader diversification of its shareholding, as well as increase the liquidity of its shares. The official launch of ADR of BB occurred on December 2<sup>nd</sup>, 2009 and by February 10<sup>th</sup>, 2010 3.8 million ADRs were issued.

Owing to its shares' appreciation, BB's market capitalization grew 102.4% and reached R\$ 76.3 billion. The price/book value ratio reached 2.10x, which means that BB shares are being negotiated 2,10 times its equity value. Earnings per share reached R\$ 3.95 in the past 12 months (accumulated).

Banco do Brasil has a policy of paying out 40% of its net income in the form of dividends and interest on capital, at quarterly basis. The amount of R\$ 4.1 billion was allocated to shareholders: R\$ 2.2 billion as dividends and R\$ 1.9 billion as Interest on Own Capital (JCP). The remaining 60% of the net income are used as legal and bylaws reserves and invested in business expansion.

## BUSINESS PERFORMANCE

### Customer Base

- BB closed the year with a base of with 52.7 million customers and 35 million checking accounts (32.8 million individuals checking accounts and 2.2 million business checking accounts), a growth of 0.3% and 15.2% in the quarter and 12 months, respectively. The recent takeover of Banco Nossa Caixa contributed with 5.5 million additional customers and 3.3 million additional checking accounts.
- Of the non-checking account holder clients, 8.5 million are savings account clients, 2.7 million are beneficiaries of INSS (National Institute of Social Security) and 6.1 million consumers of other products and services.
- From 2010 on, BB will adopt the new segmentation model for retail customers. The model to be implemented is based on studies that show potential for increasing the contribution margin of the customer base.

### Service Network

- 17,9 thousand domestic points of service, the largest banking network in Brazil. BB also has 4 Private offices, 74 Estilo branches and around 491 Estilo spaces located in retail network branches. In order to provide special service to middle, large and corporate companies, BB counts on a network of 15 corporate branches and 66 business ones.
- BB's own network abroad comprises 45 points of service in 23 countries. The complementary network comprises 1,372 banking correspondents in 144 countries. BB's network overseas supports the internationalization of Brazilian companies and the performance of international trade operations.
- BB has the largest self-service network in Latin America, with 45.4 thousand ATMs, 8.8 thousand banking correspondents and availability of complementary channels, such as Call Center, Consumer Assistance Services, Ombudsman Dept., Internet's BB Portal and mobile banking, besides terminals shared with Caixa Econômica Federal and Banco de Brasília.

### Transactions and Automated and Virtual Channels

- 16.5 million transactions processed in its Banking Correspondent network. The amount of R\$ 222.1 million in payroll loan operations highlights the importance of this channel to increase the business.
- With 1.1 million electronic payers and 46.8% of market share, Banco do Brasil became leader in DDA (Authorized Direct Debit), solution launched in the 2<sup>nd</sup> half of 2009 aiming to improve convenience for the customers. As the electronic forwarding of DDA does not require the printing of payment slips, the reduction of paper may be significant to environment.
- 92% of the transactions undertaken by BB customers took place through self-service channels, with the ATM network being responsible for 39.6% of such transactions.
- 9.3 million customers registered as internet banking and mobile banking users, which account for 34.8% of transactions performed.
- 1.1 million adhesions to the Short Message Service (SMS), representing 59.4% of increase in relation to the end of 2008. The convenience and promptness provided to customers is the main reason for this growth.
- Launching of the Financial Manager on the cell phone, self-service solution for businesses through the use of cell phones with Wap2 technology.
- 7.3 million customers enabled to carry out transactions via the Call Center. 66.1 million transactions were carried out by means of this channel in the period. The financial volume movement in the Center was R\$ 108.5 billion, of which the following stood out: loan operations to companies and individuals, debt recovery, fraud inhibition and settlement of payment orders, thus showing the importance of this channel to increase the businesses of the Bank.
- BB makes available the e-bidding site ([licitacoes-e.com.br](http://licitacoes-e.com.br)), already established as one of the main electronic purchasing systems used by the public sector. In 2009 52.5 thousand public bids were held totaling R\$ 15.2 billion, an increase of 30.3% as compared to 2008.

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## Loans

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BB's loan portfolio reached R\$ 300.8 billion, an increase of 33.8% in relation to the end of 2008. In the amplified concept, where guarantees granted and private securities are included, BB's loan portfolio attained R\$ 320.7 billion. This progress was due over all by the growth of transactions with individuals, who then represented 30.5% of the total portfolio, as against 21.7% in December 2008.

R\$ million			
<b>Loan portfolio</b>			
	<b>2009</b>	<b>2008</b>	<b>Δ (%)</b>
<b>Brazil</b>	<b>283,560</b>	<b>209,693</b>	<b>35.2</b>
Individuals	91,791	48,811	88.1
Businesses	125,336	97,192	29.0
- SMEs	44,920	34,900	28.7
- Other	80,416	62,292	29.1
Agribusiness	66,434	63,690	4.3
<b>Abroad</b>	<b>17,268</b>	<b>15,115</b>	<b>14.2</b>
<b>Total</b>	<b>300,829</b>	<b>224,808</b>	<b>33.8</b>

Please note that the takeover of Nossa Caixa jointly with the strategic partnership with BV contributed with R\$ 41 billion in the increase in loan operations. These effects provided BB with a significant rise in the credit market, going from 18.3% in 2008 to 20.1% by year-end 2009. Currently, BB is responsible for 1/5 of the country's credit market.

One of the reflexes in the financial crisis that began in 2008 was the rise in delinquency in the National Financial System. In BB, the past due loans over 90 days rose to 3.3% by late 2009, as compared to 2.4% in December 2008, below the market for the whole period. Loans rated at risk levels AA to C accounted for 91.6% of the portfolio, against the 91% verified in the Banking Industry (SFN).

A positive factor was the volume of recovered credits. In 2009 R\$ 2.7 billion were recovered, which previously had been written off as losses, a sum 57% above that of the previous year.

### **Loans to individual customers**

- Vehicle financing portfolio reached R\$ 18.8 billion, an increase of 180.3% in relation to the same prior-year period, already considering R\$ 9.3 billion of the strategic partnership with Banco Votorantim. With the partnership, BB reached a market share of 13.2%.
- Mortgage loans, with specific and own funds, reached R\$ 1.5 billion, including R\$ 854 million regarding operations of Banco Nossa Caixa. Please note that BB concurred with the Government's policy to reduce the housing deficiency and encouragement of civil construction, funding undertakings according to the rules of Programa Minha Casa Minha Vida.

- Payroll loans reached R\$ 36.5 billion in 2009, growth of 107.2% in relation to 2008. In this sum, R\$ 13 billion are included from Banco Nossa Caixa acquisition and strategic partnership with Banco Votorantim. In relation to operations contracted by BB customers, Civil servants were accountable for 85% of the total portfolio, retirees and INSS pensioners were accountable for 7.4% and private enterprise workers for 7.6%. Banco do Brasil is a leader with a 34.4% market share in the activity.
- During 2009 BB reduced its interest rates practiced for loans and personal overdraft accounts, dropping from an average 3.03% in December 2008 to 2.3% by the year end. Besides reducing rates, the Bank encouraged extension of maximum payment terms in a number of credit facilities, expanded the supply of credit to low-risk and good-relationship customers, and also refined its methodology for credit risk rating, which led to business growth.

### **Financing for Companies**

- Operations with working capital lines for micro and small businesses reached R\$ 31.3 billion, an increase of 32.3% as compared to the end of 2008. Highlights are BB Giro Rápido, and BB Giro Empresa Flex, which attained balances of R\$ 6 billion and R\$ 8.4 billion, respectively, in December 2009. Considering medium, large, and corporate companies, the balance was of R\$ 33.9 billion, a 27.7% progress as compared to the same period.
- The portfolio of investment financing operations for micro and small enterprises (SMEs) accumulated a balance of R\$ 11.5 billion in 2009, growth of 23.1% in relation to the previous year. A highlight for the BNDES card with R\$ 2.4 billion, a service in which Banco do Brasil maintained its market leadership during the whole of 2009.
- 93 thousand transactions entered into funded by Operation Guarantor Fund (FGO), a mechanism which ensures as much as 80% of working capital transactions and investment financing for medium and small companies, rising to R\$ 2.7 billion by year-end 2009. Introduced in August, FGO is an important instrument for these customers to gain access to more attractive interest rates.
- In investment lines for the wholesale segment, operations with onlending from BNDES System, which attained a balance of R\$ 12.3 billion, the largest volume attained by a financial institution, with a market share of 21.1%, deserve a special mention. In 2009 Banco do Brasil was a leader in granting credit funded by BNDES.

- With the Merchant Navy fund, BB funded 6 projects related to shipbuilding and seaport infrastructure, totaling R\$ 367.8 million in disbursements. Hence, the FMM portfolio rose to R\$ 680.5 million in December, a 117.6% increase in 12 months.
- The investment loan portfolio funded by Proger rose to R\$ 11.5 billion in December, a 23.1% increase in the year. Proger Urbano Empresarial, a key service in this nature, was responsible for 46.5% of the portfolio.
- In 2009, within the scope of the federal government's Growth Acceleration Program -PAC, BB was present in funding 21 projects, with special mention of the Santo Antônio and Jirau hydroelectric projects. BB's share in these investments is R\$ 3.8 billion, out of an estimated total of R\$ 19.5 billion.

### **Loans to States and Local Governments.**

- In 2009 loan operations in the public sector were increased, with emphasis on those with states and local governments, which rose to R\$ 2.1 billion, reflecting a 247.1% expansion as against the previous year. These funds were employed chiefly in investments with relevant social impacts such as infrastructure works and the acquisition of school buses.

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## **Foreign Trade**

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Banco do Brasil consolidated its historical leadership of the export and import exchange market, with volumes of US\$ 47.1 billion and US\$ 34.1 billion, respectively, and market shares of 31.4% and 25.4%, respectively.

The loan portfolio in this segment closed the year with a balance of R\$ 17.3 billion. Worth mentioning the leadership in Advance on Foreign Exchange Contracts (ACC) and the Advances on Export Contracts (ACE), which attained contracted volume of US\$ 10.9 billion, and market share of 34.7%.

BB also led the financial agent ranking in BNDES foreign trade operations in 2009, with disbursements of US\$ 1.8 billion in operations of BNDES-Exim, reaching a market share of 26.8%. In the Union's Export Financing Program (Proex), as the exclusive financial agent of the Union, BB disbursed US\$ 278.7 million in the Financing category, and US\$ 157.8 million in the Equalization category in the year, leveraging exports of US\$ 4.3 billion.

With regard to electronic solutions, new records: 63.9% of such export exchange contracts and 34.7% of import contracts were agreed on

through the Internet, and 39.3% used digital signatures. Currently, 62.9% of the exchange and foreign trade files under BB's charge are digitalized, and 31.4% of customers in this area also send papers to BB through digital means.

In 2009, 16.8 thousand enterprises were trained by means of the International Business program.

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### **Agribusiness**

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Banco do Brasil leads the domestic Rural Credit System, with a market share of 58.1%. By means of agricultural financing for the summer 2009/2010 harvest, it supported the production of roughly 15.6 million tons of soybeans, 10.5 million tons of corn, and 4 million tons of rice.

Representing 22.1% of BB's total loans portfolio, the December 31<sup>st</sup>, 2009 balance in the agribusiness portfolio rose to R\$ 66.4 billion, of which 74% regarding transactions maturing in 24 months and 13% between 24 and 48 months.

The Bank uses mechanisms that reduce risks from agriculture loan portfolio: agricultural insurance, price protection instruments, agreements with integrators, provision of guarantees by third parties, agri-livestock technician reference system (RTA).

As the end of the summer 2009/2010 harvest, 66.5% of the costing transactions (R\$ 7.4 billion) were entered into with Agricultural Insurance or Proagro, while during the 2008/2009 harvest, 61.6% of funding transactions (R\$ 8.7 billion) were funded by means of one of these two mechanisms.

When Banco do Brasil enters into agricultural loans funded by FAT, the National Treasury, or Rural Savings, with the use of rates specified by National Monetary Council, it receives an "equalization" rate from the National Treasury. In 2009, BB obtained R\$ 1.8 billion in equalization revenues, against R\$ 1.4 billion in 2008.

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### **International Activities**

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International activities by BB regards funding and encouraging business with Brazil. In particular, support in international operations by BB's business customers in the country, by means of relationships by its overseas subsidiaries and controlled companies and the Banco do Brasil overseas network.

Overseas, foreign companies with business in Brazil also receive support. The Bank's strategy in international expansion has three starting points: Overseas Brazilian communities, the

transnationalization of large corporations, and expansion of the country's foreign exchange with the world.

Overseas, BB's loan portfolio rose to R\$ 17.3 billion, a 14.2% increase as compared to the same period in the previous year.

The volume of business undertaken overseas (import/export loans and other working capital solutions) rose to R\$ 23.5 billion. Export pre-payment transactions deserve special attention, with US\$ 3.1 billion disbursed during the period.

### Funding

- The increase of R\$ 136.4 billion in funding balances, a 37.7% increase as compared to year-end 2008, reflects the confidence by customers in BB, even in an adverse environment. Time deposits, that grew 29.3%, deserve special emphasis. BB's market share in total funding rose by 19.8% in 2008 to 25.8% at year-end 2009, position as September/2009 published by Banco Central do Brasil.

R\$ million

Funding			
	2009	2008	Δ (%)
Demand deposits	56,459	51,949	8.7
Savings deposits	75,742	54,965	37.8
Time deposits	193,516	149,618	29.3
Money Market Borrowing	160,821	91,130	76.5
Other	11,848	14,308	(17.2)
<b>Total</b>	<b>498,835</b>	<b>361,971</b>	<b>37.7</b>

- US\$ 22.7 billion were obtained through overseas funding, chiefly with regard to a US\$ 1.5 billion funding transaction in October 2009 by means of a hybrid equity and debt instrument in the form of perpetual bonds eligible to compose Tier I capital, which makes this BB's largest ever overseas funding transaction.
- In 2009, in managing its capital structure, BB placed a total of R\$ 3.2 billion in subordinated CDs in the domestic market, for the Tier II capital base of the Referential Equity as authorized by Banco Central do Brasil.

### Funding management and government programs

- In 2009, BB funded R\$ 3.2 billion in 64.6 thousand transactions with funds provided by Constitutional Fund for Developing the Middle-

west (FCO), equal to 97.5% of the year's budgeted target, which created / maintained 150 thousand direct and 248 thousand indirect jobs. Funds invested grew 4.4% in relation to the same period of previous year, and the balance of the portfolio attained R\$ 10.9 billion.

- With a portfolio of 56 Self-Managed Social Security Plan Systems - RPPS, which invest their funds in investment funds and managed portfolios, BB has R\$ 9.2 billion under its management and is a leader in a market valued in excess of R\$ 40.8 billion.

## **Services**

- BB Consórcios (BB Purchasing Pools) closed the year with 140.9 thousand active quotas, growth of 7.6% in 12 months. From this amount, 93.5 thousand consortium members in this total refer to automobiles and 7.4 participants thousand to housing.
- In tax collection, BB accounts for 23.3% of the market at federal level and 37.3% at state level, corresponding to R\$ 156 billion and R\$ 97 billion collected, respectively. R\$ 11.2 billion were collected in the municipal level.
- By means of the bank collection services, collection of deposit forms and standing orders, Banco do Brasil provides services to 700 thousand companies that brought in R\$ 606.7 billion in 2009. These services added R\$ 1.6 million in revenue to BB, growth of 5.4% in 12 months.
- 52 thousand payrolls were processed, considering business clients and public sector. Overall, BB provided these services to a total of 10.1 million people, involving civil servants and employees from private enterprises, and kept the leadership in this market segment. The takeover of Banco Nossa Caixa contributed with 142 thousand civil servants payrolls.

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## **Cards**

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The card business added R\$ 4.5 billion to the Bank, among revenues from financing and equity in the earnings (loss) of subsidiary and associated companies, an increase of 24% as compared to 2008.

With a base of 87.3 million credit issued, BB obtained a turnover of R\$ 88.6 billion in 2009, growth of 33.9% in relation to the previous year. This performance enabled BB to advance in its market share from 17.6% to 18.7%, maintaining its leadership in the Brazilian market of debit cards and in Visa flagship cards.

During 2009 BB reinforced its strategy of placing its cards in new market segments, such as agribusiness and corporate areas, chiefly by means of the BNDES card. In addition, it increased the use of cards as an instrument to pay bills, including those under the DDA (Direct Authorized Charge) system, having increased its billings by R\$ 1.6 billion, or roughly 6.8% of the Bank's total card revenues.

Banco do Brasil launched Ourocard American Express, Ourocard Visa Copa do Mundo FIFA 2010, Ourocard Nossa Caixa, Ourocard Empreendedor, and signed an agreement with GOL/Varig for the issuance of a co-branded Smiles credit card.

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### **Insurance, Private Pension Fund and Capitalization**

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Businesses with insurance, pension plans and capitalization, measured by the insurance ratio, added R\$ 991,5 million to the BB, comprised of equity in the earnings of subsidiary and associated companies and fee income, an increase of 30,7% in relation to 2008. These figures net of taxes contributed with 11,7% of BB's recurring earnings.

Also in the fiscal year, Banco do Brasil started the insurance area's corporate restructuring by creating two wholly-owned subsidiaries - BB Seguros Participações S.A. and BB Aliança Participações S.A., intended to increase the share of earnings from this business area in total revenues.

BB and MAPFRE entered into discussions on a strategic alliance to exploit insurance risks (Life, Automobiles, and Property / Casualty). In addition, the Bank entered into discussions to acquire an interest in Instituto de Resseguros do Brasil (IRB).

In Life and Property / Casualty, Aliança do Brasil achieved R\$ 316 million in Net Income, 27.4% above that for 2008. With regard to automobiles, Brasilveículos increased its portfolio by 20.4% over 2008 and achieved a 17.8% return on shareholders' equity. In medical insurance represented by Brasilsaúde, the dental health portfolio rose by 66.8% and has the lowest incident rate.

With a combination of the capitalization business and a strategy for diversifying sales channels and introducing securities for the higher income public, with a portion of its revenues intended to social and environmental projects, Brasilcap ended the year with revenues of R\$ 2.3 billion.

Open-ended private pension plans marketed by Brasilprev ended the year with the market's largest net funding and as a leader in the PGBL type of funds, with a 27.6% market share. With regard to closed-end

private pension plans, after 15 years of market activities BB Previdência ended the year with R\$ 1.1 billion in assets, 34 corporate plans by 46 sponsoring companies, 4 plans created by 4 trade and professional entities, and over 48 thousand participants.

In the public employee social security field, BB provides advisory services in the management of the financial, legal, accounting, actuarial, and retiree payroll areas for Self-Managed Social Welfare Plan Systems - RPPS, involving 338 thousand covered participants. Investment solutions are also provided for 68% of the total RPPS area.

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### **Asset Management**

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In 2009, BB DTVM, largest third-party asset manager in the country, attained R\$ 306.7 billion in assets under management, growth of 24.5% in 12 months, and 21.1% of market share, according to the Associação Brasileira das Entidades dos Mercados Financeiros e de Capitais – Anbima.

In addition to the managed funds taken into account for Anbima ranking purposes, BB DTVM manages R\$ 64.1 billion for other investment funds, ending 2009 with R\$ 370.8 billion, growth of 22.9%.

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### **Capital Market and Treasury**

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Banco do Brasil operates in the domestic capital market through BB Banco de Investimento S.A. (BB-BI). There were 32 fixed income security issuances, totalling R\$ 10.3 billion in 2009. In the custody of assets in the domestic market, it occupies 3<sup>rd</sup> place in the Anbima ranking, with 25.2% of market share.

BB offers a share purchase and sale service by means of the network of branches, Internet (home broker) and cellular phone, with a volume of R\$ 20.4 billion generated in 2009.

In the variable income securities market, BB-BI coordinated share offerings totaling R\$ 16.2 billion. It also acted in the coordination and distribution of Additional Construction Potential Certificates, holding five auctions with total funding of R\$ 444.9 million for the consortium owned urban operation Faria Lima and Água Espraiada, both of the City Council of São Paulo. BB-BI is the only institution that distributes and coordinates this type of operation in the Brazilian capital market.

By means of its wholly-owned subsidiary BB-BI, Banco do Brasil Participated in the IPO by Cielo (formerly Visanet) as a selling shareholder and a coordinating bank. With the sale of part of its share ownership position, BB-BI's interest in Cielo went from 31.6% to 23.5%,

generating a gross income of R\$ 1.6 billion. The offering's total funding was in excess of R\$ 8 billion, one of the largest offerings in 2009.

In the international capital market, BB, by means of its foreign brokers BB Securities Ltd (London) and Banco do Brasil Securities LLC (New York), was active in 16 of the 32 Brazilian issues of fixed income securities, including STN, Petrobras, Votorantim, Odebrecht, TAM, Fibria, Gerdau, besides BB itself, which totaled over US\$ 25.7 billion.

## **CORPORATE GOVERNANCE**

Banco do Brasil's corporate governance structure is comprised by: the Board of Directors, advised by the Audit Committee and Internal Audit, and the Executive Board, made up of the Management Board (president and nine vice-presidents) and by 27 statutory directors. The Bank also has a permanent Fiscal Council.

Decisions are taken collectively at all levels of the Bank. With the purpose of involving the executives in the definition of strategies and approval of proposals for BB's different businesses, the Management uses committees, subcommittees and commissions at a strategic level, which ensure the agility and security for the decision making. Among the instruments used to assure good governance, it is also worth highlighting the Corporate Governance Code and the Code of Ethics.

Banco do Brasil is signatory of the Anbima Code of Regulation and Best Practices for the Private Banking Activity in the Domestic Market, ensuring high ethical standards, maximum transparency, qualification of professionals and commitment in the quality of the recommendation of products and services.

It is valid to highlight that Banco do Brasil, its shareholders, the Officers and Members of the Board of Auditors undertake to resolve all and any disputes or controversies in connection with the Novo Mercado Trading Regulations through the Bovespa Market Arbitration Chamber, pursuant to the specific clause in Banco do Brasil's Bylaws.

In 2009 BB several administration changes: It created the Distribution São Paulo Directorship, to develop a specific action plan for that State in order to increase the Bank's competitiveness and business.

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## **Relationship with the Market**

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The Bank held 21 meetings with analysts from the capital market at the Apimec regional offices during the year. Furthermore, BB took part in 85 meetings with domestic investors and analysts, 6 road shows and 21

conferences, and promoted 89 teleconferences with analysts and investors.

In addition, in 2009 Banco do Brasil sponsored the first "BB Day", attended by 45 market analysts, besides the President, Vice-Presidents, Directors, and General Managers from a number of the bank's areas.

BB's Investor Relations program was acknowledged as one of the best among public companies with instruments of wide circulation. BB also received honorable mentions in the categories of "Best Investor Relations Program" and "Best meeting with the community of company analysts", by IR Magazine Brazil 2009 award, being considered on of the five best IR companies in Brazil.

BB provides up-to-date information to the market at the Investor Relations site ([bb.com.br/ir](http://bb.com.br/ir)).

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### Highlights of the period

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The table below highlights several events that occurred in BB's business over the course of 2009:

<b>Jan</b>	<ul style="list-style-type: none"> <li>- Certificate of filing of the request for registration of Public Offering of Acquisition of Shares of Banco Nossa Caixa for acquisition of shares from the minority shareholders of Nossa Caixa.</li> <li>- Approval, by the Central Bank, of the takeover by Banco do Brasil of BESC and its consequent dissolution.</li> </ul>
<b>Mar</b>	- Transfer of the controlling interest of Banco Nossa Caixa to Banco do Brasil, with transfer of shares belonging to the State Government of São Paulo.
<b>Apr</b>	- The appointment of Mr. Aldemir Bendine as Banco do Brasil's President.
<b>Jun</b>	- The sale of shares totaling 7.05% of Cielo's equity capital.

<b>Sep</b>	<ul style="list-style-type: none"> <li>- Conclusion of a Strategic Partnership with Banco Votorantim, in which BB now holds a 49.99% of voting stock and 50% of total equity capital.</li> <li>- The Public Offering of Banco Nossa Caixa Shares.</li> <li>- The Election of Mr. Nelson Henrique Barbosa Filho to the office of Chairman of the Board of Directors.</li> <li>- The approval by means of a presidential decree to increase to as much as 20% the limit for foreign ownership in the equity capital of BB, and for the issue of ADRs (American Depositary Receipts).</li> <li>- The increase of Banco do Brasil's ratings for foreign currency deposits and debt by Moody's the risk rating agency.</li> </ul>
<b>Oct</b>	<ul style="list-style-type: none"> <li>- Corporate reorganization in the insurance area, with the creation of the holding companies BB Seguros and BB Aliança.</li> <li>- Overseas funding through a perpetual bond issue totaling US\$ 1.5 billion. These bonds are eligible to compose tier I capital, for BIS Ratio purposes.</li> <li>- Initial discussions to acquire a shareholding in IRB-Brasil Re S.A., owned by the Union.</li> <li>- Initial discussions with MAPFRE to create a strategic alliance for the development of personal insurance transactions, property / casualty, and automobiles.</li> </ul>
<b>Nov</b>	<ul style="list-style-type: none"> <li>- Preparation of the corporate actions for the takeover of Banco Nossa Caixa and consolidation of the strategic partnership with Banco Votorantim.</li> </ul>
<b>Dec</b>	<ul style="list-style-type: none"> <li>- Launching of the project to issue Level 1 ADRs in the US market.</li> </ul>

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### Legal Information

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In compliance with **CVM instruction 381**, Banco do Brasil informs that KPMG Auditores Independentes did not render services to the Bank and subsidiaries other than those related to external auditing in 2009.

In the hiring of services not related to external audits, Banco do Brasil adopts procedures based on the applicable legislation and on internationally accepted principles that preserve the independence of the auditor. These principles consist of: the auditor should not audit his own work, the auditor should not act managerially before his client nor promote the interests of his client.

In compliance with article 8 of **Bacen Circular 3068/01**, Banco do Brasil confirms that it has the intention and financial capacity to hold until maturity the securities classified in the "Securities Held to Maturity" category. The financial capacity is backed by a cash flow forecast that does not take into consideration the possibility of selling these securities.

Pursuant to Article 243 of **Law 6404/76**, BB reports that investments in subsidiary and associated companies totaled R\$ 12.1 billion as of December 31, 2009. There was a change in the company's ownership owing to the Strategic Partnership with Banco Votoranting and the takeover of Banco Nossa Caixa, still subject to the Central Bank approval.

In accordance with article 14 of **CVM 319/99**, BB informs that as a result of the acquisitions/partnerships made in 2009, Banco do Brasil made investments of around R\$ 11.9 billion, being R\$ 7.7 billion in BNC and R\$ 4.2 billion in BV.

The Banco Nossa Caixa takeover project has resulted in advances such as the sharing of ATMs, cost reductions by renegotiating contracts, the start of sales in BNC branches of automobile insurance and BB mutual funds, the adoption of the BB forms for legal entity credit analysis, and a joint disclosure of an institutional advertising campaign.

Besides that, the substitution of BNC individuals credit cards for Ourocard Nossa Caixa with chips reduced in 70% the losses on frauds. There are also perspectives of economies with administrative expenses due to BNC's voluntary demission plan, launched on dec/2009.

BNC organizational structure was changed. The presidency and directories were extinguished. Every BNC operations started reporting to Banco do Brasil, in the form of an administrative unit, structure that will make the management of the processes until the total merger, expected for conclusion in the second half of 2010.

In accordance with criteria defined by the Brazilian Statute of Micro and Small Businesses (General Law of Micro and Small Businesses), 94.1% of BB's business clients are classified as micro and small businesses. The volume of funds used by microbusinesses as working capital totaled R\$ 4.8 billion, whereas that used by small businesses totaled R\$ 18.1 billion. The balance of investment operations contracted by micro enterprises totaled R\$ 1.8 billion, whereas that of the small enterprises totaled R\$ 6.9 billion.

## INTERNAL PROCEDURES

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## Risk Management

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With the resumption of global economic activity in 2009 and improved liquidity, BB confirmed its management strategy, based on a solid risk management.

With conservative exposure to market risk, the level of capital required for coverage of this risk was 13.7% of the referential equity. In connection with liquidity risks, the Bank's exposure is minimum as it is the owner of an expressive position in highly liquid public federal bonds. This position has increased following the merger of Banco Nossa Caixa's treasury with that of Banco do Brasil.

In relation to credit risk, Banco do Brasil uses its own methodologies to rate customer credit risks. Developed concurrently with best market practices and the concepts introduced by the Basel Accord, these statistical models consider customer past performance (credit score), their credit performance (behavior score) with the Bank and the market, and the use of bank products.

The credit methodologies developed and implemented in the Bank include customer risk analysis in every corporate and individual customer segment, in addition to financial institutions and countries. These methodologies have permitted the improvement of the credit process, by virtue of a more precise assessment of customer risk profile and contributes to the increase of credit, at levels above the competitors, with quality and security, even in adverse scenarios.

The delinquency on loans at Banco do Brasil, in the last 24 months, has remained at levels lower than that of the National Financial System. The provisioning level is in line with its key competitors, while the coverage ratio, the relation between provision and late payments, is above that of other banks.

In order to manage operational risk, Banco do Brasil, following the best market practices, monitors operational loss through a systemized internal database, exposure limits and key risk indicators, besides risk matrices to assess relevant outsourced services.

To promote a continued improvement in operating risk management, during the 2nd half of 2009 BB implemented a procedure for Monitoring and Analyzing Operating Risk Scenarios.

At Banco do Brasil, collegiate risk management is performed apart from the business units. Risk and concentration policies are specified by the Bank's Board of Directors and by the Global Risk Committee (CRG),

which is a discussion group composed by the President and by vice-presidents. Actions for implementing and monitoring guidelines issued by the CRG are directed at specific sub-committees (Credit, Market, Liquidity and Operations), which are groups formed by Directors.

## Basel II

BB continued with the consolidation of the simplified standardized approach of Basel II, and with the preparation process for adoption of advanced models. The tables below present the capital requirement according to the current normative provisions (Regulatory Capital) and the consumption of capital based on internal models (Economic Capital):

Economic Capital	R\$ million	
	2008	2009
Credit Risk Requirement (1)	4,809	8,060
Market Risk Requirement (2)	414	104
Operating Risk Requirement	1,335	2,250
<b>TOTAL</b>	<b>6,558</b>	<b>10,414</b>

(1) To loans portfolio and guarantees

(2) Trade portfolio, capital consumption (Circ Bacen 3,354), exchange and commodities

PRE	Risk	R\$ million			
		2008		2009	
		Financial Consolidated	Financial - Economic Consolidated	Financial Consolidated	Financial - Economic Consolidated
Credit	PEPR	30,674	30,980	43,086	43,557
Market	PCOM+PACS	119	119	674	674
Operating	POPR	401	401	2,528	2,528
<b>TOTAL</b>		<b>31,194</b>	<b>31,500</b>	<b>46,288</b>	<b>46,758</b>

To find out more on Banco do Brasil's risk management policies, got to [bb.com.br/ir](http://bb.com.br/ir).

## Internal Controls

The Internal Control System adopted by Banco do Brasil observes the drivers of COSO - Committee of Sponsoring Organizations of the Treadway Commission and of COBIT - Control Objectives for Information and Related Technology and the demands of the regulatory and inspection agencies in Brazil and abroad.

The Internal Compliance Program in 2009 was concentrated on risk management of which impacts, should they materialize, become relevant in the financial statements. The improvements also affected the procedures for creating and introducing BB's new products and

services. The CARPS - Risk Control and Assessment for Products, Services, and Assistance Channels is now consolidated and has proved to be an important market differential, when criteria such as positioning, risks, conformity, and operating efficiency are considered.

Actions have also been intensified to reinforce the Conglomerate's control culture, with a view to achieving a high commitment by staff members with the quality of business, products, and services made available by BB, always relying on support by senior management, (a top down approach).

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### **Prevention and Avoidance of Money Laundering**

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For Banco do Brasil, preventing and fighting against money laundering is a legal obligation and a commitment to the Country. In its internet website, the Bank discloses the policies adopted to prevent and avoid money laundering, and provides suggestions to customers on how to avoid being used by criminals in money-laundering schemes.

Moreover, the Bank permanently invests in the education of its employees. On-site training and internal certification in the Bank's Prevention and Avoidance of Money Laundering are certified with Seal by Enccla - National Strategy for the Avoidance of Corruption and Money Laundering. The Enccla seal is granted by the Ministry of Justice to courses which should meet the requisites as defined in National Program of Education and Training for the Avoidance of Money Laundering.

Furthermore, in 2009, BB included this topic in the contents of its external programs, in addition to having been honored in the 2010 Enccla meeting for its expressive contribution in the avoidance of corruption and money laundering in the country.

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## **PEOPLE**

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BB ended the year with 103,971 employees as against 88,972 in 2008, of which 14,027 are staff members resulting from the merger with Banco Nossa Caixa. Please note that 1,328 employees concurred with Banco Nossa Caixa's Voluntary Resignation Program, which ended on 11.30.2009.

	<b>Dec/09</b>	<b>Dec/08</b>
Collaborators	103,971	88,972
Temporary labor <sup>1</sup>	788	2,430

<sup>1</sup> Hired from companies specialized in providing temporary labor

In 2009 the Bank provided 5,734 undergraduate and post-graduate scholarships, a 18.6% decrease as compared to 2008. Considering training courses in general, BB evidenced a 12.9% drop from 2008 to 2009, having provided 6,394 thousand hours of training in 2009.

The remuneration and the benefits granted to the employees were distributed according to the table below:

	R\$ million		
	<b>2009</b>	<b>2008</b>	<b>Δ (%)</b>
Payroll <sup>1</sup>	10,109	7,895	28.0
Pension Plan - Previ <sup>2</sup>	231.9	109.0	112.7
Health care plans – Cassi <sup>2</sup>	890	2,132	(58.3)
Profit-Sharing Plan <sup>3</sup>	1,385	1,134	22.1
Training	73	78	(6.2)

<sup>1</sup> Expenses with salaries, benefits, social charges and personnel provisions.

<sup>2</sup> Funding of supplementary pension and health care plans, pursuant to Note 28.

<sup>3</sup> Amount set aside for Profit and Gain Sharing, pursuant to the Income Statement.

In its structure, the Bank has a Quality of Life Area - VITAE, which develops and manages a number of programs intended to improve its employees' quality of life, such as PCMSO (Program for Occupational Health Medical Control), SESMT (Specialized Services in BB's Safety Engineering and Occupational Medicine), TABAS (Tobacco Control Program), and PAVAS (Assistance Program for Victims of Hold-Ups and Kidnappings).

By means of the Traveling Ombudsman Project, in 2009 Banco do Brasil's Internal Ombudsman held training and awareness events for employees. In its relations with trade unions, BB has adopted a system of permanent discussions.

Moreover, a "Salary Agreement" website was made available in the quest for improving the internal communications process, in order to consolidate and cultivate the practice of dialogue with union officials.

## SUSTAINABILITY

For information on the Bank's practices, please see the Sustainability Report that is a part of this report and which summarizes the Company's key events over the period.

### **MAIN AWARDS RECEIVED IN THE PERIOD**

- Honorable mentions in the Grand Prix of Investor Relations in the categories of "Best Investor Relations Program" and "Best meeting with the community of company analysts", by IR Magazine Awards Brazil 2009.
- Ranked in 2nd place in the "Best company for Shareholders" sponsored by Capital Aberto magazine.
- Recognized with the "Best Investor Relations Executive" award by IR Magazine Awards Brazil 2009.
- Given the title of "Chief Information Officer of the Year", by e-Finance 2009.
- Recognized with the Seal in Favor of Gender Equity - 2nd Edition, an initiative of the Special Department of Policies for Women of the Federal Government.
- Winner of the Alide Award of Recognition of Good Practices at Financial Institutions of Development with the DRS Business Strategy.
- One of the three finalists of the Financial Times Award of Sustainable Finance 2009, "Sustainable Bank in Emerging Markets" category.". The award received 165 entries referring to the experience of 117 institutions from 42 countries.
- Winner, for the 3rd year running, of the 2008 Storeowner Merit Award, category Services, Segment Commercial Bank.
- Recognized with the Special Highlight in Foreign Trade Award, offered by the Brazilian Foreign Trade Association.
- One of the world's four banks certified by the Society for Worldwide Interbank Financial Telecommunications (Swift) to use Workers' Remittance V1.0 - an electronic solution for international transfers among individuals.
- Acknowledged as the first retail bank in the Americas and southern hemisphere to be awarded an international certification in the ISO 20,000 quality norm for IT service management for electronic clearing of checks for the National Financial System.
- Acknowledged as "The most Admired Companies in Brazil 2009", in agribusiness, by Carta Capital magazine.

- The BB (São Paulo) Call Center was named "The Best Call Centers to Work." This award is the result of a survey held by Hewitt Associates jointly with Consumidor Moderno magazine.

## **ACKNOWLEDGMENTS**

We thank the dedication and diligence of our employees and collaborators, who are Banco do Brasil's greatest treasury, as well as the trust of shareholders and clients, which are the reason for our existence.

Further information: Investor Relations Website ([www.bb.com.br/ir](http://www.bb.com.br/ir))