Consolidated Financial Statements – IFRS

2012

INDEX

Dear Shareholders,

We present the Management Report of Banco do Brasil (BB) for 2012, in conformity with the requirements of the Brazilian Corporate Law, the National Monetary Council (CMN), the Central Bank of Brazil (Bacen), the Securities and Exchange Commission of Brazil (CVM) and BB's By-laws.

1. Macroeconomic Environment

The year 2012 was marked by an increase in the global aversion to risk. The cooling of major emerging economies (particularly the Chinese) influenced the drop of commodity prices, potentializing adverse effects on exports and economic activity of the emerging world.

The Brazilian economy, although acknowledged as being more resilient in the face of external problems, did not escape unscathed from the deceleration of global growth, requiring the Government to implement fiscal, monetary and credit measures to stimulate the economy.

In this scenario, inflation decreased in comparison with the previous year, and the 12-month accumulated Expanded Consumer Price Index variation was within the target interval. The reduction of the SELIC interest rate to a historical threshold of 7.25% per year and the decline in bank spreads led to a significant reduction in the cost of borrowings for the final borrower.

2. Highlights of the Period

We present below a chronological list of some events that merit special emphasis in the period:

i) the beginning of Banco Postal (Postal Bank) activities in BB's service network, on January 2, 2012;

ii) on January 19, 2012, acquisition of the total shares of EuroBank (currently named Banco do Brasil Americas), a North-American financial institution;

iii) authorization by the Central Bank of Brazil to classify as tier-I capital, in the category of hybrid capital instruments, the Perpetual Bonds issuances made in January (US$ 950 million) and March (US$ 725 million) of 2012;

iv) launch of "BOMPRATODOS", a new form of relationship between BB and its customers, on April 4, 2012;

v) Banco do Brasil reached the milestone of R$ 1 trillion in assets, keeping the conquest in 2012;

vi) authorization from the Central Bank of Brazil toclassify as tier II capital R$ 1.490 billion related to the June issuance of Subordinate Debts Instruments;

vii) in June, BB participated in the Rio+20 Conference as one of the main official partners;

viii) in September, Banco do Brasil was selected for the Dow Jones Sustainability World Index (DJSI) of the New York Stock Exchange for the first time, in relation to the 2012/2013 period;

ix) execution of a contract between BB and the Federal Government in September, under which a loan was granted in the form of a Hybrid Debt Capital Instrument, for funding the 2012/2013 crop, amounting to R$ 8.1 billion, classified as tier I and II capital, as authorized by the Central Bank of Brazil;

x) creation, in October, of the Management of Businesses with Cooperatives, by the Bank's Board of Officers, in line with the "International Year of Cooperatives" established by the United Nations Organization (UNO);

xi) in October, BB carried out its largest funding transaction in the foreign market, through the issuance of ten-year debt securities totaling US$ 1.925 billion;

xii) launch of the BB Progressivo II - Mortgage Investment Fund on November 13, 2012, with bid price of R$ 1.59 billion;

xiii) moving forward with the corporate restructuring of the Bank's insurance, open-end private pension and premium bonds, in November the Board of Directors authorized the start of studies that will enable the establishment of a company named BB Seguridade S.A.

3. Strategic Plan for the Period of 2013/2017

For the 2013/2017 period, Banco do Brasil gave priority to two main objectives: to significantly increase its efficiency and productivity, and to generate sustainable results through businesses which have a strong social orientation.

In order to achieve increased efficiency and productivity, the Company will undergo a significant review and simplification of its main processes, which will result in more innovative, convenient and efficient channels, products and services, thus contributing to a reduction in expenses and the generation of better results for the stockholders.

Businesses with a strong social orientation, such as the Minha Casa, Minha Vida Program and the Oriented Productive Microcredit programs will remain in the Bank's strategy and play a key role in its corporate mission of "fostering sustainable development in Brazil".

4. Economic-Financial Performance

4.1 Overview

Banco do Brasil closed 2012 with a net income of R$ 11.4 billion and an annualized return on average equity of 17.2%. Earnings per share was R$ 3.93 for the period.

Assets amounted to R$ 1.1 trillion, an increase of 17.5% in twelve months, with a return on assets of 1.1% in 2012. Shareholders' equity reached R$ 69.9 billion, an increase of 10.5% in 12 months.

Tables – Highlights

R$ Million

Earnings[1]	2011	2012	∆ 2011 (%)
Net Income	12,737	11,438	(10.2)
Net Interest Income	45,516	48,576	6.7
Net Commissions and Fees Income	15,162	18,107	19.4
Administrative Expenses	(25,698)	(28,396)	10.5

(1) Items based on Consolidated Financial Statements in IFRS.
(2) Refers to the sum of Personnel Expenses and Other Administrative Expenses.

R$ Billion

Equity	2011	2012	∆ Dez/11 (%)
Assets	967	1,136	17.5
Loans to Customers Net of Allowance	399	498	24.8
Deposits of Clients	429	456	6.1
Shareholders Equity	63	70	10.5
BIS Ratio %	**13.98**	**14.83**	

Indicators	2011	2012	∆ 2011 (%)
Earnings per Share (R$)	4.43	3.93	(11.3)
Return on Assets %	1.4	1.1	
Return on Equity %	21.6	17.2	

Thousand

Structural Information	2011	2012	∆ 2011 (%)
Base Customers	56,001	58,551	4.6
Total Checking Account	36,121	37,418	3.6
Individuals	33,875	35,049	3.5
Companies	2,247	2,369	5.5
Branches	5,263	5,362	1.9
Employees	113,810	114,182	0.3

See further information about the economic-financial performance of BB in the Management Discussion and Analysis Report at www.bb.com.br/ir.

4.2 Stock Performance

BB's market value totaled R$ 73.0 billion at the end of December 2012. In the theoretical portfolio of Ibovespa in force for the next four months (Jan/2013–Apr/2013), the Bank occupies 8th place, with a market share of 2.934%.

BBAS3 was traded in all BM&FBovespa's sessions, in the daily mid amount of R$ 156.3 million in 2012, as opposed to R$ 155.2 million in the same period of previous year, and continues to be listed in the theoretical portfolios of the major São Paulo Stock Exchange indexes: Ibovespa, Ibrx50, IGC, ISE and Itag.

At the end of 2012, the American Depositary Receipt - ADR Level I Program of Banco do Brasil recorded 19.9 million receipts in circulation.

Banco do Brasil, aligned with its profit reinvestment and dividend distribution policy, keeps 40% payout of net incomedistributed as dividends and interest on own equity on a quarterly basis. Thus, in 2012 an amount of R$ 4.9 billion was paid to shareholders, of which R$ 1,570.2 million was paid as dividends and R$ 3,353.8 million was paid as interest on own capital. The 60% of the remaining income were used as legal and statutory reserves.

4.3 Informations of Subsidiaries and Affiliates

In compliance with Article 243 of Law 6,404/76, BB reports that investments in associated companies totaled R$ 163.7 million as of December 31, 2012.

5. Service Network and Channels

Banco do Brasil closed 2012 with 64.2 thousand service points, including its own network, shared distribution channel and correspondents, covering 97.5% of the Brazilian municipalities (5,425).

The Bank's own network featured 5,362 branches, 13,782 points of service and 44,393 automatic teller machines. BB has the Country's largest branches chain, with a market share of 24.1%.

The network of correspondents, identified by the MaisBB brand, closed the period with 11,719 points of service and agreements with other establishments, and 6,195 points of the Banco Postal (Postal Bank).

The Internet Banking closed 2012 with the mark of 1,752.5 million transactions performed by individuals, corresponding to 19.7% of the total number of transactions. More than 13.6 million clients are enabled to use the channel.

Through cell phones 138.8 million transactions were performed. The public sector Banking through Internet and cell phones recorded 313.7 million transactions performed by 21.4 thousand users and the Call Center recorded 258.3 million transactions by 11.1 million customers.

In the period the Bank also released access to the Financial Manager through mobile devices iPad and Blackberry, which were added to the other already available mobile connection platforms, such as iPod Touch, iPhone and smartphones with Android operating system. The Financial Manager reached 301.5 million operations, being used for more than 727.3 thousand companies, mainly small businesses.

The Bank has opened eco-efficient branches in the district of Pirituba in São Paulo, and in the district of Messejana in Fortaleza. The project reduces environmental impacts and generates savings up to 20% in electric power and 30% in water consumption, thus contributing for the rational use of natural resources.

Abroad, Banco do Brasil conducts operations in 24 countries, and in 21 of them it is present by means of own units. Also, it operates through 1,124 correspondent banks in 139 countries. Moreover, in Argentina, the BancoPatagonia closed 2012 with 187 service points and an area specialized in business with corporate clients. Banco do Brasil Americas, based in the United States, continued to operate the three existing branches and implemented 48 thousand shared automatic teller machines, in addition to Internet and Mobile Banking services.

6. Businesses

6.1 BOMPRATODOS

The release of BOMPRATODOS (GOOD FOR ALL) offered many benefits to Banco do Brasil's clients. More than nine million clients have used products or services with lower fees or prices and over five million have taken out loans with lower interest rates.

It is noted that 12% of the clients who took out loans had no previous loan transactions with BB. The auto loan was the highlight, once that percentage grew 17%.

In addition, the Bank attracted more than 1.5 million new checking account holders. It was recorded that 208 thousand clients chose to receive their salaries at BB through the Free Bank Option and 26% of this total obtained a loan or financing after the transfer of the earnings.

The disbursement in Direct Consumer Credit operations grew 42.1%, reaching a total of R$ 65.8 billion. With the grant of loans with lower interest rates, coupled with the encouragement of the conscious use of loans, which is based on the right choice of the line(s) of credit to be contracted, Banco do Brasil helped to reduce the indebtedness and default of its clients.

The main results provided by the BOMPRATODOS in the end of the year were:

i) R$ 9.9 billion of disbursement in vehicle financing transactions. (397.2% above the daily average before the BOMPRATODOS);

ii) R$ 62.5 billion total disbursements in credit lines giving priority to micro and small companies, a 19.9% increase in relation to the same period in 2011.

With the new BOMPRATODOS strategic positioning, Banco do Brasil has reduced its fees by up to 34%, and the interest rates of several loan facilities by up to 64%, enabling the carrying out of new businesses, mainly by attracting new clients, retaining the clients which are the target public of the Free Bank Option and increasing the profits from clients which had few businesses with BB. With the results achieved, the Bank was able to further improve its business conditions, achieving perpetuity and sustainability in the relationships with its clients, which are based on mutual trust and business ethics.

For further information, please check out the website: www.bb.com.br/bompratodos.

6.2 Loans to Customers

The loans to customers of BB have reached R$ 514.2 billion in December 2012, with expansion of 25.0% within 12 months.

At the end of December 2012, the loans to customers formed by transactions with individuals totaled R$ 123.6 billion. The loans to customers formed by transactions with companies totaled R$ 208.2 billion.

Highlight for the agribusiness portfolio, which ended the year with a balance of R$ 86.6 billion.

Provisions for BB loan losses totaled R$ 16.2 billion in December 2012.

6.2.1 Individual Customers

The main credit lines comprising the portfolio are highlighted as follows:

Payroll Loan

Payroll loans remains with the largest representation in the portfolio for individuals. The loans granted to civil servants were the most representative of this portfolio. The portfolio also comprises INSS's retirees and pensioners and employees from the private sector.

Mortgage Bonds

The increase in the number of contracts under the Programa Minha Casa, Minha Vida (Housing Financing Program) is concentrated in the household income range from R$ 1,600 to R$ 3,100, using funds from the

Government Severance Indemnity Fund. This year the Bank also started to serve the household income range of up to R$ 1,600 as an agent of the Fundo de Arrendamento Residencial (Residential Lease Fund).

In 2012, the Bank substantially increased its Minha Casa, Minha Vida operations, achieving a growth of 385.3% compared with the previous year.

In the second half of 2012, BB also started to operate also in the Programa Nacional de Habitação Rural (National Rural Mortgage Program), which aims to reduce the housing deficit in rural areas.

Accessibility Credit

In February, the Bank launched the BB Crédito Acessibilidade (Accessibility Credit Financing line), in combination with the governmental program Viver sem Limites (Living Without Limit), a national plan for the rights of the handicapped. The new product is intended for customers with a monthly income of up to 10 minimum salaries, for acquisition of assistive technology products, with interest rates from 0.57% per month and exemption of financial transaction tax.

FIES

In 2012, as a financial agent of the Fundo de Financiamento Estudantil (Student Financing Fund) - FIES, BB carried out 183 thousand operations.

6.2.2 Companies Customers

The main amounts which comprise the balance of the corporate portfolio are presented below, segregated between the Micro and Small Enterprises and the Wholesale segments.

In the year, highlighting the disbursement of R$ 24.0 billion in onlending operations of BNDES, which represented a share of 28.6% of interest and guaranteed the leadership in the ranking for the period.

Micro and Small Companies

At the end of 2012, BB had 2.25 million customers that are micro and small companies (SME's) (2.34 million accounts), holding its position as the main partner of the segment and reinforcing its positioning as the "Bank for Micro and Small Companies".

In operations to micro and small-sized companies, Banco do Brasil made full use of the Fundo de Garantia de Operações (Operaction Guarantee Fund) - FGO. At the end of December, there were 461.3 thousand operations with Fundo de Garantia de Operações (Operaction Guarantee Fund) - FGO coverage.

Another highlight is BNDES Capital de Giro Progeren (BNDES Working Capital), which is part of the BNDES Progeren (Program for Strengthening Employment and Income Generation Capacity). In 2012, the funds released totaled R$ 5.8 billion, an increase of 169.8% in comparison with the same period of 2011.

At the end of 2012, BB supported 248 Local Productive Arrangements, delivering services to 23.247 thousand ventures. BB's partnership in Local Productive Arrangements aims at expanding credit granting, foster entrepreneurship training, expansion and technological innovation, contributing for access to the markets.

In its Directed Productive Microcredit, the Bank's action is aligned to a Federal Government's microcredit program called Crescer. More than 534 thousand customers were benefited throughout the country.

Wholesale Clients

The service model in four segments, Middle, Upper Middle, Corporate and Large Corporate, allowed an expressive improvement in negotiation relationship, especially in what concerns rates and terms, and allowed the provision of more competitive conditions to customers.

The main Structured Operations totaled over R$ 41.8 billion in new contracts in 2012. Out of that total, BB's share was R$ 21.4 billion, of which R$ 6.7 billion in long-term financing operations such as BNDES, Fundo Constitucional do Centro-Oeste (Center-West Region Constitutional Fund) – FCO and Fundo da Marinha Mercante (Merchant Marine Fund) - FMM, and R$ 14.7 billion in Capital Market, through debentures, promissory note issuances and quotas of receivables investment funds – FDIC's, in addition to receivables, facilities and long-term working capital operations.

6.2.3 Agribusiness

Loans to customers in the form of financing rural and agribusiness ended the year with a balance of R$ 112.3 billion. This amount represents an increase of 20.4% over December, 2011.

Credit support for agribusiness sustainability is present in Pronaf Agroecologia (Agroecology), Pronaf Eco (Ecology), Pronaf Florestal (Forestry) and Programa de Agricultura de Baixo Carbono (Low Carbon Agricultural Program) - ABC Program. The ABC Program encourages rural producers to use agriculture and livestock raising techniques that reduce the issue of greenhouse gases and deforestation. It was a highlight in 2012, with over 7,126 loans contracted. From July to December 2012, BB had invested R$ 1.6 billion in the ABC program, of a total of R$ 1.5 billion forecast for the entire 2012/2013 crop.

Plantation financing under the Direct Planting System, one of the technologies included in the voluntary commitments assumed by Brazil in the COP-15, has an expressive volume, corresponding to 50.3% of the total amount financed for agricultural costs by BB in the 2012/2013 crop.

6.3 Funding

BB's Deposits of Clients reached R$ 455.5 billion at the end of December 2012, an increase of 6.1% over the previous year.

In the international market, BB conducted 5 issuances, 2 of which supported by perpetual subordinate debt securities classifiable as tier I capital and in conformity with Basel III guidelines, 1 issuance of subordinate securities classifiable as tier II capital and 2 issuances of senior notes. Considering those issuances, the total volume of current operations at nominal amounts is US$ 12.798 billion;

Marking its return to the Japanese market in September, Banco do Brasil issued Senior Notes in Japan ("Euro-Yen operation") in the amount of JPY 24.7 billion, equivalent to approximately US$ 317 million.

BB's largest funding transaction in the foreign market was carried out in October, through the issue of ten-year debt securities totaling US$ 1.925 billion. Because of the demand, which exceeded US$ 11.4 billion, the transaction's rate was one of the lowest rates ever contracted by a financial institution in Brazil.

6.4. Asset Management

Banco do Brasil, through BB Gestão de Recursos - BB DTVM, is the leader in investment fund national industry since 1994. In December 2012, BB reached the total of R$ 444.0 billion in assets under management and a market share of 20.0%. The highlights in the period are:

i) the volume of funds invested in Extra-Market Funds, not considered in the Anbima ranking, totaled R$ 75.4 billion;

ii) the volume of funding of R$ 1.5 billion achieved by the group of Allocation Funds, in the Private Banking segment;

iii) the launch, in February, of a public offering for shares of the Bank's first Office Income Mortgage Investment Fund, for acquisition of commercial properties from Previ and generating monthly income for shareholders from the rental paid by renters;

iv) the launch, in March, of the first Fundo de Investimentos em Participações (equity investment fund) - FIP in its portfolio, called Brazil Ports and Logistical Assets Fund, which obtained funding in the amount of R$ 571.5 million as subscribed capital.

In relation to funding transactions with a social and/or environmental focus, the Bank offers the following funds in its portfolio: (i) BB Referenciado Social 50; (ii) BB Ações Índice de Sustentabilidade Empresarial Jovem; (iii) BB Multimercado Balanceado LP Jovem; (iv) BB Multimercado Global Acqua LP Private; (v) BB Ações Carbono Sustentabilidade FIA and BB Ações Carbono Sustentabilidade com Opção de Venda FIA.

The BB DTVM is a signatory of the Principles for Responsible Investment issued by the United Nations and is developing a method for integrating environmental social and corporate governance themes in investment decision-making.

Funds management in Banco do Brasil is directed to all market segments and, since 2006, received from Moody's, the maximum score (MQ1) in Management Quality Excellence.

6.5 Government Clients

Banco do Brasil is the main financial agent in 16 states, 16 capitals, and over 433 municipalities, and is in charge of centralizing the business between them. Its participation in the federal, state, and local governments in the implementation of public policies, projects, and programs turns the bank into a developer of social businesses and the propeller of the Country's development.

Proinveste (Program for Supporting Investments in the Brazilian States and Federal District) is a line of credit whose objective is to increase the investment capacity of the Brazilian States and Federal District through transfer of funds by the National Bank for Social and Economic Development - BNDES. In 2012, Banco do Brasil carried out nine operations.

6.6 Cards

Revenues from credit cards increased 23.0% in comparison with the previous year. The intense use of cards as means of payment and an instrument that grants access to the traditional credit facilities has increased the revenues from these products, especially in the corporate segments and among BNDES card clients, which together grew 33.9% in the year.

In 2012, BB increased the number of businesses with the Ourocard Crediário cards, reinforcing its strategy of offering consumer loans through the BB Crediário line, which increased the disbursement of this line of credit by 271% in comparison with the previous year. Furthermore, in November 2012, BB started to offer BB Crediário loans to the holders of cards with the Elo brand.

6.7 Capital Market

In the domestic capital market, BB offers share purchase and sale services through its network of branches, the Internet (home broker) and mobile devices. The amount traded was R$ 21.25 billion and 827 thousand businesses were carried out, R$ 19.55 billion of which through the new home broker.

In November, the BB Progressivo II - Mortgage Investment Fund was established, with assets consisting of 64 rented properties in all regions of Brazil, and to own Banco do Brasil. The properties will continue to be used by the Bank and have been leased for an initial period of ten years. In the public share offering held in the same month, 15,919,690 shares were subscribed and paid up in the amount of R$ 100.00 each.

According to the *ranking* of the Anbima (Brazilian Financial and Capital Markets Association), in 2012, with the intermediation of BB-Banco de Investimento - BB-BI:

i) coordinated 82 issues of fixed-income securities;

ii) coordinated 78 issues of debentures and promissory notes;

iii) carried out 4 transactions involving Mortgage Backed Securities - CRIs and Receivables Investments Founds - FIDCs;

iv) coordinated 7 public share offerings;

v) took part in 4 mergers and acquisitions.

6.8 Services

By means of the bank collection, tax deposit form collection and standing order services, Banco do Brasil provides services to over 590 thousand companies, which brought in R$ 926 billion in 2012, with a total of 1.071 billion in bank payment forms.

Authorized Direct Debit had 1.23 million electronic drawees, and over 23.7 million bank payment forms were electronically processed.

In the payroll agreement segment, the Bank processed R$ 348.6 billion. BB served a total of 12 million public officers and employees from private enterprises with this service.

As far as benefit payments are concerned, which were carried out through a specific card and credited to the beneficiary's bank account, more than R$ 7.8 billion/month of benefits related to a several government programs were paid.

In relation to tax collection, the amount raised in 2012 was R$ 552.6 billion, an increase of R$ 5.8 billion or 2.1% in comparison with the previous year. The Bank's outstanding product was DARF.

In the cooperative sector, BB has made available the Compe (Centralized Check Clearance System) and SPB (Brazilian Payment System) Integration Services. By the end of 2012, the service had been rendered to 325 credit cooperatives, involving 463,799 cooperative members.

By means of the Licitações-e portal, 51 thousand bidding processes in the total amount of R$ 23.16 billion.

BB Administradora de Consórcios ended 2012 with 401 thousand active quotas, growth of 15.6% in 12 months. The automobile segment reached 369 thousand quotas in December, merits special emphasis. There were 130 thousand new consortium quotas sold in the period, representing R$ 4.0 billion in letters of credit.

6.9 Pension Institutes

Banco do Brasil is the leading financial institution in terms of revenues from Private Social Security Regimes. In 2012, the Bank increased its development and sustainability of the civil servant service social security system, in support of the government's policies. The Bank has promoted and actively participated in events held in partnership with the Ministry of Social Security and in specific training and social security governance programs for managers, directors and employees of Private Social Security Regimes.

6.10 Internationalization

In the US, the release of the brand Banco do Brasil Americas in October marked BB's 204th anniversary and the start-up of the operations of the bank acquired in Florida (formerly Eurobank), laying the grounds for the expansion of the Bank's operations in the North-American market.

In addition to the brokerage houses based in London and New York, Banco do Brasil has opened BB Securities Asia in Singapore and started to serve the main investment markets.

In Europe, the Bank is continuing to improve the existing governance framework and consolidating the implementation of the business support center in Portugal - BB Europa Servicing Center.

6.11 Foreign Trade

Online exchange and foreign trade services conducted through the Internet represented 68% of exchange contracts for exports and 49% for imports. BB also offers international business training services. In 2012, 8,652 people were trained throughout the country, exceeding by 36.55% the result obtained in 2011.

To permit import, export and drawback operations in all Brazilian regions, through an operation agreement between Banco do Brasil and the Ministério de Desenvolvimento, Indústria e Comércio Exterior (Ministry of Development, Industry and Foreign Trade) - MDIC, 785,644 documents were analyzed in 2012.

7. Corporate Management

7.1 Corporate Governance

Banco do Brasil's corporate governance structure consists of the Board of Directors (made up of eight members), advised by the Audit Committee, the Compensation Committee and the Internal Audit Department; and the Executive Board, which is made up of the Board of Officers (President and nine Vice-Presidents) and 27 statutory officers. BB also maintains, on a permanent basis, a Board of Auditors made up of five full members and five substitute members.

As a good corporate governance practice, the Bank has implemented instruments to assess the performance of the Board of Directors, the Audit Committee and the Executive Board, which enables the mapping and identification of opportunities for the improvement of their actions. In addition to the Bylaws, the Code of Corporate Governance and the Code of Ethics are documents that provide support for Banco do Brasil's best corporate governance practices.

In compliance with Central Bank of Brazil Resolution 3,921/2010, Banco do Brasil has created a model for evaluating the performance of Statutory Directors and has also created the Compensation Committee, which is the body responsible for proposing variable compensation policies for Managers of the Conglomerate to the Board of Directors.

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 Banco do Brasil's different businesses. The Management uses committees, subcommittees and commissions at a strategic level, which ensure the agility and security for the decision making.

7.2 Market Relations

Banco do Brasil makes available a wide range of reports and information to the Brazilian Securities and Exchange Commission and on its Investor Relations website. Banco do Brasil also adopts the practice of inviting the market to conferences whenever its Management finds necessary to provide clarification on specific topics related to the Bank. In 2012, Banco do Brasil took part in 104 meetings with investors and analysts in the country, 9 non-deal roadshows abroad, 11 conferences in the country and abroad, and organized 8 teleconferences on net income with analysts and investors, besides responses to customized service to investor and market analysts.

In 2012, in order to strengthen its relationship with individual investors, Banco do Brasil, together with the Association of Capital Markets Analysts and Investment Professionals (APIMEC), held meetings in six

Brazilian capitals: Porto Alegre, Brasília, Belo Horizonte, Fortaleza, São Paulo and Rio de Janeiro. Altogether, these events brought together over 1,000 people.

7.4 Corporate Controls

Risk Management

In 2012, Banco do Brasil approved its internal model for capital calculation to cover operational risk: actively participated in discussions about the new banking regulations established under the Basel III Accord and the review exercises promoted by the Basel Committee for Banking Supervision; approved its policy and reviewed the capital management processes and procedures; and converted its explanatory notes on risk management into IFRS format.

Further information can be found in the Risk Management Report available on the Investor Relations website. www.bb.com.br/ir.

Internal Controls

The main aim of the various internal control activities carried out in 2012 was to segregate functions to achieve the goal of assessing the compliance of the processes carried out by the Bank with external and internal laws and regulations, with a review, validation and certification of the controls defined by managers for products, services and processes. Accordingly, we highlight the high level of security observed in the processes for the preparation of the Financial Statements and Reference Form disclosed in 2012.

Prevention and Avoidance of Money Laundering and Financing of Terrorism

The Bank supports and actively contributes to the actions taken within the National System for Prevention and Fight Against Money Laundering through its participation in the meetings for the preparation and implementation of the Enncla (National Strategy for the Fight Against Corruption and Money Laundering) , and formalization of Technical Cooperation Agreements with institutions such as the Ministério da Justiça (Ministery of Justice), the Coaf (Council for Financial Activities Control), linked to the Ministério da Fazenda (Ministry of Finance), and the Ministério Público do Estado de São Paulo (São Paulo State Public Prosecution Office). Banco do Brasil also promotes a number of events which provide training for employees on Prevention of Money Laundering Prevention/Terrorism Financing, including training courses, seminars and certifications. In 2012, more than 64.5 thousand employees underwent training.

Security of Environments, Service Channels and Information

The investments in technology, together with the ongoing training of professionals, contribute to the protection of customers, employees and society. In 2012, the investments in the modernization of the units' security apparatus totaled R$ 873 million.

The expansion of BB Token and the implementation of the BB Code for clients who own smartphones stood out. The BB Code uses the QR two-dimensional bar code and cryptographic techniques in the transactions carried out on the Internet. It also continued to implement biometrics on automated teller machines and cashiers.

In 2012, BB started the migration from Secure Sockets Layer digital certificates (SSL - *Secure Sockets Layer*) to the ICP-Brasil standard. It also increased the use of ICP-Brasil standard digital certificates in the operating processes, as they are not only an excellent security tool, but also increase operating efficiency.

249.2 thousand foreign exchange contracts were signed using digital certificates, accounting for 57.5% of the total contracts signed in Banco do Brasil, leading to savings of approximately R$ 1,707.1 thousand in the period.

In May, the Banco do Brasil Citizen Information Service was opened, in line with the provisions of Law 12,527/11 - Information Access Act. According to the Information Access Act, Banco do Brasil is the tenth entity most strictly supervised by the Brazilian Federal Government.

BB Eco Eficiente Program

The BB Eco Eficiente (BB Eco-efficiency Program) approved in 2012 developed a set of coordinated actions covering the entire organization, the purpose of which is to generate sustainable profit gains. The program, which has a permanent nature, addresses topics related to the main variables which comprise the Bank's results, from the point of view of efficiency and productivity, and is in line with the supply of global demands for a reduction of the environmental impact of operations.

7.5 Technology

As far as strategic projects are concerned, we highlight the project for the modernization of the technological infrastructure on the Bank's premises abroad and the development of a new solution for the processes of the financial area and treasury department, as well as human resources and logistics.

The construction of a new Data Processing Center in Brasília, Distrito Federal, is at the conclusion stage. This center will support the safe continuity of businesses with very high availability, even in the event of extreme disasters.

In 2012, BB has also heavily invested in the preparation of a strong corporate technological environment to comply with the various regulatory requirements, such as the solutions in progress to ensure alignment with the Basel II standards in the segments of market, credit and operational risk.

8. People

8.1 Talents, Performance and Career

In 2012, the Bank held 3 public contests and hired 4,969 new employees.

Approximately 15 thousand employees selected from the Talent and Opportunities Database advanced in their careers in 2012 through internal professional development programs.

In order to make a follow-up of professional performance, about 113 thousand employees had their performance individually assessed by means of the instrument called "Competency-based Performance Management".

With a view to consolidating information on a number of people management and managerial performance indicators, the "People Management Radar" and the "Manager Radar" were launched, which enable the mapping of the profiles of approximately 6,415 units and 5,266 managers. Such tools provide the Bank with subsidies to make diagnoses, monitor performance and establish strategies for the development of managers and their teams.

In line with the Bank's internationalization strategy, in April 2012, the Career Advancement Program - Managers of Foreign Units was approved, which will be used to identify and develop career employees to work for Banco do Brasil abroad.

8.2 Compensation and Benefits

The Bank improved its variable compensation policy through the implementation of the *Programa de Desempenho Gratificado* (Rewarded Performance Program) - PDG, which recognizes the branch managers and regional superintendents of the Bank's Business Network who achieved the highest performance. Of these employees, the 30% which achieved the best rating in the second half of 2011 received a bonus in June 2012. In addition, Profit Sharing for the 2nd half of 2011 and the 1st half of 2012 were paid in February and October 2012, respectively.

The table below shows the remuneration and the benefits granted to the employees:

Table 1. Compensation and Benefits[1]

R$ Million

	2011	2012	∆ 2011 (%)
Remunerations	9,372	10,318	10.1
Social Charges	3,107	3,480	12.0
Benefits	2,236	2,031	(9.2)
Profit Sharing Plans	1,790	1,838	2.7
Directors' and Officers' Honorariums	59	64	7.2
Training	70	52	(26.1)

(1) According to Note 13 of Personnel Expenses in IFRS.

8.3 Corporate Education

In 2012, instructor-led training programs reached 50,850 employees. Bank's new concept implementation - BOMPRATODOS - was preceded by distance trainings using video classes and training monitoring system, with 10,415 employees trained in the Strategic module, 52,565 in the Negotiation course, and 61,762 in the Mortgage Credit and Vehicle course. In partnership with Banco Postal (Postal Bank), 8,579 multipliers were formed and they trained 12,000 Banco Postal employees. As regards *Minha Casa Minha Vida* project, 5,469 employees were trained to develop specific knowledge on mortgage credit. Also, 4,100 agents were prepared to work in the Guided Productive Microcredit and training actions were started to transform sales force. The Bank also provided training on Operational Efficiency and Strategic Planning for 160 Executives and 1,153 Managers of Divisions and Support Units, with a view to spreading the concept and culture of productivity and efficiency.

Through the Knowledge Internal Certification Program, 28,655 employees were certified, fact that shows the high interest of employees to be up to date with matters related to the exercise of their job.

In line with the BB Corporate Strategy, in 2012, R$ 103.5 million were invested in entrepreneurial education, and Universidade Corporativa do Banco do Brasil (Banco do Brasil Corporate University) - UniBB celebrated its tenth anniversary.

9. Sustainability

In relation to BB's actions in the social and environmental spheres during the year, the following stand out:

i) were one of the main official partners in Rio+20 Conference, carried out in June, which included more than 45,000 accredited participants, with broad participation of foreign delegations, heads of state and civil society representatives. The Banco do Brasil Foundation also participated with a focus on civil society and actions concentrated in the People's Summit;

ii) during Rio+20, it joined the Green Municipalities Program, which fosters development in the State of Pará;

iii) in August, the Social Businesses Workshop was held with representatives from Yunus Social Business (YSB) on the main experiences related to this topic, with a view to identifying new ways of operating in the low income segment;

iv) the Business Pact for Integrity and Against Corruption was signed, whereby the Bank made a public commitment to spread the best business ethics practices;

v) for the first time, the Bank was selected for the Dow Jones Sustainability World Index (DJSI) of the New York Stock Exchange in relation to the 2012/2013 period, consolidating its international reputation as a sustainability-driven company;

vi) was ranked by the Brazilian GHG Protocol Program, for the second consecutive year, in the "Gold Category" for its inventory of Greenhouse Gas Emissions;

vii) selected, in partnership with Fundação Banco do Brasil (Banco do Brasil Foundation) and the Cooperforte Institute, 62 third-sector projects supported by volunteer employees throughout Brazil. The funds, which amount to more than R$ 3.6 million, are allocated to actions that create jobs and preserve the environment. In addition, in the third quarter, the fourth public bid to support projects aimed at the promotion and protection of children's and adolescents' rights, using funds arising from tax relief, was opened.

viii) selected, in partnership with Fundação Banco do Brasil (Banco do Brasil Foundation) and Brazilian Development Bank, 39 projects of cooperatives/associations supported by the Sustainable Regional Development Strategy all over Brazil. The funds provided were invested in projects that create jobs and income, totaling R$ 8.8 million from Fundação Banco do Brasil (Banco do Brasil Foundation) and R$ 12 million approved by BNDES (Brazilian Development Bank);

ix) had its sustainable performance recognized once again by being listed on the BM&FBovespa Corporate Sustainability Index for the 2012/2013 period, a position the Bank has maintained since the disclosure of the first portfolio in 2005;

x) updated its BB Sustainability Plan – Agenda 21 for the 2013/2015 period, with a view to supporting the improvement of the BB sustainability practices and helping the Bank become a world reference in this area;

xi) participated in the 18th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 18) held in Qatar.

In 2012, the Sustainable Development Strategy, which seeks to foster sustainable growth in the areas where the Bank operates, recorded a total of 4.1 thousand Business Plans under implementation, benefiting 1.5 million people in 4.1 thousand Brazilian municipalities.

Under the Programa Água Brasil (Brazilian Water Program), in March 2012, BB, in partnership with the Equator Principles Association, WWF/EUA and the Business and Biodiversity Offsets Program – B2B, held the workshop “Biodiversity for Banks”, which was attended by the main Brazilian banks, and whose purpose was to provide guidance for banks on the process of including the risks related to biodiversity and ecosystem services in their financing and investment decision-making. Also in 2012, BB issued specific social and environmental guidelines for the grant of loans to the agribusiness and electricity sectors, and, moving forward with this initiative, suggested guidelines for the grant of loans to the construction industry and mining sectors, which were submitted to the analysis of the stakeholders at a panel held for this specific purpose in November 2012.

For more information on BB's sustainable development actions, please visit the website www.bb.com.br/sustentabilidade.

10. Legal Information

In accordance with criteria defined by the Brazilian Statute of Micro and Small Businesses (General Law of Micro and Small Businesses), 96.3% of BB's business clients are classified as micro and small businesses. The volume of funds used by SMEs reached R$ 59.1 billion in 2012, representing a 27.8% increase as compared to the previous year.

In compliance with CVM (Securities and Exchange Commission of Brazil) Instruction number 381, Banco do Brasil reports that KPMG Auditores Independentes has not provided, to the Bank and subsidiaries, any services that could affect its independence in relation to audit work in 2012.

In the engagement 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: (i) the auditor should not audit his own work and (ii) the auditor should not act managerially before his client nor promote the interests of his client.

In 2012, Banco do Brasil contracted KPMG Auditores Independentes to render other services not related to the Bank's and its subsidiaries' external audit, in the amount of R$ 1,753.5 thousand, which represent 16.8% of fees for audit external services. The contracted services were:

Hire date	End date of hiring	Type of servisse	Amount of pay (R$)
11/14/2011	12/31/2012	Corporate income tax and advisory services	15,054
11/27/2012	11/29/2012	Risk Based Capital Requirements analysis	10,036
01/01/2012	01/01/2013	Tax Consulting / Tributary	149,616
10/24/2012	12/23/2013	Review of the deductibility of losses on receivables	90,000
01/31/2012	12/31/2013	Permanent Tax Advisory	177,009
05/20/2012	12/31/2012	Revision of the Declaration Integrated Economic and Fiscal Information of Legal Entities (DIPJ)	84,000
04/20/2012	12/31/2012	Diagnosis and risk matrices segregation of functions in systems	1,002,500
10/26/2012	03/31/2013	Assessment ICAAP	102,312
07/23/2012	12/31/2012	Working revision Income Tax Declaration Companies 2012	8,000
07/26/2012	12/31/2012	Payroll tax relief arising from Medida Provisória 563	4,000
07/27/2012	12/31/2012	Advice - Consultation capital reduction	20,799
09/18/2012	07/31/2012	Tax Revisions, DIPJ, Statement of Verification of Social Contributions (DACON)	61,300
09/29/2012	11/20/2012	Cost of the final product	28,900

According to rules that govern external audit services, KPMG Auditores Independentes presents to Banco do Brasil, on a periodic basis an Independence Letter.

In Banco do Brasil, contracting of services related to the external audit should be preceded by an opinion of the Audit Committee.

According to the provisions of Securities Exchange Commission of Brazil Resolution 488/05, BB explains that (default values BR GAAP):

i) Fixed investments in 2012 totaled R$ 2,086.0 thousand, with emphasis on investments in new service locations and on branches environment improvement (R$ 1,301 million), as well as on information technology (R$ 705 million);

ii) has R$ 549.5 million non-active tax credits arising from requirements defined by National Monetary Council Resolutions 3,059 of December 20, 2002 and March 31, 2006, and presented in a financial statement note for 2012;

iii) records in a memorandum account, according to rules provided for in Cosif (Financial Institutions Accounting Plan), the amount of R$ 20.8 billion deriving from Co-obligations and Risks in Guarantees Provided to clients and companies of the BB Conglomerate;

iv) in 2009 was entered contract Interbank Revolving Credit Line to release with Banco Votorantim, by the limit equivalent to the value of equity of that institution. Transaction was accounted for in memorandum accounts, in accordance with rules provided for in the Cosif (Financial Institutions Accounting Plan) and is published in Note 'Related Parties' of Financial Statements for 2012.

In compliance with article 8 of Central Bank of Brazil Circular 3,068/2001, 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.

Moreover, Banco do Brasil, its Shareholders, the Officers, and the members of the Board of Auditors Committee undertake to resolve all and any dispute or controversy related with the New Market Listing Regulation by means of the Arbitration Chamber of the Bovespa Market, in compliance with a commitment clause contained in the By-laws of Banco do Brasil.

11. Main Awards Received in the Period

i) Licitações-e Portal was again the great winner of the VI Award, granted during the VII Congresso Brasileiro de Pregoeiros (VII Brazilian Barkers Congress), held in March, under categories: “Best Electronic Trading Session System 2011” and “Best Interaction with Supplier 2011” and “Greater number of trading sessions performed and completed in 2011”;

ii) in April, BB's President, Aldemir Bendine, received from Minas Gerais State governor, Antonio Anastasia, the Inconfidência Medal, the greatest commendation granted by Minas Gerais state, which is annually granted to personalities and entities that contributed to Minas Gerais state development;

iii) in the annual publication “The Banker’s Deals of The Year 2012”, released in April, Banco do Brasil, which issued US$ 1 billion in subordinated debt abroad in January, was the winner in the "most impressive funding transactions" category;

iv) in May, BB was chosen as the bank that provided the best service to its customers and the country in 2011, thus receiving the diploma of "Quality in Banks ", granted by magazine Banco Hoje;

v) in May, BB reached the first position in equity sales ranking of Bloomberg, one of the main world agencies that provide information to the financial market;

vi) also in May, Banco do Brasil received a recognition plate on the important role it performs in disclosing and contributing to the achievement of Millennium Objectives in Brazil;

vii) Banco do Brasil leads world ranking of the most robust bank of the planet, according to survey conducted by the US independent risk classification agency - Weiss Ratings. The survey was published in BankingMyWay website, specialized in the international bank market;

viii) in September, the BB External Ombudsman’s Office was recognized as one of ten best ombudsman’s offices in Brazil by the *Ouvidorias Brasil* Award, a joint initiative of the Associação Brasileira de Ouvidores (Brazilian Association of Ombudsmen), the Associação Brasileira das Relações Empresa/Cliente (Brazilian Association of Customer/Enterprise Relationships) and the Consumidor Moderno (Modern Consumer) magazine.

ix) in September, BB was acknowledged as a leading company by the Época Green Company Award;

x) in September, Banco do Brasil was the winner of the 2012 Brazil Intangibles Award (PIB) in the special category “Brazil Top Intangibles” for the Banking sector, and held the first position in the general ranking for the first time in September;

xi) in September, Banco do Brasil received, for the second consecutive year, the Corporate Architecture Award, this time for the project developed by the Estilo 2.0 Santa Maria (Rio Grande do Sul State) Agency in the category “Inland Professionals – Projects Completed”;

xii) in September, BB held the third position in the Brand Finance ranking of the most valuable brands in Brazil and Latin America in 2012;

xiii) Banco do Brasil held the first position in the “Banks” category and the third position in the 2012 general ranking of Reliable Brands of Reader’s Digest;

xiv) also in September, BB was considered the favorite brand of the new Brazilian middle class according to a survey conducted by Data Popular;

xv) BB has been the top of mind brand in the "Banks” category of the Folha Top of Mind award since its very first edition. It was also the top of mind brand in the “Finance” category and, among financial institutions, it is also the first brand to be mentioned when it comes to the Soccer World Cup and Olympic Games;

xvi) in October, the 2012 issue of the Guide to Responsible Banking of the Instituto Brasileiro de Defesa do Consumidor (Brazilian Consumer Defense Institute), where BB stood out as the only bank among its peers to achieve a performance classified as “good”;

xvii) also in October, BB was considered as the largest bank in Latin America by the AméricaEconomia Intelligence magazine*;*

xviii) in a survey disclosed in November by the CVA Solutions consulting firm, the Bank held the first position in the ranking of the “institutions that most appeal to account holders";

xix) also in November, the BB’s BOMPRATODOS (GOOD FOR ALL) campaign was one of the winners at the 25th edition of Marketing Best award, which is annually held by the Referência Publishing House through the Marketing magazine and Madia Mundo Marketing;

xx) the Universidade Corporativa do Banco do Brasil (Banco do Brasil Corporate University) achieved the following public recognition in 2012: Best Corporate Education Program in Brazil, National Benchmark in Learning & Performance in Brazil in 2012, and was listed as one of the Best Brazilian Corporate Universities by the Brazilian CUBIC (Corporate University Best-in-Class) Award.

Acknowledgments

We thank the dedication and diligence of our employees and collaborators, as well as the trust of shareholders, customers and society.

For more information, visit the Investor Relations Website: www.bb.com.br/ir.

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INDEPENDENT AUDITORS' REPORT

To
The Board of Directors and Shareholders
Banco do Brasil S.A.
Brasília - DF

We have audited the accompanying consolidated financial statements of Banco do Brasil S.A. (the "Bank"), which comprise the consolidated balance sheet as at December 31, 2012 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board - IASB, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor´s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank´s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank´s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Banco do Brasil S.A. as at December 31, 2012, and their financial performance and their cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Brasília, March 25, 2013

KPMG Auditores Independentes
CRC SP-014428/O-6

The original version in Portuguese was signed by

Giuseppe Masi
Accountant CRC SP-176273/O-7

Carlos Massao Takauthi
Accountant CRC SP-206103/O-4

Banco do Brasil S.A.

Consolidated Statement of Income

R$ thousand (except shares and earnings per share)

For the year ended December 31,	Note	2012	2011	2010
Interest income		107,931,378	106,919,760	85,143,206
Interest expense		(59,355,538)	(61,403,710)	(43,061,187)
Net interest income	[8]	**48,575,840**	**45,516,050**	**42,082,019**
Allowance for losses on loans to customer, net of recovery	[22]	(12,846,077)	(8,572,365)	(7,714,554)
Allowance for losses on loans to the financial institutions		(9,169)	-	-
Net interest income after allowance for loan losses		**35,720,594**	**36,943,685**	**34,367,465**
Non-interest income		**30,642,304**	**28,105,433**	**23,855,006**
Net commissions and fee income	[9]	18,106,867	15,162,111	13,602,500
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss	[10]	(733,911)	(885,327)	(2,175,394)
Net gains/(losses) from financial assets available for sale	[11]	449,355	445,191	364,147
Net income/(loss) from equity method investments	[24]	45,925	150,191	127,620
Income from insurance contracts and private pension plans	[34]	2,525,518	2,399,452	1,928,181
Other operating income	[12]	10,248,550	10,833,815	10,007,952
Non-interest expenses		**(51,093,006)**	**(47,253,863)**	**(41,671,605)**
Personnel expenses	[13]	(17,782,767)	(16,634,088)	(14,634,468)
Administrative expenses	[14]	(10,613,275)	(9,063,824)	(8,491,452)
Amortization of intangible assets	[26]	(3,261,251)	(3,107,960)	(2,948,594)
Depreciation	[25]	(1,092,367)	(1,098,525)	(1,013,015)
Other operating expenses	[12]	(18,343,346)	(17,349,466)	(14,584,076)
Income before taxes		**15,269,892**	**17,795,255**	**16,550,866**
Income taxes		**(3,831,692)**	**(5,058,343)**	**(5,220,521)**
Current	[35]	(6,859,826)	(4,740,626)	(6,272,346)
Deferred	[35]	3,028,134	(317,717)	1,051,825
Net income		**11,438,200**	**12,736,912**	**11,330,345**
Attributable to owners of the parent		11,245,922	12,681,922	11,296,009
Attributable to non-controlling interests		192,278	54,990	34,336
Earnings per common share				
Basic earnings per share	[37]	3.93	4.43	4.17
Diluted earnings per share	[37]	3.93	4.42	4.14
Weighted average common shares – basic	[37]	2,861,260,055	2,861,404,718	2,711,976,359
Weighted average common shares – diluted	[37]	2,861,260,055	2,869,849,797	2,727,868,423

The accompanying notes are an integral part of the consolidated financial statements.

Banco do Brasil S.A.

Consolidated Statement of Comprehensive Income

R$ thousand

For the year ended December 31,	2012	2011	2010
Net income	**11,438,200**	**12,736,912**	**11,330,345**
Other comprehensive income			
Unrealized gains on financial assets available for sale	1,483,519	947,042	643,867
(Gains) on financial assets available for sale realized in the year	(449,355)	(445,191)	(364,147)
Unrealized gains on hedge of net investments foreign operations	2,380	-	
Other comprehensive income before taxes	**1,036,544**	**501,851**	**279,720**
Income taxes	(414,618)	(200,740)	(111,888)
Foreign investments translation adjustments	(15,010)	99,018	-
Other comprehensive income net of income taxes	**606,916**	**400,129**	**167,832**
Comprehensive income for the half year	**12,045,116**	**13,137,041**	**11,498,177**
Attributable to owners of the parent	11,852,838	13,082,051	11,463,841
Attributable to non-controlling interests	192,278	54,990	34,336

The accompanying notes are an integral part of the consolidated financial statements.

Banco do Brasil S.A.

Consolidated Balance Sheet

R$ thousand

	Note	Dec 31, 2012	Dec 31, 2011
Assets			
Cash and bank deposits		12,690,806	10,492,143
Compulsory deposits with central banks	[15]	80,097,865	93,689,987
Loans to financial institutions	[16]	44,241,484	41,846,491
Securities purchased under resale agreements	[17]	189,515,889	139,032,201
Financial assets at fair value through profit or loss	[18], [39]	74,955,946	68,294,472
Debt and equity instruments		73,541,366	66,897,772
Derivatives		1,414,580	1,396,700
Financial assets available for sale	[19]	96,704,660	84,328,189
Financial assets held to maturity	[20]	12,713,398	14,997,329
Loans to customers net of allowance	[21],[22]	498,070,784	399,032,494
Non-current assets held for sale	[23]	208,440	114,388
Investments in associates	[24]	163,723	514,206
Property and equipment	[25]	7,299,814	6,194,386
Intangible assets	[26]	17,454,500	17,995,903
Goodwill		3,441,877	2,797,993
Other		14,012,623	15,197,910
Tax assets	[35]	33,074,789	28,718,571
Current		9,867,532	8,300,248
Deferred		23,207,257	20,418,323
Other assets	[27]	68,815,377	61,572,308
Total		**1,136,007,475**	**966,823,068**
Liabilities			
Deposits of clients	[28]	455,515,199	429,177,263
Amount payable to financial institutions	[29]	16,789,823	14,625,350
Financial liabilities at fair value through profit or loss	[18], [39]	3,826,743	3,972,855
Debt instruments		387,261	352,199
Derivatives		3,439,482	3,620,656
Securities sold under repurchase agreements	[30]	225,786,871	195,204,879
Short-term liabilities	[31]	10,957,818	12,988,608
Long-term liabilities	[32]	198,517,892	122,047,390
Provisions for labor, fiscal and civil claims	[33]	8,838,985	6,980,208
Insurance contracts and private pension plans	[34]	55,843,298	41,643,461
Tax liabilities	[35]	12,686,360	11,037,210
Current		5,796,322	4,371,432
Deferred		6,890,038	6,665,778
Other liabilities	[27]	77,346,257	65,876,620
Total		**1,066,109,246**	**903,553,844**
Stockholders' equity			
Capital	[36]	48,400,000	33,122,569
Treasury stock		(461,248)	(1)
Capital reserve		141	140
Profit reserves	[36]	16,132,047	24,121,303
Accumulated other comprehensive income		1,484,585	877,669
Unallocated retained earnings		3,468,983	4,428,266
Stockholders' equity attributable to owners of the parent		**69,024,508**	**62,549,946**
Stockholders' equity attributable to non-controlling interests		873,721	719,278
Total		**69,898,229**	**63,269,224**
Total liabilities and stockholders' equity		**1,136,007,475**	**966,823,068**

The accompanying notes are an integral part of the consolidated financial statements.

Banco do Brasil S.A.

Consolidated Statement of Changes in Stockholders´ Equity

R$ thousand

	Capital	Treasury stock	Capital reserve	Profit reserves	Other accumulated comprehensive income	Unallocated retained earnings	Stockholders' equity attributable to owners of the parent	Stockholders' equity attributable to non-controlling interests	Total stockholders' equity
Balances at Dec 31, 2009	**18,566,919**	**(31,192)**	**-**	**17,301,440**	**309,708**	**4,285,528**	**40,432,403**	**88,935**	**40,521,338**
Capital increase – capitalization of reserves	7,418,087	-	-	(7,412,899)	-	(5,188)	-	-	-
Capital increase – public offering	7,049,900	-	-	-	-	-	7,049,900	-	7,049,900
Capital increase – convertible securities	42,816	-	-	-	-	-	42,816	-	42,816
Capital increase – incorporation of subsidiaries	274	-	-	-	-	-	274	-	274
Financial assets available for sale adjusted to fair value, net of taxes	-	-	-	-	167,832	-	167,832	-	167,832
Disposal of treasury stock	-	30,937	-	-	-	-	30,937	-	30,937
Losses on disposal of treasury stock	-	-	-	(2,581)	-	-	(2,581)	-	(2,581)
Other	-	-	-	-	-	5,346	5,346	-	5,346
Net income	-	-	-	-	-	11,296,009	11,296,009	34,336	11,330,345
Constitution of profit reserves	-	-	-	7,823,588	-	(7,823,588)		-	
Distribution of interest on own capital and dividends	-	-	-	(820,131)	-	(3,885,445)	(4,705,576)	-	(4,705,576)
Mutual interests	-	(197)	-	-	-	-	(197)	-	(197)
Change in non-controlling interests	-	-	-	-	-	-	-	(21,497)	(21,497)
Balances at Dec 31, 2010	**33,077,996**	**(452)**	**-**	**16,889,417**	**477,540**	**3,872,662**	**54,317,163**	**101,774**	**54,418,937**
Capital increase – capitalization of reserves	44,573	-	-	-	-	-	44,573	-	44,573
Financial assets available for sale adjusted to fair value, net of taxes	-	-	-	-	301,111	-	301,111	-	301,111
Foreign currency translation adjustments	-	-	-	-	99,018	-	99,018	-	99,018
Disposal of treasury stock	-	254	-	(254)	-	-	-	-	-
Other	-	-	-	-	-	4,754	4,754	-	4,754
Changes in subsidiaries interests	-	-	140	-	-	-	140	-	140
Net income	-	-	-	-	-	12,681,922	12,681,922	54,990	12,736,912
Constitution of profit reserves	-	-	-	8,041,878	-	(8,041,878)	-	-	-
Distribution of interest on own capital and dividends	-	-	-	(809,738)	-	(4,089,194)	(4,898,932)	-	(4,898,932)
Mutual interests	-	(197)	-	-	-	-	197	-	197
Change in non-controlling interests	-	-	-	-	-	-	-	562,514	562,514
Balances at Dec 31, 2011	**33,122,569**	**(1)**	**140**	**24,121,303**	**877,669**	**4,428,266**	**62,549,946**	**719,278**	**63,269,224**
Capital increase – capitalization of reserves	15,277,431	-	-	(15,277,431)	-	-	-	-	-
Share-based payments	-	(1)	1	-	-	-	-	-	-
Financial assets available for sale adjusted to fair value, net of taxes	-	-	-	-	620,498	-	620,498	-	620,498
Foreign currency translation adjustments	-	-	-	-	(15,010)	-	(15,010)	-	(15,010)
Hedge of net investment in foreign operations	-	-	-	-	1,428	-	1,428	-	1,428
Acquisition of treasury stock	-	(461,246)	-	-	-	-	(461,246)	-	(461,246)
Other	-	-	-	-	-	6,918	6,918	-	6,918
Net income	-	-	-	-	-	11,245,922	11,245,922	192,278	11,438,200
Constitution of profit reserves	-	-	-	7,773,828	-	(7,773,828)	-	-	-
Distribution of interest on own capital and dividends	-	-	-	(485,653)	-	(4,438,295)	(4,923,948)	-	(4,923,948)
Change in non-controlling interests	-	-	-	-	-	-	-	(37,835)	(37,835)
Balances at Dec 31, 2012	**48,400,000**	**(461,248)**	**141**	**16,132,047**	**1,484,585**	**3,468,983**	**69,024,508**	**873,721**	**69,898,229**

The accompanying notes are an integral part of the consolidated financial statements

Banco do Brasil S.A.

Consolidated Statement of Cash Flows

R$ thousand

	2012	2011	2010
Operating activities			
Net income	**11,438,200**	**12,736,912**	**11,330,345**
Adjusted by:	**24,596,335**	**16,631,569**	**16,587,411**
Effect of exchange rate changes on cash and cash equivalents	(1,632,620)	(2,372,270)	966,275
Allowance for losses on loans to customers	15,444,329	11,381,892	10,198,537
Allowance for losses on loans to financial institutions	9,169	-	-
Technical provisions for insurance contracts and private pension plans	14,522,791	9,058,121	7,472,309
Provision for labor, tax and civil claims	1,036,124	(429,361)	(710,791)
Impairment of intangible assets	(3,686)	(3,755)	13,421
Impairment of property and equipment	298	2,108	1,180
Impairment of other assets	23,772	24,473	25,073
Impairment of assets	8,716	4,547	(16,951)
Depreciation of property and equipment	1,092,367	1,098,525	1,013,015
Amortization and write-off of intangible assets	3,261,251	3,107,960	2,948,594
Adjustment of actuarial assets/liabilities	(3,896,665)	(3,773,425)	(3,844,900)
Dividends and interest on own capital received	32,397	48,622	32,326
Deferred taxes	(3,028,134)	317,717	(1,053,799)
Gains from bargain purchase	-	(61,056)	-
Net (gains)/losses from equity method investments	(45,925)	(150,191)	(127,620)
Net (gains)/losses from disposal of investments in subsidiaries/loss of control	(64,757)	(950,596)	(57)
Net (gains)/losses in the translation of foreign investments	(460,252)	(355,088)	186,174
Net (gains)/losses from disposal of financial assets available for sale	(449,355)	(445,191)	(364,147)
Net (gains)/losses from disposal of property and capital losses	(1,122,747)	52,412	9,812
Other	(130,738)	76,125	(161,040)
Adjustments for net change in operating assets and liabilities	**(27,300,109)**	**(2,582,241)**	**(51,105,276)**
Interest on assets	(12,575,113)	(28,340,001)	(14,621,615)
Interest on liabilities	19,223,515	8,427,103	(1,888,859)
Compulsory deposits with central banks	19,225,169	(6,620,211)	(62,727,114)
Loans to financial institutions	(1,241,678)	1,196,052	5,054,316
Securities purchased under resale agreements	(34,124,125)	(44,031,090)	41,396,840
Financial assets at fair value through profit or loss	(3,184,051)	(15,325,462)	(11,173,432)
Loans to customers	(107,465,692)	(46,309,482)	(51,363,778)
Non-current assets held for sale	(136,340)	93,976	63,731
Deposits of clients	21,460,283	56,765,957	34,868,627
Amounts payable to financial institutions	2,012,621	(4,663,494)	6,739,995
Financial liabilities at fair value through profit or loss	(159,365)	(1,305,338)	499,699
Securities sold under repurchase agreements	17,139,108	52,347,126	(18,621,278)
Other short term liabilities	(2,082,200)	4,483,922	2,602,586
Long term liabilities	52,558,272	18,224,078	1,458,735
Liabilities from insurance contracts and private pension plans	(322,953)	521,401	7,299,739
Current taxes	(142,614)	46,132	(1,592,416)
Deferred taxes	407,141	411,229	1,152,272
Other assets	(10,239,849)	8,180,861	(7,532,094)
Other liabilities	12,347,762	(6,685,000)	17,278,770
Net cash provided by (used in) operating activities	**8,734,426**	**26,786,240**	**(23,187,520)**

Banco do Brasil S.A.

Consolidated Statement of Cash Flows

R$ thousand

Continued	2012	2011	2010
Investing activities			
Acquisition of financial assets available for sale	(22,108,323)	(39,019,703)	(34,394,346)
Disposal of financial assets available for sale	11,267,931	32,178,260	24,032,232
Acquisition of financial assets held to maturity	(3,836,308)	(1,958,539)	(3,377,304)
Redemption of financial assets held to maturity	4,397,850	1,886,636	8,434,996
Acquisition of property and equipment	(2,788,977)	(1,862,198)	(1,785,302)
Disposal of property and equipment	594,024	307,980	109,451
Acquisition of interests in associated companies	-	(83,991)	(72,789)
Disposal of interests in associated companies	69,187	757,617	-
Acquisition of intangible assets	(2,682,985)	(7,001,595)	(4,255,455)
Write-off of intangible assets	35,848	977,960	3,623
Disposal of real estate to FII	1,402,469	-	-
Net cash from Banco Patagonia acquisition	-	322,706	-
Net cash from Mapfre partnership	-	5,710	-
Net cash from Brasil Saúde disposal	-	-	29,057
Net cash from BB Americas acquisition	(8,611)	-	-
Net cash used in investing activities	**(13,657,895)**	**(13,489,157)**	**(11,275,837)**
Financing activities			
Disposal/acquisition of treasury shares	(461,247)	197	28,159
Acquisition of long-term liabilities	24,016,640	8,430,932	47,139,422
Redemption of long-term liabilities	(923,514)	(1,038,650)	(19,320,981)
Dividends and interest on own capital paid	(5,427,190)	(4,578,871)	(5,306,642)
Capital increase	-	44,573	7,092,990
Changes in non-controlling interests	(37,835)	562,514	(21,497)
Interest changes in subsidiaries	-	140	-
Net cash provided by financing activities	**17,166,854**	**3,420,835**	**29,611,451**
Net increase or decrease in cash and cash equivalents	**13,876,005**	**19,090,188**	**(5,818,181)**
Cash and cash equivalents at the beginning of the year	44,309,888	25,219,700	31,037,881
Effect of exchange rate changes on cash and cash equivalents	1,632,620	2,372,270	(966,275)
Cash and cash equivalents at the end of the year	58,185,893	44,309,888	25,219,700
Cash and cash equivalents	**58,185,893**	**44,309,888**	**25,219,700**
Cash and bank deposits	12,690,806	10,492,143	9,816,675
Loans to financial institutions	24,734,881	23,765,789	14,889,970
Securities purchased under resale agreements	20,760,206	10,051,956	513,055
Complementary information about cash flow	**50,154,888**	**20,675,280**	**19,103,196**
Interest paid	(40,132,023)	(52,976,607)	(44,950,046)
Interest received	95,356,265	78,579,760	70,521,591
Taxes paid	(5,069,354)	(4,927,873)	(6,468,349)

Accounting changes not involving cash and cash equivalents			
Assets reclassified as available for sale	237,434	150,908	110,482
Loans to customers transferred to non-operating assets	41,582	74,023	99,234
Unpaid dividends	801,700	1,281,735	984,105

The accompanying notes are an integral part of the consolidated financial statements.

1 – The Bank and its operations

Banco do Brasil S.A. ("Banco do Brasil" or the "Bank") is a publicly-held bank subject to the Brazilian corporate law, controlled by the Brazilian Federal Government, with headquarters in Setor Bancário Sul, Quadra 1, Lote 32, Bloco C, Edifício Sede III, Brasília, Federal District, Brazil. It is engaged in the conducting of all manner of asset, liability and accessory transactions, the provision of banking services, financial intermediation , including foreign exchange transactions and supplementary activities (which mainly include insurance, pension plans, capitalization, securities brokerage, credit/debit cards management, consortiums management, investment funds and managed portfolios), and the conducting of any activities permitted to institutions of the banking industry (Sistema Financeiro Nacional).

As the agent for the execution of the credit and financial policy of the Brazilian Federal Government, the Bank is obliged to perform, among other duties, the following functions attributed to it by Brazilian law, under the supervision of the Conselho Monetário Nacional (CMN): (i) act as the financial agent of the National Treasury; (ii) act as the main executor of the banking services in the interest of the Federal Government, including its government agencies; (iii) collect voluntary deposits; (iv) perform clearing services of checks and other papers; (v) carry out on its own account, and on account of the Brazilian Central Bank (Bacen), foreign currency purchase and sale transactions under conditions established by the National Monetary Council; (vi) perform receipt or payment and other services in the interest of the Brazilian Central Bank; (vii) proceed the execution of the foreign trade policy.

The management process of Banco do Brasil involves the use of mechanisms described in a regulatory system, which detail the operating procedures necessary for the performance of organizational decisions relating to the Bank's business and activities, and to the fulfillment of legal requirements and the requirements of regulatory and supervisory agencies.

Banco do Brasil maintains a self-regulatory system that disciplines trading with securities that it has issued, by any persons that have access to information about a relevant act or fact. Parties subject to self-regulation, besides the controlling shareholder, the officers and directors and members of the Fiscal Council, include all persons who have a relationship of a business-related or professional nature or who have a relationship of trust with the Bank and who have knowledge of accounting or strategic information, or any other information about the Bank's business that could entail a relevant act or fact.

With regard to its policies on public disclosure of information, Banco do Brasil aligns its operations with the needs of external users, in compliance with the requirements of regulatory and supervisory agencies. The information is provided taking into account certain aspects, such as high quality, transparency, veracity, completeness, consistency, fairness and timeliness, respecting the highest standards of corporate governance.

At Banco do Brasil, the Vice-President of Financial Management and Investor Relations is in charge of the disclosure of information to the investor market with regard to relevant acts or facts and other information, although the other officers and directors are jointly and severally liable in the event of noncompliance with the requirements for disclosure of information to the market.

Other information regarding the companies that compose the Banco do Brasil and the description of the business segments in which the Bank operates are listed in Notes 5 and 7, respectively.

2 – Presentation of consolidated financial statements

a) Statement of compliance

The consolidated financial statements for the years ended December 31, 2012, 2011 and 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

These consolidated financial statements were approved for issuance by the Board of Officers of Banco do Brasil on March 19, 2013.

b) Measurement bases of assets and liabilities

These consolidated financial statements have been prepared on the historical cost basis, except for the following items: (i) derivative financial instruments; (ii) financial assets and liabilities held for trading; (iii) financial assets and liabilities designated at fair value through profit or loss; and (iv) available-for-sale financial assets, which were all measured at fair value.

c) Functional and presentation currency

The consolidated financial statements are presented in Brazilian Reais, the Bank's functional and presentation currency. Financial information is presented in thousands of Brazilian Reais (R$ thousand), unless otherwise indicated.

d) Changes in the accounting policies

The policies and accounting methods used in the preparation of these consolidated financial statements are consistent with those applied to the consolidated financial statements for the years ended December 31, 2011 and December 31, 2010.

e) English translation

This document is a free translation of the consolidated financial statements originally issued in Portuguese. In the event of discrepancy, the Portuguese language version prevails.

3 – Significant accounting policies

The accounting policies adopted by Banco do Brasil are applied consistently in all periods presented in these consolidated financial statements and applied to all the entities of the Bank.

a) Consolidation basis

Consolidated financial statements of the Bank reflect assets, liabilities, income and expenses of Banco do Brasil, its subsidiaries, interests in joint ventures and in the special purpose entities, as well as the results attributable to the Bank’s interest in associates.

Intergroup balances and transactions, as well as any unrealized income or expenses in transactions between companies of the Bank, are eliminated in the preparation of the consolidated financial statements. Unrealized gains originating from transactions with investees recorded by the equity method of accounting are eliminated against the investment in proportion to the Bank's interest in the investee.

Non-controlling interest is presented in the consolidated balance sheet in a separate line within stockholders' equity. Net income attributable to non-controlling interest is stated separately in the consolidated statement of income and in the consolidated statement of comprehensive income.

The Bank reevaluates the consolidation process at least once every reporting date. These analyses consider the possibility of structural alterations, which includes changes in the Bank’s contractual arrangements, but are not limited to change of control.

Subsidiaries – The companies in which the Bank has control are considered to be subsidiaries. Control is presumed to exist when the Bank has the direct or indirect power to manage the financial and operating policies of a certain entity (as established by law, as contained in the bylaws or as established by stockholders' agreement) and obtains benefits from its activities, even if the percentage of voting capital held is less than 50%. The existence and effect of potential voting rights that are currently exercisable or convertible are considered in the evaluation of control. Subsidiaries are fully consolidated as from the date the Bank assumes control over its activities until the moment that control ceases.

Business combination – The acquisition of a subsidiary by means of a business combination is recorded on the acquisition date, which is the date on which control is transferred to the Bank, applying the acquisition method. According to this method, identified assets (including intangible assets not previously recognized), assumed liabilities and contingent liabilities are recognized at fair value on the acquisition date. Possible positive differences between acquisition cost and fair value of identifiable net assets acquired are recognized as goodwill. In case of a negative difference (gain from a bargain purchase), the identified amount is recognized in profit or loss under other non-interest income.

The transaction costs that the Bank incurs in a business combination, except for the costs related to the issuance of debt or equity instruments are recorded in profit or loss in the period incurred. Any contingent consideration payable is measured at its fair value on the acquisition date.

The results of subsidiaries acquired during the accounting period are included in the consolidated financial statements as from acquisition date until the end of the year. By contrast, the results of disposed subsidiaries during the year are included in consolidated financial statements as from the beginning of the year until the date of disposal, or up to the date that the Bank no longer has control.

Change of equity interest in subsidiaries – Changes in the equity interest in a subsidiary that do not result in loss of control are accounted for as equity transactions (that is, transactions with owners in their capacity as owners). Consequently, no goodwill is recognized as a result of such transactions.

Under these circumstances, of the controlling and non-controlling equity interest in subsidiaries will be adjusted to reflect changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received will be recognized directly in stockholders' equity and attributed to the owners of the parent company.

Loss of control – In the event of loss of control of a subsidiary, the Bank derecognizes: (i) the assets, including goodwill, and the liabilities of the subsidiary at their carrying amount; and (ii) the carrying amount of any non-controlling interest in the former subsidiary, including any components of other comprehensive results attributed to it.

Moreover, the Bank recognizes the following on the date of loss of control: (i) the fair value of the consideration received, if any, originating from the transaction, event or circumstances that resulted in the loss of control; (ii) the distribution of shares of the subsidiary to the owners, if the transaction that resulted in the loss of control involves a distribution of shares; (iii) any investment held in the former subsidiary at its fair value; and (iv) any difference resulting as a gain or loss in the result attributable to the parent company.

Special purpose entities (SPE) – The Bank sponsors the formation of SPEs for asset securitization transactions, which may or may not be - directly or indirectly - controlled by subsidiaries. Prior to the consolidation of SPE´s, the Bank evaluates: (i) if SPE activities are being conducted in the interest of the Bank according to its specific business needs, so that the Bank obtains the benefits of SPE transactions; (ii) if the Bank has the power to make decisions to obtain the majority of SPE's benefits; (iii) if the Bank has the right of obtaining the majority of SPE's benefits; and (iv) if the Bank holds most of the residual risks of ownership related to the SPE's assets. The Bank consolidates an SPE if the results of the evaluation indicate that the Bank has the control over the SPE.

Whenever there is a change in the Bank's relationship with the SPE, the consolidation status is re-evaluated.

Jointly controlled entities (Joint ventures) – A joint venture exists when the Bank enters into a contract with one or more parties to perform activities through entities in which the strategic financial and operating decisions related to the activity require the unanimous consent of the parties that share the control. The Bank opted for the proportional consolidation of jointly controlled entities.

The application of the proportional consolidation means that the statement of financial position of the investor includes its share in the assets that it controls jointly and in the liabilities for which it is jointly liable. The statement of income of the investor includes its share of income and expenses of the jointly controlled entity.

The Bank discontinues the use of the proportional consolidation method as of the date on which it ceases to share control of a jointly controlled entity. This can happen, for example, when the investor sells their interest or when any external restrictions are applied to the jointly controlled entity, whereby the investor no longer has joint control.

Non-monetary contributions to jointly controlled entities – When the Bank contributes non-monetary assets in exchange for an ownership interest in a jointly controlled entity, the gain or loss on the transaction is recognized to the extent that assets are sold to other entrepreneurs. No gain or loss is recognized if (i) the significant risks and rewards of ownership of the assets were not transferred, (ii) the gain or loss cannot be reliably measured, or (iii) the transaction does not have commercial substance.

Associates – An associate is an entity in which the Bank has the power to significantly influence, but not control, it’s financial and operating policies. Significant influence is presumed to exist when the Bank holds from 20% to 50% of the entity's voting capital. Even when voting rights are less than 20%, the Bank may exert significant influence through participation in the management of the associate or in the composition of management bodies with executive powers. The existence of potential voting rights that are currently exercisable or convertible and material transactions between the companies are considered in the evaluation of the Bank's significant influence over the entity.

The Bank's investments in associates are initially recorded at cost, and are subsequently, accounted for using the equity method, and are increased (or decreased) to reflect both the Bank's stake in the post-acquisition results, and its stake in other items included directly in the stockholders' equity of the associated companies. This procedure ensures that the uniformity of accounting practices of the Bank is preserved.

Goodwill generated from the acquisition of an associate is included in the investment carrying amount, net of any accumulated impairment losses. Bargain purchase is recognized directly in profit or loss in the period of acquisition. Losses in equity in investees that are higher than the carrying amount of the investment in the entity are charged to other assets maintained by the Bank and related to the investee. If these assets are reduced to zero, an additional disclosure of the information about the Bank's obligation of financing these losses is made and, if necessary, a provision for this obligation is recorded.

b) Offsetting of financial assets and liabilities

The Bank does not offset any assets or liabilities through the deduction of other liabilities or assets, or any income or expenses through the deduction of other income or expenses, unless there is a legal right of offset and the Bank intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

c) Translation of transactions in foreign currency

Functional and presentation currency – The consolidated financial statements are presented in Brazilian Reais, which is the Bank's functional and reporting currency. The functional currency, which is the currency of the main economic environment in which an entity operates, is the Real for most of the entities of the Bank.

Transactions and balances – Transactions in foreign currency are initially recorded at the exchange rate of the functional currency in force on the date of the transaction.

The Bank's assets and liabilities denominated in foreign currency, most of which are of a monetary nature, are translated at the exchange rate of the functional currency in force on the balance sheet date. All the exchange differences are recognized in the consolidated statement of income of the period in which they arise, with the exception of monetary items that forms part of a net investment in a foreign operation. Such exchange differences are recognized in other comprehensive income.

Translation to the presentation currency – The financial statements of entities domiciled abroad are translated into the presentation currency according to the following criteria: (i) assets and liabilities are translated using the exchange rate in force at the end of the reporting period and (ii) income and expenses are translated at the average exchange rate for the period.

Foreign exchange differences generated with a basis on the translation of the financial statements of overseas entities, whose functional currency is the Real, are recognized in the consolidated statement of income. For those entities whose functional currency is not the Real, the accumulated foreign exchange differences are recognized directly in stockholders' equity, until the sale of the subsidiary abroad or loss of control. At that time, the accumulated foreign exchange differences are reclassified from other comprehensive income to income or expense for the period. The sum of foreign exchange differences attributable to non-controlling stockholders is allocated and recognized as part of interests of non-controlling stockholders in the consolidated balance sheet.

d) Revenue and expense recognition

Revenue and expenses are recognized on an accrual basis and are recorded in the consolidated financial statements in the period generated or incurred. Interest, fee and commission income are recognized when the value, associated costs and stage of completion of the transaction may be reliably measured, and it is probable that the economic benefits associated with the transaction will be realized. This concept is applied to the main revenue streams generated by the Bank's activities, namely:

Net interest revenue – Interest revenue and expenses resulting from assets and liabilities that yield and pay interest are recognized in income for the period on an accrual basis, using the effective interest rate method for the majority of the financial instruments held by the Bank.

The effective interest rate method is a method used to calculate the amortized cost of a financial asset or of a financial liability (or of a group of financial assets or financial liabilities) and to allocate the interest revenue or expense over the corresponding period.

The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability. The effective interest rate is established upon the initial recognition of the financial asset or liability and is not subject to subsequent reviews. In calculating the effective interest rate, the Bank estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective rate includes all the commissions, the transaction costs and the discounts or premiums that are an integral part of the effective interest rate. The transaction costs correspond to incremental costs directly attributable to the acquisition, issuance or divestiture of a financial asset or liability.

Interest revenue and expenses included in the consolidated statement of income mainly comprise: (i) interest on financial assets and liabilities measured at amortized cost, based on the effective interest rate; (ii) interest and dividend income from financial assets recorded at fair value through profit or loss; (iii) yield from available-for-sale financial assets; (iv) interest incurred on liabilities related to committed operations; (v) interest incurred on short and long-term obligations; and (vi) remuneration of clients deposits, except for judicial deposits, which are not remunerated.

The Bank recognizes revenues from financial charges when it is probable that economic benefits related to the transaction will be received.

Fees and commissions – The recognition of fees and commissions income is determined in accordance with the purpose of the fees and the accounting basis for the associated financial instruments. If there is an associated financial instrument, the fee revenues are considered in the calculation of interest, except in cases in which the financial instrument is recorded in the category at fair value through profit or loss. However, fee income received for services that are provided in a specific period are recognized during that period. Fee income received to complete a specific significant service or event is recognized when the service has been completed or the event has occurred.

Income from investments in associates - Revenues from the application of the equity method for valuation of investments in associates are recognized in proportion to the equity interest held by the Bank in the results generated by investees.

Dividends– Dividend income is recognized when the Bank acquires the right to receive the income.

e) Cash and cash equivalents

Cash and cash equivalents include funds available and investments immediately convertible into cash, with maximum maturity of three months from the acquisition date, and subject to an insignificant risk of change in value. They include highly liquid investments and balances in the consolidated balance sheet items "cash and bank deposits", "loans to financial institutions" and "securities purchased under resale agreements", with the exception of resources of restricted use and operations with a realization period above three months.

f) Financial instruments

The Bank classifies financial instruments in accordance with their nature and its intention for the instrument. All financial assets and liabilities are initially recognized on the trading date, i.e., the date on which the Bank becomes a party to the contractual provisions of the instrument. Classification of financial assets and liabilities is determined on the date of initial recognition.

All financial instruments are initially measured at fair value plus associated transaction costs, except in cases in which the financial assets and liabilities are recorded at fair value through profit or loss. The accounting policies applied to each class of financial instruments are presented below.

Financial assets at fair value through profit or loss – Financial instruments are classified in this category if held for trading on the origination or acquisition date, or if designated as such by Management during the initial recognition.

A financial asset is classified as held for trading if: (i) it is acquired mainly to be sold in the near term; (ii) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or (iii) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

The Bank has derivatives for trading, such as swaps, future contracts, forward contracts, options and other types of similar derivatives based on interest rate, exchange rate, price of shares, commodities and credit risk. Derivatives are recorded at fair value and held as assets when the fair value is positive and as liabilities when the fair value is negative.

The Bank also uses derivative financial instruments not qualified for hedge accounting to manage exposure to market risks, particularly interest rate risk, currency risk and credit risk. Moreover, the Bank also contracts derivatives at the request of its clients, with the sole purpose of protecting against the risks inherent to its economic activities.

The Bank only designates a financial instrument at fair value through profit or loss during initial recognition when the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would arise from measuring assets and liabilities or recognizing the corresponding gains and losses in different forms; (ii) the assets and liabilities are part of a group of financial assets, financial liabilities or both, which are managed and have their performances evaluated on a fair value basis, pursuant to a documented risk management or investment strategy; or (iii) the financial instrument has one or more embedded derivatives, which significantly modifies the cash flow that would be required by the contract.

It is not possible to perform transfers of financial assets classified in this category to other categories, with the exception of non-derivative financial assets held for trading, which can be reclassified after initial recognition when: (i) in rare circumstances, the financial instrument is no longer held with the purpose of sale in the near term; or (ii) it meets the definition of a loan and receivable, and if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

The financial instruments recorded in this category are initially recognized at fair value and their yields (interest and dividends) are appropriated as interest revenue. Transaction costs, when incurred, are immediately recognized in the consolidated statement of income.

Realized and unrealized gains and losses related to variations in the fair value of these instruments are included in net gains/(losses) on financial assets/liabilities at fair value through profit or loss.

Financial assets recorded in this category comprise securities and derivative financial instruments held for trading.

Embedded derivatives – Some hybrid contracts may contain a derivative and a non-derivative component. In such cases, the derivative component is known as an embedded derivative and the non-derivative component represents the main contract. When the risks and economic characteristics of embedded derivatives are not strictly related to the risks of the host contract, and this contract is not carried at fair value through profit or loss, the embedded derivative is bifurcated and reported at fair value, with gains and losses recognized in net gains/(losses) on financial assets/liabilities at fair value through profit or loss.

Financial assets available for sale – The Bank classifies securities as financial assets available-for-sale when, in the opinion of Management, they can be sold in response to or in anticipation of changes in the market conditions.

These securities are initially accounted for at fair value, including direct costs and incremental transaction costs. Also, the subsequent measuring of these instruments is recorded at fair value.

Unrealized gains or losses (net of taxes) are recorded in a separate component of stockholders' equity (accumulated other comprehensive income) until their divestiture. The yields (interest, dividends) of these assets are allocated as interest income. Gains and losses realized in the divestiture of securities available for sale are included in the consolidated statement of income as gains/(losses) on financial assets available for sale, on the date of the disposal.

Upon the occurrence of reclassification of financial assets available for sale to the trading category, the unrealized gain or loss up to the reclassification date, which is recorded in other accumulated comprehensive income, is immediately transferred to net income for the period.

Financial assets available for sale are valued for purposes of determining their recoverable values as discussed in the section entitled "impairment of financial assets". Losses due to reduction to the recoverable value of these financial instruments are recognized in the consolidated statement of income, in gains/(losses) on financial assets available for sale, and written off from the amounts recorded in accumulated other comprehensive income.

Financial assets held to maturity – Financial assets that the Bank has the positive intention and proven financial ability to hold to maturity are classified as financial assets held to maturity and are initially accounted at fair value, including incremental transaction costs. These financial instruments are subsequently measured at amortized cost. Interest, including premiums and discounts, are recorded as financial assets interest income held to maturity.

The Bank does not classify any financial asset as held to maturity if it has, during the current financial year or during the two preceding financial years, sold or reclassified more than an insignificant amount of held-to-maturity investments before maturity, other than sales or reclassifications that: (i) are so close to maturity or to the call date of the financial asset that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; (ii) occur after the Bank has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or (iii) are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably foreseen by the entity.

Whenever the sales or reclassifications of more than an insignificant amount of held-to-maturity investments do not meet any of the conditions mentioned previously, any remaining held-to-maturity investment should be reclassified as available for sale.

Loans and receivables – Loans and receivables include non-derivative financial assets, with fixed or determinable payments, which are not quoted in an active market, except for: (i) those that the Bank intends to sell immediately or in the near term, which will be classified as held for trading, and those that the Bank, upon initial recognition, designates as financial assets at fair value through profit or loss, or available for sale; or (ii) those for which the Bank may not recover substantially all of its initial investment, other than due to reduction in the recoverable amount of the credit (impairment).

The loans and receivables are presented in the consolidated balance sheet and subdivided into four categories: (i) mandatory deposits in central banks; (ii) loans to financial institutions; (iii) loans to customers; and (iv) repurchase agreements, whose realization date is above three months.

- **Compulsory deposits in central banks** – Compulsory deposits in central bank refer to a proportion of demand, term and savings deposits that are paid to the central banks of the countries where the Bank has operations. In Brazil, the Conselho Monetário Nacional (CMN) determines the proportion of deposits that banks are obligated to make on a compulsory basis, which are substantially subject to the remuneration defined by the regulatory agency.

Compulsory deposits are initially recorded at fair value, and subsequently valued, when applicable, at amortized cost. These assets are recorded at the amount of principal, plus financial charges allocated (if any). The respective financial income is recorded in interest income on mandatory deposits in central banks.

- **Loans to financial institutions** – Loans to financial institutions are formed by interbank deposits with a period of realization more than three months and by acquisition of loan portfolios with co-obligation of the assignor. These assets are recorded at the amount of principal, plus financial charges allocated, including interests, premiums or discounts. The respective financial income is recorded in interest income on loans to financial institutions.

- **Loans to customers** – Loans to customers are financial assets with fixed or determinable payments, initially recognized at fair value, and subsequently valued at amortized cost using the effective interest rate. They are shown at the amount of principal, plus financial charges allocated, including the interest and the contractual indexation (monetary and exchange variation, if there is). Financial charges are recorded on the accrual basis and added to the amount of principal in each period. Financial income generated by loans to customers is recorded in Interest income from loans to customers.

Revenue should only be recognized when there is expectation that it would be realized. Thus, the Bank adopts the policy to suspend the accrual of interests and financial charges in all loans to customers deemed as uncollectible in relation to the principal or to charges. These loans to customers, whose accrual of financial charges is discontinued, are henceforth considered non-performing loans. The interest of these loans is recorded as a reduction of the principal when collected.

The carrying amount of loans to customers is reduced by a provision account and the amount of the impairment loss is recognized in net income as expenses with allowance for loan losses, representing the estimate of the Bank's management of losses incurred in the portfolio. The level of provision is determined based on estimates that consider the occurrence of loss event, the current economic scenarios, other assumptions and judgments of Management, including previous experience with losses in the loan to customers' portfolio, existence of guarantees and the appraisal of the individual risk of clients.

Repurchase and reverse repurchase agreements – The Bank invests in securities with resale agreements and raises funds selling securities with repurchase agreements, comprised mainly of Brazilian federal securities. These securities are treated as collateralized financing and are recognized initially at fair value, being the amount of cash disbursed and received, respectively.

Securities sold with repurchase agreements are not derecognized, as the Bank retains substantially all property risks and benefits. The amount of cash received, including recognized interest, is recognized as a liability for repurchase and resale agreements, reflecting the economic substance of the transaction as a Bank debt.

The amount paid by securities acquired with resale agreements, including recognized interest, is recorded as an asset from repurchase and resale agreements, reflecting the economic substance of the transaction as a loan granted by the Bank.

The Bank continuously monitors and evaluates the fair value of securities acquired with resale agreements and adjusts the collateral amount, if necessary.

Financial liabilities – An instrument is classified as a financial liability when there is a contractual obligation of its settlement through the delivery of cash or other financial asset, regardless of its legal form. Financial liabilities include short-term and long term debts issued which are initially measured at fair value, which is the amount received, net of incurred transaction costs, and subsequently at amortized cost.

Financial liabilities held for trading and those designated by Management as financial liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. Financial liabilities recorded at fair value mainly refer to derivative financial instruments held for trading.

When an existing financial liability is replaced by another from the same lender under substantially different terms, or the terms of the existing liability are substantially modified, such exchange or modification is treated as a write-off of the original liability and the recognition of a new liability, and the difference in the carrying amount is recognized in net income of the period.

Securities lending and securities borrowing – Securities lending and securities borrowing transactions are generally backed by other securities or by other funds available. The transfer of the security to third parties is reflected in the consolidated balance sheet only if the risks and benefits of possession are also transferred. Cash paid or received as collateral is recorded as an asset or liability.

Borrowing securities are not recognized in the consolidated balance sheet, unless they have been sold to third parties. In this case, the obligation to return the security is recorded as financial liability held for trading and measured at fair value, with any gain or loss accounted for in net gains/(losses) on financial assets/liabilities at fair value through profit or loss.

Determination of fair value – Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of financial instruments traded in active markets on the base date of the balance sheet is based on the quoted market price or on the quotation of the over-the-counter price (sale price for long positions or purchase price for short positions), without any transaction cost deduction.

In situations in which there is no market price for a particular financial instrument, the Bank estimates its fair value based on valuation methods commonly used in financial markets, appropriate for the specific characteristics of the instrument and that capture the various risks to which it is exposed. Valuation methods include: The discounted cash flow method, comparison with similar financial instruments for which there is a market with observable prices, option pricing model, credit models and other known valuation models.

The aforesaid models are adjusted to capture the variation of purchase and sale prices, the cost of settlement of the position, to serve as a counter entry to credit and liquidity variations, and mainly, to overcome the theoretical limitations inherent to the models.

Internal pricing models may involve estimates and judgment of Management, which intensity will depend, among other factors, on the complexity of the financial instrument.

The measurement methods used by the Bank to establish the fair value of financial instruments are described in Note 38.

g) Derecognition of financial assets and liabilities

Financial assets – A financial asset is derecognized when (i) the contractual rights relating to the respective cash flows expire; (ii) the Bank transfers to third parties all the risks and rewards associated with the operation; or (iii) when control over the asset is transferred, even with the Bank having retained part of the risks and rewards associated with the transaction.

The rights and obligations retained in the transfer are recognized separately as assets and as liabilities, when appropriate. If control over the asset is retained, the Bank continues to recognize it to the extent of its continuous involvement, which is determined by the extent to which it remains exposed to changes in the value of the asset transferred.

Financial liabilities– A financial liability is derecognized when the respective obligation is eliminated, cancelled or expired. If an existing financial liability is replaced by another from the same lender under substantially different terms, or the terms of the existing liability are substantially modified, such modification is treated as derecognition of the original liability and the recognition of a new liability, and the difference between the respective carrying amounts is recognized in net income.

h) Hedge Accounting

The Bank uses derivative instruments to manage exposures to interest rate, foreign exchange variation and credit risks, including exposure generated from future transactions and firm commitments. To manage a specific risk, the Bank applies hedge accounting to transactions that meet the specific criteria.

At the start of the hedge relationship, the Bank formalizes the process by means of documentation of the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and the strategy of designating the hedge and the method to be used to assess the effectiveness of the hedge relationship.

Also at the start of the hedge relationship, the Bank performs a formal evaluation to guarantee that the hedge instrument is highly effective in nullifying the risk designated in the hedge relation. A hedge is expected to be highly effective if the variation in the fair value or cash flow attributed to the risk that is being protected during the period in the hedge relation nullifies from 80% to 125% of the risk variation. In situations in which the hedged item is a future transaction, the Bank evaluates whether the transaction is highly probable and presents an exposure to cash flow variations that may eventually affect the statement of income.

For hedged items that no longer compose the hedging program and remain recognized in the balance sheet, the fair value adjustment is incorporated into the cost of the hedged item and prospectively recorded at amortized cost using the effective interest rate.

Fair value hedge – For designated and qualified fair value hedges, the variation in the fair value of a derivative designated for hedge is recognized in the statement of income in net gains /(losses) on financial assets/liabilities at fair value through profit or loss. The variation of the fair value of the hedged item attributed to the risk that is covered is recorded as part of its carrying amount and is also recognized in the statement of income. The fair values of the hedge instruments are presented in the consolidated balance sheet in financial assets or liabilities at fair value through profit or loss.

In cases where the hedging instrument is sold, cancelled or exercised, or when the hedge position does not meet the criteria for hedge accounting, the hedge relation is terminated. For hedged items recorded at amortized cost, the difference between the carrying amount of the hedged item at the end and the notional amount is amortized over the remaining period of the original hedge, using the agreed rate. If the hedged item is sold, adjustment to the unamortized fair value is recognized immediately in income for the period.

The Bank uses derivative financial instruments essentially designated for protection against market risk. The instruments used are futures, swap or option contracts. The portfolio of derivatives designated as hedge of market risk is described in the Note 39.

Cash flow hedge – For designated and qualified cash flow hedges, the effective part of the gain or of loss in the hedging instrument is initially recognized as a separate element of stockholders' equity, in accumulated other comprehensive income. The non-effective part of the gain or loss of the hedging instrument is immediately recognized in the statement of income.

When the cash flow hedge affects the statement of income, the gain or loss in the hedging instrument is recorded in net gains/(losses) on financial assets/liabilities at fair value through profit or loss. When the hedging instrument matures, or is sold, cancelled, exercised, or fails to meet the criteria for hedge accounting, any cumulative gain or loss existing in stockholders' equity remains there until the hedged future transaction is recognized in the consolidated statement of income. When a future transaction is no longer expected to occur, the cumulative gain or loss recorded in stockholders' equity is immediately transferred to income for the period.

The Bank does not have derivative financial instruments designated and qualified for cash flow hedging.

Hedge of net investment in foreign operations – Hedges of net investments in foreign operations, including hedges of monetary items that are recorded as part of the net investment, are accounted for similarly to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in stockholders' equity, while any gains or losses relating to the non-effective portion are recognized in income. In the disposal of the foreign operation, the cumulative value of gains or losses recognized directly in stockholders' equity is transferred to income for the period.

Derivatives not qualified for hedging – Derivatives contracts executed as economic hedges, which do not qualify for hedge accounting, are classified as derivative contracts at fair value through profit or loss. The derivative financial instruments used for these purposes are futures, swap, option and forward contracts, maintained mainly for protection against interest rate and foreign exchange variation risks, although these financial instruments do not qualify for hedge accounting.

i) Impairment of financial assets

At the end of each reporting period, the Bank evaluates whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered impaired if, cumulatively: (i) there is objective evidence of reduction in its recoverable amount as a result of one or more events occurring after initial recognition of the asset; (ii) the loss event has an impact on the estimated future cash flows of the financial asset; and (iii) a reliable estimate of the loss amount can be made. Losses expected as a result of future events, no matter how likely, are not recognized.

Objective evidence that a financial asset is impaired includes observable data that is evaluated by the Bank, particularly in relation to the following loss events: (i) significant financial difficulty of the issuer or obligor; (ii) a breach of contract, such as, delinquency or delay in payment of interest or principal; (iii) it will be likely that borrower shall file for bankruptcy or undergo another financial reorganization; and (iv) the disappearance of an active market for this financial asset because of financial difficulties.

In some cases, the observable data required to estimate the amount of an impairment loss on a financial asset may be limited or no longer fully relevant to the current circumstances. In such cases, the Bank uses its judgment to estimate the amount of any impairment loss. The use of reasonable estimates is an essential part of the preparation of consolidated financial statements and does not undermine their reliability.

Financial assets subject to having their recoverable values tested are presented below.

Loans to customers – In evaluating the impairment of customer loans, the Bank verifies whether there is any objective evidence of losses in relation to these financial assets, with the objective of classifying them as loans with recoverability problems (impaired) and without recoverability problems (non-impaired).

The group of loans with impairment is evaluated in a segmented manner in keeping with the significance of loans, generating two different groups: (i) individually significant loans with impairment, for individualized handling; and (ii) individually non-significant loans with impairment, for collective handling.

For the segmentation of loans to customers with evidence of losses in individually significant and individually non-significant, management adopts as a parameter the corporate levels of authority for concession of the most significant loans. In this manner, the bank adopts as a cutoff point, for determination of the significance of loans, the maximum value of trading authority level for the performance of loans with legal entities, considering as such the amount of indebtedness of the client from which their new loans would require approval at a strategic decision-making level of the Bank.

The following items are verified to allow management to determine whether a loss event could materialize, on an individual basis: (i) the economic, financial and legal situation of the counterpart; (ii) retention of risks by the Bank, in relation to the operations of the counterparty; (iii) the counterparty's past business relationship with the Bank; and (iv) the situation of the credit-related guarantees. This scope allows the Bank to estimate, on each reporting date, the need for potential impairment of the financial assets considered individually.

The identification of a loss event for a counterparty in a specific operation means that all the other loans with that counterparty are also classified as having evidence of loss.

If the Bank determines that the loss events do not affect the recoverable value of the loans to individually evaluated clients, the financial assets are included in a group of assets with similar credit risk characteristics and the bank evaluates them collectively for impairment purposes. Loans to customers that are individually evaluated for impairment and for which impairment loss is recognized are not included in a collective evaluation of impairment.

The collective evaluation of impairment losses, applied to loans classified as individually non-significant impairment , is based on the application of the Historical Loss Rates - HLR observed in the Bank's portfolio. The HLR are determined by observing losses incurred by the Bank, on a monthly basis, as from the thirteenth month prior to the yearly closing date, in the case of loans with an unelapsed period of up to thirty-six months (called "short-term"), or from the nineteenth previous month, in the case of loans with an unelapsed period of more than thirty-six months (called "long-term").

The short-term monthly HLR is calculated by means of the monitoring, for up to twelve months, of the migrations of loans to losses against the opening book balance of loans selected in the month immediately prior to the twelve months of monitoring. The long-term monthly HLR is calculated in a similar manner to the short-term HLR, extending the loss monitoring period to up to eighteen months.

For the purpose of collective evaluation of impairment, the calculation of the monthly HLR is performed in a segmented manner by groupings of similar products/types, internal classification of risk of loss and types of clients, grouped according to the risk analysis methodology and credit limit.

If the evidence of impairment loss in a relationship with an individual counterparty or on a collective basis materializes, the amount of loss is recognized in net expenses with allowance for losses in loans to customers, in counter entry to an account of provision for reduction of the respective financial asset. The amounts recorded as provisions representing the estimate of the Bank's management of losses incurred in the portfolio and the level of provision is determined based on estimates that consider the occurrence of loss event, the current economic scenarios, other assumptions and judgments of Management.

If the amount of a previously recognized impairment loss decreases, and this situation can be related objectively to an event occurring after its recognition, it is reversed by reducing the respective provision account, and such a reversal is recognized in net income of the period.

Loans to customers are written off against the allowance for losses on loans when considered uncollectible or permanently defaulted. According to the judgment of Management, this occurs, usually when no payment is received after 360 days have elapsed since maturity. If a future write-off is subsequently recovered, the amount is credited in Allowance for loan losses. The impairment of loans to customers recorded as of December 31, 2012 and 2011, was considered by Management reasonable to cover losses incurred on the then existing loan portfolios.

Renegotiated loans – Whenever possible, the Bank seeks to restructure debts instead of taking definitive possession of the collateral. This may involve the extension of the payment time and agreement on new terms for the loan that will no longer be considered in arrears. Management continuously reviews renegotiated loans to guarantee that all the criteria are met and that future payments will occur. Loans continue subject to individual or collective impairment evaluation.

Financial assets available for sale – At each reporting date, the Bank assesses whether there is any objective evidence that its financial assets are impaired.

To establish whether there is objective evidence of impairment of a financial asset, the Bank verifies the likelihood of recovery of the its value, considering the following factors cumulatively: (i) duration and magnitude of the reduction of the asset's value below the carrying amount; (ii) historical behavior of the value of the asset and the experience recovering such assets; and (iii) likelihood of non-receipt of the assets' principal and interest, due to difficulties relating to the issuer, such as application for bankruptcy or filing for chapter 11, deterioration of the credit risk rating and financial difficulties, related, or not, to the market conditions of the sector in which the issuer operates.

When a decline in the fair value of a financial asset available for sale has been recognized in other comprehensive income and there is objective evidence of impairment, the accumulated loss that has been recognized by the Bank will be reclassified from stockholders' equity to income for the period as a reclassification adjustment, even if the financial asset has not been written off.

The value of the accumulated loss reclassified to income for the period will be recorded in net gains/(losses) on financial assets available for sale and corresponds to the difference between the carrying amount of the devalued asset and its fair value on the date of the valuation, minus any loss due to impairment previously recognized in income.

Reversals of impairment losses on assets classified as available for sale are only recognized in stockholders' equity when they consist of investments in equity instruments. In the case of investments in debt instruments, the reversal of the impairment loss will be recognized directly in income for the period.

Financial assets held to maturity – If there is objective evidence of impairment of financial assets held to maturity, the Bank recognizes a loss, the amount of which corresponds to the difference between the carrying amount of the asset and the present values of estimated future cash flows. If, in a subsequent period, the amount of the impairment loss decreases and this decrease can be objectively related to an event occurring after the impairment recognition, it is reversed in a contra entry to net income for the year.

j) Offsetting financial instruments

Financial assets and liabilities are stated at net amount if, and only if, there is a legal right to offset one with the other and if there is an intention to settle them in this manner, or to realize an asset and to settle a liability simultaneously. In other situations they are presented gross.

k) Property and equipment in use

Fixed assets for use, including leasehold improvements, are recorded at acquisition cost excluding the maintenance expenses less the accumulated depreciation and impairment losses. The sum attributed to the property and equipment includes the monetary correction calculated up to June 30, 1997, date that Brazil was no longer considered a hyperinflationary economy country.

Depreciation is calculated using the straight-line method in order to reduce the cost of the property, plant and equipment to its residual value throughout its estimated useful lives and land is not depreciated. The useful lives estimated by the Bank for property and equipment in use items are presented as follows.

	Estimated useful life
Buildings (1)	From 10 to 55 years
Furniture and equipment	10 years
Improvements to third-party property	From 5 to 10 years
Data processing equipment	5 years
Vehicles	5 years
Other	From 5 to 10 years

(1) For depreciation of owned buildings, the Bank considers the useful life of the various components of a building.

Property and equipment are written off when future economic benefits associated to them are no longer expected from its use or when disposed. Any gain or loss generated on disposals is recognized in other non-interest income, having an impact in the income of the period in which the asset was disposed.

l) Goodwill and other intangible assets

Goodwill on the acquisition of subsidiaries and joint ventures is accounted for by taking into consideration the fair value of the identifiable assets and liabilities of the acquired company on the acquisition date and it is not amortized. However, it is tested at least annually for impairment. After the initial recognition, the goodwill is measured at the cost less any accumulated impairment losses.

Intangible assets are recognized separately from goodwill when they are separable or arise from contractual or other legal rights, and their fair value can be reliably and is possible that the estimated future economic benefits will be transferred to the Bank. The cost of the intangible assets acquired in a business combination is the fair value on the acquisition date. Intangible assets acquired independently are initially measured at cost

The useful life of the intangible assets is considered finite or indefinite. Intangible assets with finite useful life are amortized throughout its economic life. They are initially stated at cost, less accumulated amortization and impairment losses. Intangible assets with indefinite useful life are stated at cost, less any impairment losses.

Costs incurred related to the acquisition, production and development of software are capitalized and recorded as intangible assets. Expenses incurred in the development phase of a project are capitalized as cost of software. Expenditures incurred in the research phase are recorded in expense. Personnel expenses that are capitalized refer to the income, social charges and benefits of employees directly involved in software development.

Intangible assets with finite useful life are amortized on a straight-line basis over the estimated useful life. Amortization period and method of an intangible asset with defined useful life are reviewed at least on an annual basis. Changes to expected useful life or expected rate of use of future benefits incorporated to the asset are recognized through changing amortization period or method, when adequate, and treated as changes to accounting estimates.

The expenses from the amortization of intangible assets with finite useful life are recognized in the income or loss for the period, under "amortization of intangible assets". Impairment losses are recorded as adjustment to recoverable value expenses (other expenses) in consolidated statement of income.

The amortization is calculated using the straight-line method in order to reduce the cost of intangible assets to its residual values throughout its estimated useful lives. The useful lives estimated by the Bank for intangible assets are presented as follows.

	Estimated useful life
Software	5 years
Rights due to payroll management	From 5 to 10 years
Related to customers, acquired in business combinations	From 2 to 20 years
Related to contracts, acquired in business combinations	From 3 to 10 years
Others (1)	From 5 to 25 years

(1) Mainly includes brands acquired in business combinations and rights to use of concessions rights held by Neoenergia S.A.

m) Non-operating assets

Non-operating assets are mainly the assets received by the Bank in the settlement of loans to customers. These assets are recorded in the other assets upon the effective realization of the collateral, or when their physical possession is obtained, regardless of foreclosure process.

In the initial recognition, non-operating assets are recorded at (i) fair value less the estimated costs for its sale or (ii) carrying amount of the loan granted subject to recovery. Subsequently, these assets are recorded at the lower of their cost or fair value less selling costs and they are not depreciated.

Insofar as non-operating assets meet the necessary conditions for their disposal, they are reclassified to the non-current assets available for sale. The information on non-operating assets classified as available for sale are described in Note 23.

Net gains or losses on the sale are recorded in other non-interest income.

n) Impairment in non-financial assets

At the end of each reporting period, the Bank assesses, based on internal and external sources of information, whether there is any indication that a non-financial asset may be impaired. If there is indication of impairment, the Bank estimates the recoverable amount of the asset. The recoverable amount of the asset is its fair value, less the costs to sell it or its value in use.

Regardless of the existence of any indication of impairment, the Bank annually tests for impairment intangible assets with indefinite useful life, including goodwill acquired in a business combination, or an intangible asset not yet available for use. This test may be performed at any time during the year, provided that it is carried out at the same time every year.

In case the recoverable value of the asset is lower than its carrying amount, the carrying amount of the asset is reduced to its recoverable value through a provision for impairment losses, whose contra-entry is recognized in income for the period in which is occurs, under other expenses.

The Bank also evaluates, at the end of each reporting period, if there is any indication that an impairment loss recognized in prior periods for an asset, except for goodwill due to expected future earnings, may not exist anymore or may have decreased. If there is indication of impairment, the Bank estimates the recoverable amount of this asset. Reversal of impairment losses of an asset will be immediately recognized in income for the period, rectifying other expenses balance.

The main non-financial assets subject to impairment testes are presented below.

Property and equipment

Land and buildings – upon determination of land and building recoverable value, technical evaluations in conformity with ABNT (Brazilian Association of Technical Standards) are conducted, which establishes general concepts, methods and procedures of compulsory use in urban property evaluation technical services.

Data processing equipment – in the determination of recoverable value of relevant items that comprise data processing equipment, market values of components whose market value is available are considered and, for other items, the value that may be recovered for use in Bank operations is considered, and its calculation considers cash flow projections of benefits from using each asset during its useful life, adjusted to present value.

Other property and equipment items – although being subject to loss indication analysis, other items of property and equipment in use have low individual values and, considering cost effectiveness, the Bank does not evaluate the recoverable value of these items on an individual basis. However, the Bank conducts annual inventory counts with the purpose of writing-off accounting records of lost or deteriorated assets.

Investments in associates and goodwill on investments

The methodology for determining recoverable value of investments and goodwill from future expected earnings consists in measuring expected result from investment through discounted cash flow. To measure this result, assumptions are based on (i) projections of operations, results and companies' investment plans; (ii) macroeconomic scenarios developed by the Bank; and (iii) internal methodology to determine the cost of capital based on the Capital Asset Pricing Model – CAPM model.

For goodwill generated by the acquisition of Banco Nossa Caixa, which was merged into Banco do Brasil in November 2009, the methodology consists of comparing the goodwill amount paid with present value of the Bank's results projected for the state of São Paulo, less net assets with defined useful lives. Projections are based on verified results and evolve based on earnings growth assumptions for Banco do Brasil, and are discounted based on the Bank's capital cost.

Other intangible assets

Rights due to the acquisition of payrolls – Model to evaluate the recoverable value of payroll acquisitions uses the performance of contracts, which are calculated based on client relationship contribution margins that are related to each contract, so as to verify if projects that justified the asset acquisition correspond to the actual performance. For contracts that do not reach expected performance, a provision for impairment is recognized.

Software – Software that is developed internally to meet the Bank's necessities receive constant investment for modernization and adequacy to new technologies and business needs. As there is no similar software in the market, and the cost to implement measurements that permit the calculation of its value in use is high, the recoverability test for software consists of evaluating its utility to the company so that, whenever the software is not used anymore, its value is written-off from accounting records.

Right to explore Banco Postal chain – The methodology to evaluate the recoverable amount of the right to use the network of the Banco Postal involves the calculation of the present value of income flows from operations contracted through Banco Postal, that are projected based on realized values and assumptions defined in the business plan, and are discounted based on the weighted average cost of capital (WACC).

Acquired through business combination – intangible assets acquired through business combination, mainly represented by trademarks and rights related to clients and contracts, are evaluated at the end of each reporting period to verify if there are indications of impairment losses. If there is any indication for these assets, the Bank estimates its recoverable value. Methodology to calculate the recoverable value consists of determining the present value of cash flows estimated for these intangible assets, discounted at a rate that reflects current market evaluations and specific risks of each asset.

Other assets

Non-operating assets – regardless of the existence of loss indications, non-operating assets have their recoverable value evaluated on a half annual basis, through the formalization of their market values in appraisal reports, prepared according to ABNT standards.

o) Lease operations

Bank as lessor – Assets leased to customers under agreements which transfer substantially all the risks and reward of ownership, with or ultimate legal title, are classified as finance leases. In a finance lease, the leased asset is written off and a loan to customers is recognized in an amount equal to the present value of the minimum lease payments, discounted at an implicit interest rate. Income from finance leases is recognized over the lease term based on a rate of return on the net investment.

Assets leased to customers under agreements which do not transfer substantially all the risks and rewards of ownership are classified as operational leases. Leased assets are included in property, plant and equipment and depreciation is calculated in accordance with the depreciated amount defined according to the estimated economic useful life of these assets. The income from operational leases is recognized through the straight-line method over the lease term. Initial direct costs incurred for negotiation and structuring of an operating lease are added to the carrying amount of the leased asset and recognized as an expense, on the same basis that lease revenue.

The financial leases, where the Bank is lessor, receive the same treatment as loans to customers and are recorded in the total amount of loans receivable, plus the estimated residual value of the leased asset, minus the non-accrued revenue.

Bank as lessee – Assets obtained under finance leases are initially recognized at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability is included in the Consolidated Balance Sheet as a long-term obligation. The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if it is practicable to determine it, or the incremental borrowing rate. Contingent rentals are recognized as an expense in the periods in which they are incurred. Rentals contracted under operating lease are recognized as an expense on a straight-line basis over the lease term, which starts when the Bank controls the physical use of the asset. Lease incentives are treated as a reduction of the lease expense and are also recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Sale and leaseback transactions – If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount of the asset is not immediately recognized as income by the Bank, but is deferred and amortized over the lease term. If a sale and leaseback transaction results in an operating lease, the timing of profit recognition is a result of the difference between the sales price and fair value. If the sales price is at fair value or below, any profit or loss is recognized immediately. If the sales price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used.

p) Loyalty program of customer

Loyalty programs are used by the Bank to provide its customers with incentives to purchase products or services. In some cases, if a client acquires products or services, the Bank grants them credits, frequently defined as points. The customer can exchange points for awards such as products or services from the Bank itself, or exchange them for products offered by a partner.

Part of the revenue received in sale of products and services is allocated to award credits and recognized as a liability until the Bank performs its obligation of delivering the awards to the customers.

The amount allocated to the points is measured at fair value based on historic average of use of the loyalty points and on fair value of the awards for which the points can be redeemed.

q) Financial guarantees provided

The Bank provides financial guarantee to clients before third parties in loan agreements. Financial guarantee contracts are those that require the issuer to make payments to a creditor on behalf of a third debtor when this party does not make these payments under the terms of the debt instrument.

Upon the granting of a financial guarantee, a liability is recorded at fair value relating to the premium received in the transaction, which is recognized as income over the contract term. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the amount initially recognized, less amortization, and the best estimate of the financial obligation arising. Impairment losses on financial guarantees are recorded in other liabilities.

r) Benefits for employees

Short-term benefits – Expenses relating to short-term employee benefits are recognized on an accrual basis during the periods when the employees render the services.

Post-employment benefit plans – In defined-contribution plans, the actuarial risk and the investment risk arise from the participants. Consequently, no actuarial valuation is required when measuring the obligation or expense. Thus, the expense is recognized as an entry to contributions of the period to which they refer.

In defined benefit plans, the actuarial risk and the investment risk fall either partially or fully on the sponsoring entity. Consequently, actuarial calculation is required when measuring the obligation or expense, and there are actuarial gains or losses possible. Consequently, the Bank records a liability when the present value of actuarial liabilities is higher than the fair value of plan assets, or an asset, when the fair value of assets is higher than the present value of the plan obligations. In this latter circumstance, the asset should only be recorded when there is evidence that it may effectively reduce the Bank's contributions or that it will be reimbursable in the future.

The portion of actuarial gains or losses recognized in the Bank's net income corresponds to the excess that did not fit into the corridor range, divided by the remaining average time of work of the employees participating in the plan. The corridor corresponds to the highest value between: (i) 10% of the present value of the plan actuarial liability of the defined benefit; and (ii) 10% of the fair value of plan assets.

The Bank adopted the procedure of recognizing the gains / losses in the same year in which the actuarial calculation was performed.

Contributions to be paid by the Bank to medical assistance plans in some cases will endure after the employee’s retirement. Therefore, the Banks obligations are evaluated by the present actuarial value of the contributions to be paid over the expected period when the plan participants and beneficiaries will be linked to the plan. Such obligations are evaluated and recognized under the same criteria used for defined benefit plans.

The actuarial asset recognized in the consolidated balance sheet refers to the actuarial gains and its realization must occur by the end of the plan. There may be partial realizations of this asset, contingent upon the fulfillment of the requirements of the law.

s) Provisions, contingent liabilities and legal liabilities

The Bank recognizes provisions when conditions show that: (i) the Bank has a present obligation (legal or constructive) resulting from past events; (ii) it is more probable than not that a disbursement of funds that incorporate economic benefits will be required to settle the obligation; and (iii) the value of the obligation is presented based on reliable estimates. Provisions are formed based on our best estimate of probable losses.

The Bank continuously monitors the lawsuits in progress to evaluate, among other things: (i) their nature and complexity; (ii) the progress of proceedings; (iii) the opinion of the Bank's lawyers; and (iv) the Bank's experience with similar proceedings. In determining whether a loss is probable, the Bank considers: (i) the likelihood of loss resulting from claims that occurred prior to or on the balance sheet date, but that were identified after that date, yet prior to its disclosure; and (ii) the need to disclose the claims or events that occur after the balance sheet date, but prior to its publication.

The Bank also recognizes in its liabilities tax obligations subject to legal discussions on the constitutionality of laws that established them, up to the effective extinction of corresponding tax credits. In these situations, the Bank considers that in fact there is a legal obligation to pay to the government. Accordingly, the legal obligation should be recorded, including interest and other charges, if applicable. Bookkeeping of these legal obligations results in judicial deposits being recorded.

t) Income taxes

The income and social contribution taxes are income taxes applicable to financial institutions in Brazil. Income tax is owed by the taxpayer (individual or legal entity) to the state based on the occurrence of a generating event, calculated through the application of a rate to a calculation basis.

Income tax is calculated at the rate of 15%, plus a surcharge of 10%, and social contribution at the rate of 15% for financial institutions, insurance companies and credit card administrators, after making the adjustments determined by tax legislation. For non-financial entities, the rate of social contribution is 9%.

Income tax comprises current taxes and deferred taxes and is recognized in net income, except when related to items that are recognized directly in stockholders' equity, in other accumulated comprehensive income. Taxes recognized in stockholders' equity are subsequently recognized in net income, as the gains and losses from which they originate from are realized.

Current taxes – current tax expense is the amount of income tax and social contribution payable or recoverable in relation to taxable income for the period.

Current tax assets are the amounts of income tax and of social contribution to be recovered in the next 12 months. Current taxes related to current and prior periods should, to the extent in which they are not paid, be recognized as liabilities. If the amount already paid for current and prior periods exceeds the amount owed for those periods, the excess should be recognized as an asset.

Current and prior taxable assets and liabilities are measured at expected recoverable value or at recoverable value paid to tax authorities. Tax rates and tax laws used to calculate the amount are those that are effective on the balance sheet date.

Deferred taxes – these are amounts of tax assets and liabilities to be recovered and paid in future periods, respectively. Deferred tax liabilities originate from taxable temporary differences and deferred tax assets from deductible temporary differences and from unused tax losses carryforward.

Deferred tax assets from income tax and social contribution losses and from temporary differences are recognized to the extent that the existence of taxable income against which deductible temporary differences may be used is probable.

carrying amounts of deferred tax assets will be reviewed at the end of each reporting period. The Bank will reduce deferred tax asset carrying amount to the extent in which it is no longer probable that it will obtain taxable income sufficient to permit that the benefit from part or the totality of this deferred tax asset is used. Any reduction will be reversed to the extent in which it is probable that the entity will obtain sufficient taxable income

Deferred tax assets and liabilities are measured at tax rates that are expected to be applicable in the year in which the asset is realized or the liability is settled, based on tax rates (or tax law) that were substantively enacted on balance sheet date.

Temporary differences – meaning the differences that impact or may impact the calculation of income tax and social contribution arising from temporary differences between the tax bases of an asset or liability and its carrying amount in the consolidated balance sheet.

Temporary differences can be taxable or deductible. Taxable temporary differences are temporary differences that will result in taxable amounts to determine taxable income (tax loss) of future periods when the carrying amount of an asset or liability is recovered or settled. Deductible temporary differences are temporary differences that will result in deductible amounts to determine taxable income (tax loss) of future periods when the carrying amount of the asset or liability is recovered or settled.

The tax basis of an asset is the amount that will be deductible for tax purposes against any taxable economic benefits that will flow to the entity when it recovers that asset's carrying amount . If those economic benefits are not taxable, the asset's tax basis will be equal to its carrying amount .

The tax basis of a liability is its carrying amount less any amount that will be deductible for tax purposes, in relation to that liability, in future periods. In case of revenue received in advance, the resulting liability tax basis is its carrying amount less any revenue value that will not be taxable in future periods.

Offsetting income taxes

Assets from current taxes and liabilities from current taxes are offset if, and only if, the entity: (i) has the right, legally executable, of clearing recognized amounts; and (ii) intends to settle on net bases, or simultaneously realize the asset and settle the liability.

Assets from deferred taxes and liabilities from deferred taxes are offset if, and only if: (i) the company has the right, legally executable, of offsetting current tax assets against current tax liabilities; and (ii) deferred tax assets and deferred tax liabilities are related to taxes on income owed to the same tax authority: (a) in the same taxable entity; or (b) in different taxable entities that intend to settle liabilities and current tax assets on net bases, or simultaneously realize assets and settle liabilities, in each future period in which significant deferred tax assets or liabilities are expected to be settled or recovered.

u) Segment reporting

Information related to operating segments is consistent with the internal reports that are used by management to allocate resources and to assess their performance.

v) Liabilities due to insurance contracts

Banco do Brasil, through its joint ventures and insurance subsidiaries, issues contracts that contain insurance risks, financial risks or a combination of both. Contracts according to which the Bank accepts a significant non-financial risk from an insured person, committing to compensate him/her upon uncertain future events, are characterized as insurance contracts.

Insurance risk is significant if, and only if, the insured event produces effects on the insurance company, like significant additional benefit payments in any scenario, except for those that do not have commercial substance. Additional benefits refer to amounts that exceed those that would be paid if the insured event did not occur. Contracts classified as insurance contracts are not subsequently reclassified, even if the insurance risk is significantly reduced.

Reinsurance contracts are also treated the same as they represent a significant risk transfer.

Retirement benefit contract guarantee at the contract date, the calculation basis for the benefits that will be received after the contribution period. Said contracts specify annual fees, characterizing the transfer of the insurance risk to the issuer; accordingly, they are classified as insurance contracts.

Liabilities from insurance contracts are substantially comprised of technical and mathematical provisions, being recognized when the contract is recorded and the respective premium is issued, in case of insurance contracts, and charged, in case of pension plans. On the other hand, liability is written-off at the end of contract effectiveness, in case it is cancelled, among other applicable situations.

Technical and mathematical provisions are recognized in accordance with standards established by the Conselho Nacional de Seguros Privados (CNSP) for insurance and pension plans. Amounts are determined based on methods and hypotheses defined by the actuary agent and validated by Management, reflecting the best estimate current value, on calculation base date, of future obligations deriving from insurance and pension plan contracts.

At each presentation period, the Bank analyzes the adequacy of its liabilities in all contracts that meet an insurance contract definition and that are effective on execution date. Said procedure, called liability adequacy test, considers insurance contract liabilities less deferred trading expenses and related intangible assets as the net carrying amount . Said amount is compared to the actuarial test.

In case the analysis demonstrates that insurance liabilities' carrying amount is lower than expected contract future cash flows, this insufficiency should be recorded as an expense in results for the period and additional provisions for insurance liabilities should be recorded on test date.

All the valuation methods used by the joint ventures and subsidiaries insurance company are based on the general principle that the carrying amount of net liabilities needs to be sufficient to fulfill any foreseeable obligation resulting from the insurance contracts.

Investment assumptions are also determined by the local regulatory agency or based on future expectations of Management. In the latter case, the anticipated return on future investment is defined considering available market information and economic indicators. A significant assumption related to the estimate of gross income in variable annuities is the annual long-term growth rate of the underlying assets.

w) Earnings per share

The calculation of earnings per share is performed in two ways: (i) basic earnings per share and (ii) diluted earnings per share. The basic earnings per share are calculated by dividing net income by the weighted average of shares outstanding in each of the years presented.

Calculation of diluted earnings per share is made by dividing net profit of the year by the weighted average of outstanding shares, adjusted to reflect the effect of all potential common shares resulting from convertible securities. The effect of dilution results in a reduction in earnings per share, by reason of the assumption that convertible securities awarded will be exercised.

x) Interest on own capital and dividends

Brazilian companies are allowed to assign a nominal interest expense, deductible for fiscal purposes, on their own capital. The amount of interest on own capital is considered as a dividend and presented in the consolidated financial statements as a direct reduction in stockholders' equity. The corresponding tax benefit is recorded in the consolidated statement of income.

Dividends distributed by the Bank are calculated on net income determined in accordance with accounting practices adopted in Brazil applicable to financial institutions, and are paid plus financial charges equivalent to the Selic rate (basic interest rate of the Brazilian economy), accrued from the balance sheet closing date up to the date of the effective payment. At the beginning of each year, pursuant to the Bank's Bylaws, the Board of Directors resolves on the percentage of net profit to be distributed to stockholders as dividends and interest on own capital. The Bank's present policy is to pay dividends and interest on own capital equivalent to 40% on net profit, which are recognized as liability and deducted from net equity upon approval by the Board of Directors.

y) Improvements to IFRS and pronouncements recently issued

Improvements to IFRS are amendments issued by the IASB and comprise amendments that result in accounting changes for recognition, measurement and disclosure related to several IFRS standards. A summary of certain amendments, as well as interpretations and pronouncements recently issued by the IASB, which will become effective as of December 31, 2012:

IFRS 7 – Financial instruments: Disclosures On December 22, 2011, the IASB published amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosure to require information about all recognised financial instruments that are off set in accordance with paragraph 42 of IAS 32.

IFRS 7 is effective for annual periods beginning as of January 01, 2013.

IFRS 9 – Financial instruments: recognition and measurement – IFRS 9 is the first standard issued as part of a larger project to replace IAS 39, as many financial statements' users and other stakeholders considered that requirements included in IAS 39 were difficult to understand, apply and interpret. To answer several requests to quickly improve financial instruments' accounting, IAS 39 replacement project was divided into three main stages: (i) classification and measuring of financial assets; (ii) impairment; and (iii) hedge accounting.

Accordingly, in November 2009, IFRS 9 chapters related to the classification and measurement of financial assets were issued and, in October 2010, requirements related to the classification and measurement of financial liabilities were added.

IFRS 9 simplifies the model of measurement for financial assets and establishes two main categories of measurement: (i) amortized cost and (ii) fair value. Classification basis depends on the business model of the entity and the contractual characteristics of financial asset cash flows. In relation to financial liabilities measurement and classification requirements, the most significant effect refers to the accounting of variations in the fair value of a financial liability measured at fair value through income. Changes to fair values of said liabilities attributable to changes in credit risks are now recognized in other comprehensive income, unless the recognition of these changes' effects increase income accounting mismatch.

Guidance included in IAS 39 on impairment of financial assets and hedge accounting continues to be applied. IFRS 9 is effective for annual periods beginning as of January 01, 2015.

IFRS 10 – Consolidated financial statements – Replaces consolidation guidelines in IAS 27 and SIC 12, introducing a single consolidation model to be applied in the control analysis of all investees. In accordance with IFRS 10, control is based on the evaluation of whether the investor has (a) power over the investee, (b) exposure or rights on variable returns from its involvement with the investee, and (c) the capacity to use its power on the investee to affect return.

IFRS 10 is effective for annual periods beginning as of January 01, 2013.

IFRS 11 – Joint ventures – Replaces the IAS 31 and SIC 13. In accordance with IFRS 11, the equity method is mandatory and the method of proportional consolidation of jointly-owned subsidiaries is prohibited. IFRS 11 derives from the principle that the parties to a joint enterprise agreement should determine the type of common enterprise based on the evaluation of rights and obligations, conducting accounting recognition according to the type of joint enterprise. There are two kinds of Joint Ventures: (i) joint operations: rights and obligations on assets and liabilities concerning the agreement. The parties recognize their assets, liabilities and corresponding revenues and expenses proportionally to their interest in the operation; (ii) Joint venture: rights to the agreement net assets. The parties recognize their investments at the equity method.

IFRS 11 is effective for annual periods beginning as of January 01, 2013.

If the standard was already effective as of December 31, 2012, there would be a reduction of approximately R$ 128,440 million in total assets of the Bank.

IFRS 12 – Disclosure of involvement with other entities – Contain large disclosure requirements for entities that have interest in subsidiaries, joint ventures, associates and/or non-consolidated entities. The purpose of IFRS 12 is to allow that financial statements users evaluate: (i) the nature and risks associated to interests of one entity in other entities; (ii) the exposure to risks arising from the involvement with non-consolidated structured entities and the involvement of minority interest in the activities of consolidated entities; (iii) expanded disclosures on subsidiaries, joint agreements and associates; and (iv) the effects of interests in the entity's financial position, financial performance and cash flows.

IFRS 12 is effective for annual periods beginning as of January 01, 2013.

IFRS 13 – Measurement at fair value – This standard provides for a review of the fair value definition and guidelines on how it should be measured, together with a set of disclosure requirements. However, IFRS 13 does not change requirements regarding items that should be measured or disclosed at fair value.

IFRS 13 application is required for periods starting as of January 1, 2013. The anticipated application of the rule is allowed.

Amendments to IAS 1 – financial statements presentation – On June 16, 2011, the IASB published changes to IAS 1, with emphasis to the presentation of items included in the Comprehensive Income Statement and its classification. The change includes aspects related to disclosure and establishes the need to separate items linked to other comprehensive income that may be reclassified to income, in the future, from items that would never be reclassified to income or loss.

This revised standard is effective for periods beginning as of July 1, 2012 with allowed anticipated application.

Amendments to IAS 19 – employee benefits – On June 16, 2011, the IASB published a revised version of IAS 19. This revision introduces improvements to defined benefit plans presentation, not significantly changing measurement. The main changes are: (i) elimination of the corridor method, that is, immediate recognition of actuarial gains/losses for the period; (ii) rationalization of the presentation of changes in plans' assets and liabilities: financial and service costs, together with expected return of plan's assets, are recognized in income; Remeasurements, such as actuarial differences, should be directly recognized in stockholders' equity as Other comprehensive income; (iii) disclosure improvement to facilitate the understanding of these plans' risks.

These amendments are effective for periods beginning as of January 1, 2013 with allowed anticipated application.

If the standard was already effective as of December 31, 2012, it would have impacted the financial statements as follows:

R$ thousand

	Previ		Cassi		
	Plano 1	Plano Informal	Plano de Associados	Other Plans	Total
Increase/(decrease) in actuarial assets	(4,441,209)	-	-	23,649	(4,417,560)
(Increase)decrease in deferred tax liabilities	1,900,393	-	-	(10,119)	1,890,274
(Increase) in actuarial liabilities	-	(109,101)	(2,577,272)	(719,062)	(3,405,435)
Increase in deferred tax assets	-	43,640	1,030,909	287,625	1,362,174
Effect in Stockholders' Equity	**(2,540,816)**	**(65,461)**	**(1,546,363)**	**(417,907)**	**(4,570,547)**

Amendments to IAS 27 – individual financial statements – Maintain the same accounting and disclosure requirements as for separate financial statements. Remaining standards will be replaced by IFRS 10.

Amendments to IAS 27 are effective for annual periods starting as of January 1, 2013.

Amendments to IAS 28 – investments in associates and joint ventures – Changed to provide for the accounting of investments in associates and establish requirements for the application of the equity method on recording of investments in associates and joint ventures.

Amendments to IAS 28 are effective for annual periods starting as of January 1, 2013.

Amendments to IAS 32 – Financial Instruments: Presentation – On December, 2011, IASB disclosure changes to accounting requirements for the presentation of financial instruments, particularly as to the classification of such instruments into financial assets, financial liabilities and equity instruments, and to clarify that tax effect of a distribution to holders of equity instruments should be accounted for in accordance with IAS 12 - Income Taxes.

Amendments to IAS 32 are effective for annual periods starting as of January 1, 2014.

The Bank decided not to adopt these changes in advance and, based on preliminary assessment, expects to report a material effect on the financial position (total assets) after from adoption of IFRS 11 and amendments to IAS 19 on stockholder's equity. The Bank is assessing the adequacy of the fair values currently determined with the new definitions established by IFRS 13.

4 – Main judgments and accounting estimates

Preparation of the consolidated financial statements in accordance with IFRS requires the Bank's Management to make judgments and estimates affecting the recognized amounts of assets, liabilities, income and expenses. Estimates and assumptions adopted are analyzed on a continuous basis, and revisions are carried out and recognized in the period in which the estimate is reevaluated, with prospective effects. The actual results obtained may be different from estimates used herein.

Taking into consideration that there are certain alternatives to accounting treatments, the results which are disclosed by the Bank could be different, in the event a different treatment would have been chosen. Management considers that the choices made are appropriate and that the consolidated financial statements fairly present the consolidated financial position of the Bank and the result of its operations in all substantially relevant aspects.

Significant assets and liabilities subject to these estimates and assumptions encompass items for which an evaluation at fair value is necessary. The most relevant applications of the exercise on estimates judgment and usage occur in:

a) Fair value of financial instruments (including derivatives)

When the fair value of financial assets and liabilities cannot be derived from an active market, it is determined through evaluation techniques that include the use of mathematical models. These model variables are derived from data verifiable in the market whenever possible, but when market data is not available, judgment is necessary to establish fair value. The methodologies considered to measure the fair value of certain financial instrument are described in Note 38.

b) Impairment of loans to customers

The Bank performs a periodic review of its loan portfolio to evaluate if impairment losses should be recorded in the statement of income. The evaluation process of the loan portfolio in order to determine if a loss due to impairment should be recognized is subject to several estimates and judgments. This process includes observing factors that reflect changes to the operation risk profile and to the customer and that result in reducing future cash flow receipt estimates.

In estimating these cash flows, the Bank makes judgments regarding the client's financial-economic situation. These estimates are based on assumptions on several factors and, for this reason, actual results may vary, giving rise to future changes to the provision.

Loans to customers that are individually evaluated and do not present impairment losses, as well as all loans to customers that are not considered as significant on an individual basis, are collectively evaluated in groups of assets with similar risk characteristics to determine if a provision should be recorded for events that have already occurred and whose effects are not yet known.

In the process of evaluating loans to customers that are individually significant, the Bank verifies, in general: (i) the economic, financial and legal situation of the counterparty; (ii) retention of risks by the Bank, in relation to the operations of the counterparty; (iii) the counterparty's past business relationship with the Bank; and (iv) the situation of the credit-related collaterals. This scope allows the Bank to periodically estimate the need for a possible recognition of impairment losses of financial assets considered on an individual basis.

Collective assessment of loans to customers takes into consideration, among other factors, credit portfolio data, default’s levels, credit usage, risk concentration and economic data. Estimates are based on information obtained in a segment way by similar modality product/groups, operations risk internal classification and client type, grouped according to the risk and credit limit analysis methodology.

The Bank recognizes losses inherent to debt instruments not evaluated at fair value, taking into account the historical experience of impairment loss and other circumstances known upon assessment. With such purpose, inherent losses are losses incurred not yet allocated to specific transactions, calculated through statistical methods. The Bank adopts the concept of incurred loss to quantify the cost of provision for loan losses.

Other information about measurement methodology and assumptions used by the Bank to evaluate impairment losses from loans to customers, as well as amounts recorded as provision for losses may be obtained in Notes 3 and 22, respectively.

c) Impairment of financial assets available for sale

The Bank considers that an impairment of its financial assets available for sale exists when there is a significant or prolonged decline in its fair value to below cost. Such determination of what is significant or prolonged requires judgment in which the Bank evaluates, among other factors, the ordinary volatility of prices of financial instruments. In addition, the recognition of impairment may be appropriate whenever there is evidence of a negative impact in the financial health of the investee company, the performance of the relevant economic sector, changes in technology and in financing and operating cash flows.

Additionally, impairment evaluations take into consideration in its preparation the market prices (mark to market) or evaluation models (mark to model), which require utilization of certain assumptions or judgments in establishing fair value estimates.

d) Impairment of non-financial assets

At the end of each reporting period, the Bank assesses, based on internal and external sources of information, whether there is any indication that a non-financial asset may be impaired. If this indication exists, the Bank uses estimates to define the asset's recoverable value.

The Bank also evaluates, at the end of each reporting period, if there is any indication that an impairment loss recognized in prior periods for an asset, except for goodwill due to expected future earnings, may not exist anymore or may have decreased. If there is indication of impairment, the Bank estimates the recoverable amount of this asset.

Regardless of the existence of impairment loss indication, the Bank annually conducts impairment tests on intangible assets of indefinite useful lives, including goodwill acquired in a business combination, or on intangible assets not yet available for use.

Determining the recoverable value upon evaluation of non-financial assets impairment requires estimates based on market-quoted prices, present value calculations or other pricing techniques, or a combination of them, requiring Management to make subjective judgments and to adopt assumptions.

A more detailed discussion on the theme may be seen in Note 3 and Note 26.

e) Financial assets held to maturity

The Bank classifies its non-derivative financial assets with fixed or determined payments and maturities defined as financial instruments held to maturity, measured at amortized cost, according to IAS 39. Such classification requires a significant level of judgment.

In judgments, the Bank evaluates its intention and ability of maintaining these investments until maturity. If the Bank does not maintain these investments until maturity, except in specific circumstances - for example, to dispose a non-significant portion close to maturity - reclassification of the whole portfolio to financial assets available for sale is required, as well as its correspondent measurement at fair value and not at amortized cost. Investments classified as held to maturity are subjected to an impairment test, similar to that of financial assets available for sale.

f) Special purpose entities (SPE)

The Bank sponsors SPEs' with the main objective of entering into asset securitization transactions. The Bank only consolidates an SPE when it has control.

When evaluating if the Bank controls an SPE, judgment is used to determine if SPE activities are being conducted in favor of the Bank, so that it may obtain benefits from SPE operations; if the Bank has the power to control or to obtain the control of the SPE or its assets; if the Bank has the right to obtain the major part of benefits generated by SPE activities; and if the Bank retains the major part of risks related to the SPE or its assets.

The decision whether to consolidate an SPE or not requires the use of assumptions and estimates to ascertain residual gains and losses and to determine who retains the majority of such gains and losses.

g) Income taxes

Since the corporate object of the Bank is to obtain profits, the income generated is subject to income tax payment in the various jurisdictions where the Bank performs its operating activities. Determination of the global amount of income taxes requires certain interpretations and estimates. There are several transactions and calculations for which determination of the final value of tax payable is uncertain during the ordinary cycle of business. Other interpretations and estimates could result in a different value of income taxes recognized in the period.

The Brazilian tax authorities may review the procedures adopted by the Bank and by its subsidiaries during a period of five years from the date in which taxes are deemed to be due. Hence, it is likely that such tax authorities may question procedures adopted by the Bank, mainly those arising from differences in interpreting tax legislation. However, the Bank's Management believes that there will be no significant adjustments in income taxes stated in the consolidated financial statements.

h) Recognition and evaluation of deferred taxes

Deferred tax assets are calculated on temporary differences and on tax loss carry forwards, and are accounted for whenever the Bank expects to generate taxable profit in subsequent years in amounts sufficient to off-set such values. The expected realization of the Bank's tax credit is based on the projection of future income and on technical analysis, in line with the prevailing tax legislation.

The estimates considered by the Bank for the recognition and valuation of deferred taxes are reviewed based on current expectations and projections of future events and trends. Main assumptions identified by the Bank that may affect these estimates are related to factors such as: (i) changes in the amounts deposited, delinquency and customer base; (ii) changes in government regulations on tax matters; (iii) changes in the interest rates; (iv) changes in inflation rates; (v) lawsuits or legal disputes with an adverse impact on the Bank; (vi) credit and market risks, as well as other risks arising from loan and investment activities; (vii) changes in the market values of Brazilian securities, mainly Brazilian government securities; and (viii) changes in internal and external economic conditions.

i) Pension plans and other employee benefits

The Bank sponsors pension plans of defined contribution and defined benefit types. The actuarial valuation depends on various assumptions, among which the following are highlighted: (i) interest rates used; (ii) mortality tables; (iii) annual rate applied to the revision of retirement benefits; (iv) inflation index; (v) annual salary adjustment rate; and (iv) method used to calculate commitments related to vested rights of active employees. Changes in these assumptions could have a significant impact on the amounts determined.

j) Technical provisions of insurance liabilities

Technical and mathematical provisions related to insurance and pension plan contracts are recorded in accordance with the standards established by the CNSP (Conselho Nacional de Seguros Privados) for insurance and pension plans. Amounts are determined based on methods and hypotheses defined by the actuary agent and validated by Management, reflecting the best estimate current value, on calculation base date, of future obligations deriving from insurance and pension plan contracts.

At each presentation period, the Bank analyses the adequacy of its liabilities to all contracts that comply with the definition of an insurance contract and that are effective on execution date. Said procedure, called liability adequacy test, considers as net carrying amount , insurance contract liabilities less deferred trading expenses and related intangible assets.

To prepare this test, the Bank uses actuarial methodology to bring all future cash flows to present value, based on actuarial assumptions effective on test date. In this test, contracts are grouped based on similar risks or when the insurance risk is administered together with Management.

Main assumptions used by joint ventures and insurance subsidiaries to conduct the liability adequacy test were as follows: (i) discount rate used to bring projected flows to present value; (ii) claims rate, administrative and operating expenses, trading expenses, cancellation, future contributions, partial redemptions and conversion into income based on historic behavior; and (iii) mortality and survival follow biometric tables built specifically from the experience of the Brazilian insurance market.

Other information on the topic may be found in Notes 3 and 34.

k) Contingent liabilities

Contingent liabilities are recognized in the financial statements when, based on the opinion of Management and legal advisors, an outflow of financial resource for the settlement of the obligation is probable and when a reliable estimate can be made of the amount of the obligation.

Contingent liabilities are measured upon judicial notification and reviewed monthly, as follows:

Individual – processes related to claims considered unusual or whose value is considered relevant are evaluated by our legal advisors based on the following variables: the amount claimed; probability of an unfavorable decision; evidence presented; evaluation of legal precedents; other facts raised during the process; judicial decisions made during the course of the case; and the rating and the risk of lawsuits losses.

Aggregated – processes related to claims considered similar and usual, and whose values are not considered relevant are evaluated according to statistical parameter for groups of cases, type of judicial body (special civil court or common court) and prosecutor. For labor claims, provisions are based on the average payments for cases closed in the last 24 months, adjusted by the National Wide Consumer Price Index (IPCA). For civil claims, including related to economic plans, provisions are based on the average payments for cases closed in the last 24 months, without any adjustment.

Contingent liabilities, individually measured, considered as possible losses are not recognized in the balance sheet and only need to be disclosed in the notes to the financial statements, while those classified as remote do not require provisioning or disclosure.

5 − Consolidated financial statements

The Bank's consolidated financial statements include the Bank's branches and subsidiaries in Brazil and abroad, as well as its direct and indirect subsidiaries, SPEs and joint ventures. The significant balances of all the accounts, and transactions performed, between the consolidated companies were eliminated. Shareholding interest included in the consolidated financial statements, segregated by business segments are in the table below.

			Activity	Country in which it is setup	% Total Share Dec 31, 2012	Dec 31, 2011
Banking Segment						
Banco do Brasil – AG. Viena	(1)	(3)	Banking	Austria	100%	100%
BB Leasing Company Ltd.	(1)	(3)	Leasing	Cayman Islands	100%	100%
BB Leasing S.A. – Arrendamento Mercantil	(1)	(3)	Leasing	Brazil	100%	100%
BB Securities Asia Pte. Ltd.	(1)	(3)	Broker	Singapore	100%	100%
BB Securities LLC.	(1)	(3)	Broker	United States	100%	100%
BB Securities Ltd.	(1)	(3)	Broker	England	100%	100%
BB USA Holding Company, Inc.	(1)	(3)	Holding	United States	100%	100%
Brasilian American Merchant Bank	(1)	(3)	Banking	Cayman Islands	100%	100%
BB Americas	(1)	(3)	Banking	United States	100%	-
Besc Distribuidora de Títulos e Valores Mobiliários S.A.	(1)	(3)	Asset Management	Brazil	99,62%	99,62%
Banco Patagonia S.A.	(1)	(3)	Banking	Argentina	58,96%	58,96%
Banco Votorantim S.A.	(2)	(3)	Banking	Brazil	50%	50%
Investment Segment						
BB Banco de Investimento S.A.	(1)	(3)	Investment Bank	Brazil	100%	100%
Kepler Weber S.A.	(2)	(3)	Industry	Brazil	17,56%	17,56%
Neoenergia S.A.	(2)	(3)	Energy	Brazil	11,99%	11,99%
Fund management Segment						
BB Gestão de Recursos – Distribuidora de Títulos e Valores Mobiliários S.A.	(1)	(3)	Asset Management	Brazil	100%	100%
Insurance, private pension and capitalization Segment						
BB Seguridade Participações S.A.	(1)	(3)	Holding	Brazil	100%	-
BB Cor Participações S.A.	(1)	(3)	Holding	Brazil	100%	-
BB Corretora de Seguros e Administradora de Bens S.A.	(1)	(3)	Broker	Brazil	100%	100%
BB Seguros Participações S.A.	(1)	(3)	Holding	Brazil	100%	100%
Nossa Caixa Capitalização S.A.	(1)	(3)	Capitalization	Brazil	100%	100%
Aliança Participações S.A.	(2)	(5)	Holding	Brazil	-	74,99%
Companhia de Seguros Aliança do Brasil	(2)	(3)	Insurance company	Brazil	74,99%	74,99%
BB Mapfre SH1 Participações S.A.	(2)	(3)	Holding	Brazil	74,99%	74,99%
Mapfre Vida S.A.	(2)	(3)	Pension	Brazil	74,99%	74,99%
Mapfre Participações Ltda.	(2)	(5)	Holding	Brazil	-	74,99%
Vida Seguradora S.A.	(2)	(3)	Insurance company	Brazil	74,99%	74,99%
Brasilprev Seguros e Previdência S.A.	(2)	(3)	Insurance company/ Pension	Brazil	74,99%	74,99%
Brasilprev Nosso Futuro Seguros e Previdência S.A.	(2)	(3)	Insurance company/ Pension	Brazil	74,99%	49%
Brasilcap Capitalização S.A.	(2)	(3)	Capitalization	Brazil	66,66%	66,66%
Aliança do Brasil Seguros S.A.	(2)	(3)	Insurance company	Brazil	50%	50%
Aliança Rev Participações S.A.	(2)	(6)	Holding	Brazil	-	50%
Brasilveículos Companhia de Seguros	(2)	(3)	Insurance company	Brazil	50%	50%
Mapfre BB SH2 Participações S.A.	(2)	(3)	Holding	Brazil	50%	50%
Mapfre Seguros Gerais S.A.	(2)	(3)	Insurance company	Brazil	50%	50%
Mapfre Affinity Seguradora S.A.	(2)	(3)	Insurance company	Brazil	50%	50%
Votorantim Corretora de Seguros S.A.	(2)	(3)	Broker	Brazil	50%	50%
Mapfre Assistência S.A.	(2)	(3)	Service rendering	Brazil	50%	50%
Payment methods Segments						
BB Administradora de Cartões de Crédito S.A.	(1)	(3)	Service rendering	Brazil	100%	100%
BB Elo Cartões Participações S.A.	(1)	(3)	Holding	Brazil	100%	100%
Elo Participações S.A.	(2)	(3)	Holding	Brazil	49,99%	49,99%
Companhia Brasileira de Soluções e Serviços CBSS	(2)	(3)	Service rendering	Brazil	49,99%	49,99%
Elo Serviços S.A.	(2)	(3)	Service rendering	Brazil	33,33%	33,33%
Cielo S.A.	(2)	(3)	Service rendering	Brazil	28,68%	28,72%
Other Segments						
Ativos S.A. Securitizadora de Créditos Financeiros	(1)	(3)	Credit Acquisition	Brazil	100%	100%
Ativos S.A. Gestão de Cobrança e Recuperação de Crédito	(1)	(3)	Credit Acquisition	Brazil	100%	100%
BB Administradora de Consórcios S.A.	(1)	(3)	Purchasing Pools	Brazil	100%	100%
BB Tur Viagens e Turismo Ltda.	(1)	(4)	Tourism	Brazil	100%	100%
BB Money Transfers Inc.	(1)	(3)	Service rendering	United States	100%	100%
Cobra Tecnologia S.A.	(1)	(3)	IT	Brazil	99,97%	99,97%
BV Participações S.A.	(2)	(3)	Holding	Brazil	50%	50%

(1) Subsidiary.
(2) Joint venture included proportionately in the consolidation.
(3) The financial statements used for consolidation in these annual financial statements were dated as of December 31, 2012.
(4) The financial statements used for consolidation in these annual financial statements were dated as of November 30, 2012.
(5) Investment incorporated by BB Mapfre SH1 Participações S.A. in 2012.
(6) Investment incorporated by Mapfre BB SH2 Participações S.A. in 2012.

The following investment funds were also consolidated: BV Financeira FIDC V, BVIA Fundo de Investimento em Participações, Fundo de Investimento Nióbio I, as well as the special purpose entity located abroad named Dollar Diversified Payment Rights Finance Company, entities which are directly or indirectly controlled by the Bank.

In the first half of 2012, the companies of the Insurance, private pension and capitalization segment BB Aliança Participações S.A., BB Aliança Rev Participações S.A., Mapfre Vera Cruz Vida e Previdência S.A., Mapfre Vera Cruz Seguradora S.A. e Mapfre Riscos Especiais S.A. changed its corporate name to Aliança Participações S.A., Aliança Rev Participações S.A., Mapfre Vida S.A., Mapfre Seguros Gerais S.A. e Mapfre Affinity Seguradora S.A., respectively.

The Structuring of BB Seguridade and organization of subsidiaries BB Cor Participações S.A. and BB Seguridade Participações S.A. is disclosed in Note 6.c.

6 – Acquisitions, sales and corporate restructuring

a) Business combination acquisitions

<u>BB Americas (successor of EuroBank)</u>

BB Americas is an American financial institution headquartered in Florida (USA). The privately owned partnership has three branches located in the regions of Coral Gables, Pompano Beach and Boca Raton where it offers its services to American, Portuguese, Hispanic and to a small group of Brazilian customers.

On January 19, 2012, the closure of BB Americas shares acquisition was accomplished with payment of US$ 6 million to sellers and transfer of 835,855 common shares to Banco do Brasil, corresponding to entire voting capital of BB Americas.

In 2011, the acquisition has already gone through the following approvals:

- on May 31, 2011 – Banco do Brasil shareholders meeting;
- on August 9, 2011 – Banco Central do Brasil;
- on October 19, 2011 – Florida Office of Financial Regulation (OFR);
- on November 7, 2011 – Federal Deposit Insurance Company (FDIC); and
- on December 16, 2011 – Federal Reserve Board (FED).

With the acquisition of BB Americas, Banco do Brasil assessed the possibility which this acquisition will allow it to implement its expansion strategy in North America, especially in United States. This strategy is directly related to the care for Brazilian and Hispanic communities resident in that country.

The goodwill was calculated based on the fair value of the assets acquired and liabilities assumed determined through a purchase price allocation study carried out by a specialized department within the Bank.

Fair value of assets acquired and liabilities assumed from BB Americas

R$ thousand

	Jan 19, 2012
Cash and bank deposits	2,040
Loans to financial institutions	15,147
Financial assets available for sale	4,104
Loans to customers	67,636
Property and equipment	3,140
Intangible assets	14,292
Other assets	15,210
Fair value of the assets	**121,569**
Customer deposits	127,226
Long-term liabilities	5,414
Current tax liabilities	6
Other liabilities	3,996
Fair value of the liabilities	**136,642**
Fair value of the net assets (1)	**(15,073)**
Price for the acquisition of shares (100%)	(10,651)
Goodwill generated in the acquisition	**25,724**
Cash outflows for the acquisition of the subsidiary	
Cash and bank deposits acquired with the subsidiary	2,040
Cash consideration	(10,651)
Net cash balance	**(8,611)**

(1) The carrying amount of net assets on January 19, 2012 was (R$ 27,203) thousand.

Identified intangible assets from this acquisition

R$ thousand

	Jan 19, 2012
Distribution channels	10,585
Related to customer portfolios	3,694
Pre-acquisition intangible assets	13
Total	**14,292**

The identified intangible assets are being amortized in accordance with the timetable presented in Note 3, which were defined based on a purchase price allocation study. During the year 2012, the amounts amortized using the straight-line method over their estimated economic useful lives amounted to R$ 5,373 thousand.

BB Americas has contributed with R$ 5,574 thousand for total revenues and (R$ 12,989) thousand for the Bank's net income. If the business combination had occurred on January 01, 2012, the contribution of total revenue and the Bank's net income would be R$ 6,083 thousand and (R$ 13,074) thousand, respectively.

The acquisition-related costs to BB Americas totaled US$ 2,842 thousand, and were recorded in Other operating expenses.

<u>Banco Patagonia S.A.</u>

Banco Patagonia is a private bank whose main activity is commercial banking, working with a wide range of financial products and capital markets. Banco Patagonia presents a physical distribution network in all Argentine´s provinces.

On April 12, 2011, after the approvals by the regulatory agencies of Brazil and Argentina, the Bank acquired the controlling interest of Banco Patagonia, relating to 366,825,016 shares (51% of the capital stock and of the voting capital) for the price of R$ 764,819 thousand (US$ 482,040 thousand), through a cash payment, as follows, resulting in the value of US$ 1.3141 per share.

On August 17, 2011, the Comisión Nacional de Valores da Argentina, the regulator of the capital market of that country, authorized the Banco do Brasil to perform in Argentina, Mandatory Share Acquisition Public Offer (OPA) of Banco Patagonia to increase the equity position of the Bank of Brazil from 51% to 75% of the total and voting capital.

The OPA was held from September 1, 2011 to October 5, 2011, and the stock price of Class A and B amounted to US$ 1.314, to be paid with Argentinean pesos (ARS) at the exchange rate indicated in the Offer Prospectus, minus ARS 0.3346500775 per share, corresponding to the dividends paid for the year ended December 31, 2010.

On October 11, 2011, the OPA of Banco Patagonia was concluded on the Stock Exchange of Buenos Aires. Banco do Brasil acquired 57,276,942 Class B common stocks at a price of ARS 5.1959759225 per share, and became the holder of 424,101,958 Class B common stocks, representing 58.9633% of Banco Patagonia capital.

With the acquisition of Banco Patagonia, Banco do Brasil acquired a bank in Argentina allowing them to implement their expansion strategy in South America. This strategy is directly related to the care of Brazilians and companies of relationship of the Banco do Brasil, wherever they are. The economic environment marked by the effects of the financial crisis of 2008, led to the opportunity for a bargain purchase. This gain was recorded in "other operating income".

The bargain purchase gain on acquisition was calculated based on the fair value of the assets acquired and liabilities assumed determined through a purchase price allocation study carried out by a specialized department within the Bank.

Fair value of assets acquired and liabilities assumed from Banco Patagonia

R$ thousand

	Apr 12, 2011
Cash and bank deposits	461,086
Loans to financial institutions	589,231
Securities purchased under resale agreements	108,202
Financial assets at fair value through income or loss	1,439,677
Loans to customers	2,772,482
Investments in associates	3,265
Property and equipment	144,071
Intangible assets	496,413
Current tax assets	106,793
Other assets	678,156
Fair value of the assets	**6,799,376**
Customer deposits	4,333,049
Financial liabilities at fair value through income	89,142
Obligations related to committed operations	141,607
Short-term liabilities	85,671
Long-term liabilities	17,452
Provision for tax, labor and civil contingencies	48,786
Current tax liabilities	149,945
Other liabilities	314,362
Fair value of the liabilities	**5,180,014**
Fair value of the net assets (1)	**1,619,362**
Fair value of the net assets attributable to the non controlling shareholders (49%)	793,487
Fair value of the net assets attributable to the controlling shareholders (51%)	**825,875**
Price for the acquisition of shares (51%)	(764,819)
Bargain purchase on acquisition	**(61,056)**
Cash outflows for the acquisition of the subsidiary	
Cash and cash equivalents acquired with the subsidiary	1,087,525
Cash consideration	(764,819)
Net cash balance	**322,706**

(1) The carrying amount of net assets on April 12, 2011 was R$ 874,845 thousand.

Identified intangible assets from this acquisition

R$ thousand

	Apr 12, 2011
Related to customer portfolios	434,312
Related to contracts	40,246
Other	21,855
Total	**496,413**

Measurement of OPA result

R$ thousand

	Oct 11, 2011
Fair value of the acquired net assets attributable to the non controlling shareholders	128,901
Amount paid for the shares acquisition	(128,761)
Recognized value on equity and attributable to the controlling stockholders	**(140)**

The identified intangible assets are being amortized in accordance with the timetable presented in Note 3, which were defined based on a purchase price allocation study. During the year 2012, the amounts amortized using the straight-line method over their estimated economic useful lives amounted to R$ 61,236 thousand.

In 2011, Banco Patagonia has contributed with R$ 551,281 thousand for total revenues and R$ 109,086 thousand for the Bank's net income. If the business combination had occurred at the beginning of that year, the contribution of total revenue and the Bank's net income would be R$ 702,404 thousand and R$ 136,045 thousand, respectively.

The acquisition-related costs to Banco Patagonia totaled US$ 3,470 thousand, and were recorded in Other operating expenses

Because of the reports issued by the Banco Central da República Argentina (BCRA) "A" 5272 and "A" 5273 on January 27, 2012, Banco Patagonia did not distribute dividends for the year 2011. These reports have raised minimum capital requirements and solvency for financial institutions in Argentina and the rate of additional capital required to distribute dividends. Local regulations also require prior authorization of the Superintendência de Entidades Financeiras e Cambiais (SEFyC) of the BCRA for the result distribution.

b) Other acquisitions

Companhia Brasileira de Soluções e Serviços – CBSS

On January 24, 2011, the deal, in which the subsidiary BB Banco de Investimento S.A. (BB BI) acquired part of the shares owned by the Visa Internacional Service Association (Visa International) at the Companhia Brasileira de Soluções e Serviços, was made, increasing its share from 45% to 49.99%.

The value of goodwill relating to the partial acquisition of the CBSS (R$ 75,641 thousand) and net assets were calculated using the equity method and recorded in investments in associates.

The table below shows the total participation of BB BI in the CBSS capital segregated into common stocks (voting) and preferred.

Equity interest	% Common stocks	% Preferred stocks	% Total
Before the transaction	44.31	45.69	45.00
After the transaction	49.99	49.99	49.99

c) Corporate reorganizations in the area of insurance, pension plans, capitalization and reinsurance

Organization of subsidiaries BB Cor Participações S.A. and BB Seguridade Participações S.A.

In December 2012, the Bank established BB Seguridade Participações S.A. (BB Seguridade) and BB Cor Participações S.A. (BB Cor).

After establishment of BB Seguridade, the company holds the following participation:

a) 100% of the shares of BB Cor;

b) 100% of the shares of BB Seguros Participações S.A. (BB Seguros) which, in turn, holds interests in the followings companies:

(i) 74,9% of the total shares (49,9% common shares) of BB Mapfre SH1 Participações S.A., which operates in the field of personal insurance in partnership with Mapfre Group;

(ii) 50,0% of the total shares (49,0% common shares) of Mapfre BB SH2 Participações S.A., which operates in the field of property insurance also in partnership with Mapfre Group;

(iii) 74,9% of the total shares (49,9% common shares) of Brasilprev Seguros e Previdência S.A., which operates in pension plans in partnership with Principal Financial Group;

(iv) 66,7% of the total shares (49,9% common shares) of Brasilcap Capitalização S.A., which operates in the capitalization market in partnership with Icatu Seguros S.A. and Companhia de Seguros Aliança da Bahia.

(v) 100% of the shares of Nossa Caixa Capitalização S.A, which operates in the capitalization market.

The Bank objectives with the establishment of BB Seguridade are as follows:

(i) to consolidate under a single company, all BB activities in in the areas of insurance, capitalization, open private pension and related activities, including any future expansion of these activities in Brazil or abroad, either organic or not;

(ii) to provide gains of scale in these operations;

(iii) to reduce costs and expenses in the insurance segment.

Banco do Brasil intends to open the capital of BB Seguridade and make sure that its management remains independent and committed to the concepts of transparency, accountability, fairness and environmental responsibility. The administration, backed by monitoring tools that align executives' behavior to the interests of shareholders and society in general, will be conducted with the best corporate governance practices, so as to allow BB Seguridade to be listed in a special segment of the market shares of BM&F Bovespa S.A. - Bolsa de Valores, Mercadorias e Futuros, called New Market.

In December 2012, the Group established BB Cor Participações S.A. (BB Cor), which now holds 100% participation in BB Corretora de Seguros e Administradora de Bens S.A. (BB Corretora).

The Bank's objective is to expand the market share of BB Corretora which will trade within and outside of the distribution channels of Banco do Brasil, third-party products in the fields in which the Bank does not have exclusive agreements with partner companies.

BB Cor will also hold interest in the capital of other companies operating in the market as brokers in the commercialization of insurance, pension plans, capitalization and/or healthcare and dental plans in which the Bank will participate in the future.

Brasilprev Seguros e Previdência S.A.

On December 19, 2011, the Stock Purchase Agreement to the acquisition, by Brasilprev, of the entire capital stock and voting capital from Brasilprev Nosso Futuro Seguros e Previdência S.A. (successor of Mapfre Nossa Caixa Vida e Previdência - MNCVP), that was owned by BB Seguros (49%) and Mapfre Brasil Participações S.A. (51%), was formalized.

Equity interest	**% Total**
Before the transaction	49.000
After the transaction	74.995

The adjusted amount to the transaction totalized R$ 157,974 thousand, adjusted by CDI rate until the settlement date. On July 31, 2012, the agreement was settled by the amount of R$ 166,958 thousand.

	R$ thousand
	Jul 31, 2012
Cash consideration	**166,958**
Brasilprev Nosso Futuro Seguros e Previdência S.A.´s equity	24,637
Goodwill recorded on Brasilprev Seguros e Previdência S.A.	142,321
Equity interest in BrasilPrev Seguros e Previdência S.A.	74.995%
Proportioned goodwill	**106,734**

Additionally, this sale meant to Banco do Brasil the loss of significant influence over the Brasilprev Nosso Futuro Seguros e Previdência S.A. with consequent assumption of joint control. According to IAS 28, on the loss of significant influence, the investor must measure at fair value any investment the investor retains in the former associate.

The investor must recognize in profit or loss any difference between the fair value of any retained investment, added any proceeds from disposing of the partial interest in the associate, and the carrying amount of the investment at the date when significant influence is lost. Besides, profits or losses resulting from this transaction are recognized in the financial statements only to the extent of unrelated investors' interests in the associate.

	%
Retained interest in the former associate	36.75
Disposed interest in the former associate	12.25
Total	**49.00**

These procedures resulted in a gain of R$ 12,662 thousand recorded in Other operating income as follows:

			R$ thousand
			Jul 31, 2012
	36.75%	**12.25%**	**49%**
Fair value of the retained investment added any proceeds from disposing of the partial interest in the associate	109,249	36,417	145,666
Carrying amount of the contributed net asset	(51,705)	(17,235)	(68,940)
Taxes	(19,567)	(6,520)	(26,087)
Elimination of unrealized gains/losses	(37,977)	-	(37,977)
Gain in fair value measurement of the retained investment	-	**12,662**	**12,662**

Fair value of the retained investment in Brasilprev Nosso Futuro Seguros e Previdência S.A.

	R$ thousand
	Jul 31, 2012
Goodwill	69,533
Intangible asset related to customer portfolio	17,700
Total	**87,233**

The intangible asset related to customer portfolio is being amortized in accordance with the timetable presented in Note 3. During the year 2012, the amount amortized totaled R$ 1,475 thousand.

<u>BB Seguros and Mapfre S.A. Partnership</u>

On May 5, 2010, Banco do Brasil announced that BB Seguros Participações S.A. (BB Seguros) and the Insurance Group Mapfre (Mapfre) entered into a Partnership Agreement (Agreement) to form a strategic alliance in the field of personal insurance, casualties, and vehicles effective for 20 years.

Based on the Agreement, as of June 30, 2011, the Bank through BB Seguros and Mapfre, called Grupo Segurador Banco do Brasil & Mapfre, started to act together. The Bank set up the holding companies BB Mapfre SH1 Participações S.A. (SH1), whose branch of activity aggregates personal, property and agricultural insurance, and Mapfre BB SH2 Participações S.A. (SH2), focused on casualty and vehicle insurance, with separate legal identities under private law, with majority interest of the Mapfre Group in the voting capital and shared governance. The partnership was considered as a joint venture due to shareholders' Agreement which contemplate the veto on decisions of financial and operational policies.

The companies present the following configuration:

	BB Mapfre SH1 Participações S.A.			Mapfre BB SH2 Participações S.A.		
	% Total capital	% Common stock	% Preferred stock	% Total capital	% Common stock	% Preferred stock
BB Seguros Participações S.A.	74.99	49.99	100	50.00	49.00	51.00
Mapfre S.A.	25.01	50.01	--	50.00	51.00	49.00

The subscribed of capital in SH1 by BB Seguros and Mapfre was made by transferring the investments in insurance companies Companhia de Seguros Aliança do Brasil, Mapfre Vera Cruz Vida e Previdência S.A. and Vida Seguradora S.A., as well as holdings BB Aliança Participações S.A. and Mapfre Participações Ltda. The subscribed of capital in SH2 by BB Seguros and Mapfre was made by transferring the investments in insurance companies Aliança do Brasil Seguros S.A., Brasilveículos Companhia de Seguros, Mapfre Vera Cruz Seguradora S.A. and Mapfre Riscos Especiais Seguradora S.A., as well as holding BB Aliança REV Participações S.A. and Mapfre Assistência S.A.

The contributed businesses deconsolidation process and the recognition of the new fair value participation was accounted for using SIC 13, “Jointly Controlled Entities – Non Monetary Contributions by Ventures” establishing that in applying IAS 31.48 to non-monetary contributions to a jointly controlled entities – JCE, in exchange for an equity interest in the JCE, a venturer shall recognise in profit or loss for the period the portion of a gain or loss attributable to the equity interests of the other venturers.

These procedures resulted in a gain of R$ 957,725 thousand recorded in Other operating income as follows:

R$ thousand

	BB Mapfre SH1	Mapfre BB SH2	Total
Fair value of the formed joint ventures	6,285,569	1,697,740	7,983,309
Carrying amount of the contributed net assets	(1,674,382)	(1,111,194)	(2,785,576)
Elimination of unrealized gains/losses	(3,822,956)	(417,052)	(4,240,008)
Gain in joint ventures formation	**788,231**	**169,494**	**957,725**

Fair value of the assets and liabilities transferred by the ventures to SH1 and SH2

R$ thousand

	Jun 30, 2011		
	BB Mapfre SH1	Mapfre BB SH2	Total
Cash and bank deposits	1,334	20,562	21,896
Securities purchased under resale agreements	19,387	1,912	21,299
Financial assets	2,514,893	1,179,188	3,694,081
Non-current assets available for sale	-	44,706	44,706
Investments in associates	698,797	861,934	1,560,731
Property and equipment	4,482	59,192	63,674
Intangible assets	795,309	288,944	1,084,253
Current tax assets	7,301	12,942	20,243
Deferred tax assets	186,101	110,968	297,069
Other assets	670,372	2,191,614	2,861,986
Fair value of the assets	**4,897,976**	**4,771,962**	**9,669,938**
Provision for labor, fiscal and civil claims	18,318	270,158	288,476
Insurance contracts	1,966,436	1,892,218	3,858,654
Current tax liabilities	15,881	6,590	22,471
Deferred tax liabilities	-	238	238
Other liabilities	384,366	378,276	762,642
Fair value of the liabilities	**2,385,001**	**2,547,480**	**4,932,481**
Fair value of the net assets	**2,512,975**	**2,224,482**	**4,737,457**
BB Seguros Participações S.A. participation - %	74,99%	50%	
BB Seguros Participações S.A. participation	1,884,480	1,112,241	2,996,721
Allocated goodwill	**693,836**	**291,702**	**985,538**

Identified intangible assets from this acquisition

R$ thousand

	Jun 30, 2011
Related to customer portfolios	170,508
Distribution channels	517,241
Pre-acquisition intangible assets	372,295
Brands	24,209
Total	**1,084,253**

The identified intangible assets are being amortized in accordance with the timetable presented in Note 3, which were defined based on a purchase price allocation study carried out by a specialized and independent firm. During the year 2012, the amounts amortized totaled R$ 40,341 thousand.

Brasilcap Capitalizações S.A.

On January 24, 2011, BB Seguros signed a Purchase and Sale Agreement to acquire all shares (16.67% common stocks) owned by Sul América Capitalização S.A. (Sulacap) in Brasilcap Capitalização S.A. (Brasilcap). The deal was finalized on July 22, 2011 and the participation of BB Seguros increased from 49.99% to 66.66%. Brasilcap remains a joint venture and is included in these consolidated financial statements by proportionate consolidation.

The table below shows the total participation of BB Seguros in the Brasilcap capital segregated between common stock (voting) and preferred stock.

Equity interest	% Common stock	% Preferred stock	% Total
Before the transaction	33.32	100	49.99
After the transaction	49.99	100	66.66

Fair value of the assets acquired and the liabilities assumed from Brasilcap

R$ thousand

	Jul 22, 2011
Cash and bank deposits	97
Financial assets at fair value through income or loss	685,383
Financial assets held to maturity	93,405
Property and equipment	1,661
Intangible assets	808
Other assets	59,451
Fair value of the assets	**840,805**
Provisions	56,003
Other liabilities	750,327
Fair value of the liabilities	**806,330**
Fair value of the net assets	**34,475**
Cash consideration for the acquisition of shares (16.67%)	(145,224)
Goodwill generated from the acquisition	**110.749**

d) Partnership with Banco Bradesco S.A. and Caixa Econômica Federal in the card segment

On March 14, 2011, Banco do Brasil S.A. and Banco Bradesco S.A. entered into a binding Memorandum of Understanding, for the establishment of a holding company (Elo Participações S.A.), which consolidates joint businesses related to electronic payment means.

The subscribed capital by Banco do Brasil to the Elo Participações S.A., valued at R$ 9,200 thousand, occurred on May 20, 2011. Banco do Brasil holds 49.99% of the shares and Banco Bradesco holds 50.01% of the shares.

On March 30, 2011, the credit cards, debit and prepaid brand, called Elo was officially launched, managed by Elo Serviços.

On April, 2012, Banco do Brasil, Banco Bradesco S.A. and Caixa Econômica Federal concluded negotiations to maintain Caixa Participações S.A. as an Elo Serviços shareholder, through the Stockholders´ Agreement between Elo Participações S.A. and Caixa Participações. The agreed equity structure has the following composition:

Equity interest	% Total
Elo Participações S.A.	66.665
Caixa Participações	33.335

e) Constitutions

<u>BB Securities Asia Pte. Ltd.</u>

The Board of Officers of Banco do Brasil, at a meeting on May 16, 2011, approved the incorporation of BB Securities Asia Pte. Ltd., a private corporation, wholly owned subsidiary of Banco do Brasil S.A., to operate in the capital market in Asia.

The capital of US$ 5,000 thousand divided into 5,000,000 common shares represented in the entry form and without nominal value. The company, which is headquartered in the Republic of Singapore, will have a Board of Directors with 7 members and an Executive Board composed of one Executive abroad. The shareholder

Brasilian American Merchant Bank made the capital investment in that subsidiary on November 1, 2011. The operational activities started on January 2, 2012.

Real Estate Investment Fund

In August 2012, the Bank subscribed 100% of the shares from BB Progressivo II Fundo de Investimento Imobiliário (FII), managed by Votorantim Asset Management (VAM). The Bank paid these shares by cash payment and by property transfer of 64 real estate, with substantial transfer of the risks and benefits.

In November 2012, through Secondary Public Offering of Distribution of FII shares, the Bank disposed all the fund's shares. The result obtained in this negotiation was realized and recognized in “other non-interest income” on the date of the share’s sale, occasion that Banco do Brasil was no longer the main holder of the Fund’s risks and benefits.

Effects of the real estate transfer to FII in the Bank’s income:

R$ thousand

Fair value of real estate transferred to FII	1,402,469
Carrying amount of real estate transferred to FII	(299,477)
Income before taxes	1,102,992
Income tax and social contribution	(441,197)
Net income	**661,795**

7 – Operating Segment

The information by segment was compiled with a basis on the reports used by Management in the appraisal of the segment's performance, decision making regarding the allocation of funds for investment and other purposes, the regulatory environment and the similarities between goods and services.

Various managerial information used by Management in performance assessment and decision making are prepared in accordance with the laws and standards applicable to financial institutions, as determined by Banco Central do Brasil.

The operations of the Bank are divided into five segments: banking, investments, fund management, insurance (insurance, pension and capitalization) and payment methods. In addition, the Bank participates in other business activities, such as consortium and operating support, that were aggregated in "Other Segments”.

Intersegment transactions are conducted under normal market conditions, substantially under the terms and conditions for comparable transactions, including interest rates and collateral. These transactions do not involve abnormal payment risks.

The Bank does not have any customer responsible for over 10% of the institution‘s interest income.

a) Banking

Responsible for the most significant portion of Bank results, predominantly from operations in Brazil, this segment involves a large diversity of products and services, such as deposits, loans and services that are made available to customers by means of a wide variety of distribution channels, located in the country and abroad.

The operations of the banking segment include business with the retail, wholesale and government markets, carried out by network and customer service teams, and business with micro-entrepreneurs and the informal sector, performed through banking correspondents.

b) Investment

In this segment, deals are performed in the domestic capital market, with activity in the intermediation and distribution of debts in the primary and secondary markets, as well as equity interest and the rendering of financial services.

The net interest income of the segment is obtained by the income accrued in investments in securities minus expenses with funding to third parties. The existing equity interests are concentrated at our associated and subsidiary companies. Revenue from financial services results from economic/financial advisory services, underwriting, fixed and variable income, and the rendering of services to associated companies.

c) Fund management

This segment is responsible for operations inherent to the purchase, sale and custody of securities, portfolio management, institution, organization and management of investment funds and clubs. Income is mainly derived from commissions and management fees charged to investors for services rendered.

d) Insurance, private pension plans and capitalization

In this segment, products and services offered are related to life, property and automobile insurance, complementary private pension plans and capitalization plans.

Income of this segment derived mainly from revenues from insurance premiums issued, contributions for private pension plans, capitalization bonds and investments in securities, net of commercialization expenses, technical provisions and expenses related to benefits and redemptions.

e) Payment methods

Such segment is responsible for funding, transmission, processing services and financial settlement by electronic means (relating to credit and debit cards). Revenues are derived mainly from commissions and management fees charged to commercial and banking establishments for the services rendered.

f) Other

Other segment comprise the operational support and consortium segments, which are not sufficiently significant to have been otherwise aggregated. These segments generate income mainly from provision of services not covered in previous segments, such as: credit recovery, consortium administration, development, manufacture, commercialization, rent and integration of digital electronic systems and equipment, peripherals, programs, inputs and computing supplies, intermediation of airline tickets, lodging and organization of events.

g) Financial information by reportable segment

R$ thousand

	2012							
	Banking	Investment	Fund management	Insurance and related	Payment methods	Other	Intersegment transactions	Total
Interest income	101,618,911	200,153	64,806	5,310,797	288,239	73,951	(412,119)	107,144,738
Interest expense	(58,964,603)	(354,503)	-	-	(1,222)	(38,696)	444,000	(58,915,024)
Net interest income	**42,654,308**	**(154,350)**	**64,806**	**5,310,797**	**287,017**	**35,255**	**31,881**	**48,229,714**
Allowance for losses on loans to customer, net of recovery	(11,325,646)	-	-	-	-	57,499	(3,409)	(11,271,556)
Allowance for losses on loans to the financial institutions	(43,760)	-	-	-	-	-	-	(43,760)
Net interest income after allowance for loan losses	**31,284,902**	**(154,350)**	**64,806**	**5,310,797**	**287,017**	**92,754**	**28,472**	**36,914,398**
Non-interest income	**19,267,110**	**2,713,983**	**1,178,330**	**5,471,867**	**2,114,807**	**1,490,663**	**(1,516,413)**	**30,720,347**
Net commissions and fee income	14,100,280	464,490	1,177,160	374,103	1,660,322	1,350,892	(1,019,475)	18,107,772
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss	(731,605)	(2,115)	-	(51,586)	-	(5,442)	56,890	(733,858)
Net gains/(losses) from financial assets available for sale	392,131	64,277	(7,048)	-	(5)	-	-	449,355
Net income/(loss) from equity method investments	3,196	41,732	-	997	-	-	-	45,925
Income from insurance contracts and private pension plans	-	-	-	2,518,596	-	-	5,981	2,524,577
Other income (loss)	5,503,108	2,145,599	8,218	2,629,757	454,490	145,213	(559,809)	10,326,576
Non-interest expenses	**(38,720,303)**	**(2,042,732)**	**(208,193)**	**(8,866,468)**	**(1,270,346)**	**(1,126,793)**	**1,316,149**	**(50,918,686)**
Personnel expenses	(16,891,787)	(110,027)	(58,025)	(390,028)	(116,371)	(221,864)	5,335	(17,782,767)
Administrative expenses	(10,373,427)	(22,842)	(22,318)	(933,712)	(168,596)	(224,056)	1,131,676	(10,613,275)
Amortization of intangible assets	(2,373,715)	(59,529)	-	(17,560)	(9,815)	(1,676)	-	(2,462,295)
Depreciation	(950,495)	(24,544)	-	(15,396)	(86,232)	(9,021)	-	(1,085,688)
Other expenses	(8,130,879)	(1,825,790)	(127,850)	(7,509,772)	(889,332)	(670,176)	179,138	(18,974,661)
Income before taxes	**11,831,709**	**516,901**	**1,034,943**	**1,916,196**	**1,131,478**	**456,624**	**(171,792)**	**16,716,059**
Income taxes	**(2,499,740)**	**(116,797)**	**(417,468)**	**(752,309)**	**(395,105)**	**(71,591)**	**-**	**(4,253,010)**
Current	(5,057,592)	(135,741)	(415,138)	(760,528)	(395,876)	(94,951)	-	(6,859,826)
Deferred	2,557,852	18,944	(2,330)	8,219	771	23,360	-	2,606,816
Net income	**9,331,969**	**400,104**	**617,475**	**1,163,887**	**736,373**	**385,033**	**(171,792)**	**12,463,049**
Attributable to owners of the parent	9,172,579	366,945	617,475	1,163,887	736,649	385,028	(171,792)	12,270,771
Attributable to non-controlling interests	159,390	33,159	-	-	(276)	5	-	192,278
Total assets	**1,061,130,762**	**7,551,025**	**921,453**	**69,323,631**	**4,559,371**	**5,614,960**	**(20,196,939)**	**1,128,904,263**
Total liabilities	**994,182,395**	**4,752,018**	**789,959**	**64,765,540**	**3,638,637**	**3,097,637**	**(8,901,266)**	**1,062,324,920**
Total stockholders' equity	**66,948,367**	**2,799,007**	**131,494**	**4,558,091**	**920,734**	**2,517,323**	**(11,295,673)**	**66,579,343**

R$ thousand

	2011							
	Banking	**Investment**	**Fund management**	**Insurance and related**	**Payment methods**	**Other**	**Intersegment transactions**	**Total**
Interest income	102,771,162	163,858	86,622	3,952,693	189,070	25,568	(599,645)	106,589,328
Interest expense	(60,693,265)	(485,532)	-	-	-	(49,035)	531,431	(60,696,401)
Net interest income	**42,077,897**	**(321,674)**	**86,622**	**3,952,693**	**189,070**	**(23,467)**	**(68,214)**	**45,892,927**
Allowance for losses on loans to customer, net of recovery	(8,960,978)	-	-	-	-	-	-	(8,960,978)
Net interest income after allowance for loan losses	**33,116,919**	**(321,674)**	**86,622**	**3,952,693**	**189,070**	**(23,467)**	**(68,214)**	**36,931,949**
Non-interest income	**17,547,896**	**2,520,888**	**1,054,077**	**4,232,491**	**1,341,447**	**1,371,904**	**(1,206,404)**	**26,862,299**
Net commissions and fee income	12,473,703	372,305	1,046,509	16,955	993,736	1,233,642	(979,725)	15,157,125
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss	(887,906)	2,737	-	(36,387)	-	1	36,172	(885,383)
Net gains/(losses) from financial assets available for sale	278,879	235,506	(800)	(145)	(31)	-	-	513,409
Net income/(loss) from equity method investments	32,650	111,808	492	1,705	-	-	-	146,655
Income from insurance contracts and private pension plans	-	-	-	2,352,417	-	-	30,366	2,382,783
Other income (loss)	5,650,570	1,798,532	7,876	1,897,946	347,742	138,261	(293,217)	9,547,710
Non-interest expenses	**(37,533,143)**	**(1,706,699)**	**(210,375)**	**(6,667,043)**	**(747,334)**	**(997,911)**	**1,274,796**	**(46,587,709)**
Personnel expenses	(15,940,799)	(97,649)	(52,559)	(289,575)	(49,770)	(209,568)	5,832	(16,634,088)
Administrative expenses	(8,885,081)	(20,352)	(23,127)	(949,387)	(130,300)	(216,174)	1,160,597	(9,063,824)
Amortization of intangible assets	(2,277,930)	(71,442)	-	(16,333)	(4,004)	(1,621)	-	(2,371,330)
Depreciation	(1,003,205)	(8,030)	(1)	(17,863)	(63,779)	(10,175)	-	(1,103,053)
Other expenses	(9,426,128)	(1,509,226)	(134,688)	(5,393,885)	(499,481)	(560,373)	108,367	(17,415,414)
Income before taxes	**13,131,672**	**492,515**	**930,324**	**1,518,141**	**783,183**	**350,526**	**178**	**17,206,539**
Income taxes	**(3,573,560)**	**(98,507)**	**(370,867)**	**(566,609)**	**(262,616)**	**(134,406)**	**-**	**(5,006,565)**
Current	(3,273,856)	(133,934)	(373,524)	(570,790)	(262,088)	(126,434)	-	(4,740,626)
Deferred	(299,704)	35,427	2,657	4,181	(528)	(7,972)	-	(265,939)
Net income	**9,558,112**	**394,008**	**559,457**	**951,532**	**520,567**	**216,120**	**178**	**12,199,974**
Attributable to owners of the parent	9,538,298	358,830	559,457	951,532	520,567	216,122	178	12,144,984
Attributable to non-controlling interests	19,814	35,178	-	-	-	(2)	-	54,990
Total assets	**908,983,369**	**6,868,562**	**1,073,470**	**52,222,813**	**1,763,592**	**4,491,293**	**(16,741,308)**	**958,661,791**
Total liabilities	**849,940,835**	**4,932,759**	**947,641**	**48,301,672**	**1,320,567**	**1,984,794**	**(7,545,870)**	**899,882,398**
Total stockholders' equity	**59,042,534**	**1,935,803**	**125,829**	**3,921,141**	**443,025**	**2,506,499**	**(9,195,438)**	**58,779,393**

R$ thousand

	2010							
	Banking	**Investment**	**Fund management**	**Insurance and related**	**Payment methods**	**Other**	**Intersegment transactions**	**Total**
Interest income	82,280,436	139,971	53,348	2,917,286	128,756	14,499	(375,315)	85,158,981
Interest expense	(42,674,974)	(347,496)	-	(218)	-	(42,860)	365,564	(42,699,984)
Net interest income	**39,605,462**	**(207,525)**	**53,348**	**2,917,068**	**128,756**	**(28,361)**	**(9,751)**	**42,458,997**
Allowance for losses on loans to customer, net of recovery	(7,465,097)	-	-	-	-	-	-	(7,465,097)
Net interest income after allowance for loan losses	**32,140,365**	**(207,525)**	**53,348**	**2,917,068**	**128,756**	**(28,361)**	**(9,751)**	**34,993,900**
Non-interest income	**15,529,835**	**2,243,904**	**887,620**	**3,416,128**	**1,194,473**	**1,125,961**	**(765,224)**	**23,632,697**
Net commissions and fee income	10,852,944	390,344	886,746	44,677	866,927	1,023,430	(462,568)	13,602,500
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss	(2,158,305)	(2,440)	-	(27,005)	29	3	12,324	(2,175,394)
Net gains/(losses) from financial assets available for sale	234,495	130,173	(500)	16	(39)	2	-	364,147
Net income/(loss) from equity method investments	58,980	73,308	(4,254)	-	-	-	-	128,034
Income from insurance contracts and private pension plans	-	-	-	1,932,720	-	-	-	1,932,720
Other income (loss)	6,541,721	1,652,519	5,628	1,465,720	327,556	102,526	(314,980)	9,780,690
Non-interest expenses	**(34,219,891)**	**(1,487,352)**	**(181,255)**	**(4,789,712)**	**(587,351)**	**(846,120)**	**774,976**	**(41,336,705)**
Personnel expenses	(13,988,231)	(86,396)	(47,835)	(177,936)	(31,209)	(167,971)	4,584	(14,494,994)
Administrative expenses	(8,118,435)	(21,643)	(21,219)	(782,360)	(100,596)	(212,313)	628,479	(8,628,087)
Amortization of intangible assets	(2,201,016)	(65,070)	-	(16,106)	(4,104)	(1,215)	-	(2,287,511)
Depreciation	(953,868)	(6,779)	(1)	(5,754)	(46,135)	(9,740)	-	(1,022,277)
Other expenses	(8,958,341)	(1,307,464)	(112,200)	(3,807,556)	(405,307)	(454,881)	141,913	(14,903,836)
Income before taxes	**13,450,309**	**549,027**	**759,713**	**1,543,484**	**735,878**	**251,480**	**1**	**17,289,892**
Income taxes	**(4,258,384)**	**(138,719)**	**(308,699)**	**(512,444)**	**(245,641)**	**(94,595)**	**-**	**(5,558,482)**
Current	(4,903,923)	(144,490)	(309,012)	(555,596)	(255,432)	(103,893)	-	(6,272,346)
Deferred	645,539	5,771	313	43,152	9,791	9,298	-	713,864
Net income	**9,191,925**	**410,308**	**451,014**	**1,031,040**	**490,237**	**156,885**	**1**	**11,731,410**
Attributable to owners of the parent	9,191,945	375,952	451,014	1,031,040	490,237	156,885	1	11,697,074
Attributable to non-controlling interests	(20)	34,356	-	-	-	-	-	34,336
Total assets	**760,790,088**	**6,220,627**	**964,331**	**36,949,455**	**1,371,817**	**5,108,624**	**(14,376,584)**	**797,028,358**
Total liabilities	**710,019,601**	**4,991,743**	**830,685**	**34,361,397**	**999,744**	**2,848,410**	**(7,787,003)**	**746,264,577**
Total stockholders' equity	**50,770,487**	**1,228,884**	**133,646**	**2,588,058**	**372,073**	**2,260,214**	**(6,589,581)**	**50,763,781**

h) Reconciliation of financial information by reportable segment to consolidated financial information according to IFRS

R$ thousand

	2012			2011			2010		
	Consolidated Management Statement	Adjustments	Consolidated IFRS	Consolidated Management Statement	Adjustments	Consolidated IFRS	Consolidated Management Statement	Adjustments	Consolidated IFRS
Interest income	107,144,738	786,640	107,931,378	106,589,328	330,432	106,919,760	85,158,981	(15,775)	85,143,206
Interest expense	(58,915,024)	(440,514)	(59,355,538)	(60,696,401)	(707,309)	(61,403,710)	(42,699,984)	(361,203)	(43,061,187)
Net interest income	**48,229,714**	**346,126**	**48,575,840**	**45,892,927**	**(376,877)**	**45,516,050**	**42,458,997**	**(376,978)**	**42,082,019**
Allowance for losses on loans to customer, net of recovery	(11,271,556)	(1,574,521)	(12,846,077)	(8,960,978)	388,613	(8,572,365)	(7,465,097)	(249,457)	(7,714,554)
Allowance for losses on loans to the financial institutions	(43,760)	34,591	(9,169)	-					
Net interest income after allowance for loan losses	**36,914,398**	**(1,193,804)**	**35,720,594**	**36,931,949**	**11,736**	**36,943,685**	**34,993,900**	**(626,435)**	**34,367,465**
Non-interest income	**30,720,347**	**(78,043)**	**30,642,304**	**26,862,299**	**1,243,134**	**28,105,433**	**23,632,697**	**222,309**	**23,855,006**
Net commissions and fee income	18,107,772	(905)	18,106,867	15,157,125	4,986	15,162,111	13,602,500	-	13,602,500
Net gains/(losses) from financial assets/liabilities at fair value through profit or loss	(733,858)	(53)	(733,911)	(885,383)	56	(885,327)	(2,175,394)	-	(2,175,394)
Net gains/(losses) from financial assets available for sale	449,355	-	449,355	513,409	(68,218)	445,191	364,147	-	364,147
Net income/(loss) from equity method investments	45,925	-	45,925	146,655	3,536	150,191	128,034	(414)	127,620
Income from insurance contracts and private pension plans	2,524,577	941	2,525,518	2,382,783	16,669	2,399,452	1,932,720	(4,539)	1,928,181
Other income (loss)	10,326,576	(78,026)	10,248,550	9,547,710	1,286,106	10,833,815	9,780,690	227,262	10,007,952
Non-interest expenses	**(50,918,686)**	**(174,320)**	**(51,093,006)**	**(46,587,709)**	**(666,154)**	**(47,253,863)**	**(41,336,705)**	**(334,900)**	**(41,671,605)**
Personnel expenses	(17,782,767)	-	(17,782,767)	(16,634,088)	-	(16,634,088)	(14,494,994)	(139,474)	(14,634,468)
Administrative expenses	(10,613,275)	-	(10,613,275)	(9,063,824)	-	(9,063,824)	(8,628,087)	136,635	(8,491,452)
Amortization of intangible assets	(2,462,295)	(798,956)	(3,261,251)	(2,371,330)	(736,630)	(3,107,960)	(2,287,511)	(661,083)	(2,948,594)
Depreciation	(1,085,688)	(6,679)	(1,092,367)	(1,103,053)	4,528	(1,098,525)	(1,022,277)	9,262	(1,013,015)
Other expenses	(18,974,661)	631,315	(18,343,346)	(17,415,414)	65,948	(17,349,466)	(14,903,836)	319,760	(14,584,076)
Income before taxes	**16,716,059**	**(1,446,167)**	**15,269,892**	**17,206,539**	**588,716**	**17,795,255**	**17,289,892**	**(739,026)**	**16,550,866**
Income taxes	**(4,253,010)**	**421,318**	**(3,831,692)**	**(5,006,565)**	**(51,778)**	**(5,058,343)**	**(5,558,482)**	**337,961**	**(5,220,521)**
Current	(6,859,826)	-	(6,859,826)	(4,740,626)	-	(4,740,626)	(6,272,346)	-	(6,272,346)
Deferred	2,606,816	421,318	3,028,134	(265,939)	(51,778)	(317,717)	713,864	337,961	1,051,825
Net income	**12,463,049**	**(1,024,849)**	**11,438,200**	**12,199,974**	**536,938**	**12,736,912**	**11,731,410**	**(401,065)**	**11,330,345**
Attributable to owners of the parent	12,270,771	(1,024,849)	11,245,922	12,144,984	536,938	12,681,922	11,697,074	(401,065)	11,296,009
Attributable to non-controlling interests	192,278	-	192,278	54,990	-	54,990	34,336	-	34,336
Total assets	**1,128,904,263**	**7,103,212**	**1,136,007,475**	**958,661,791**	**8,161,277**	**966,823,068**	**797,028,358**	**5,791,437**	**802,819,795**
Total liabilities	**1,062,324,920**	**3,784,326**	**1,066,109,246**	**899,882,398**	**3,671,446**	**903,553,844**	**746,264,577**	**2,136,281**	**748,400,858**
Total stockholders' equity	**66,579,343**	**3,318,886**	**69,898,229**	**58,779,393**	**4,489,831**	**63,269,224**	**50,763,781**	**3.655.156**	**54.418.937**

i) Geographical information

In presenting information on the basis of geographical segments, segment interest income is based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

R$ thousand

	Brazil	Other countries	Total
	2012	2012	2012
Assets	1,046,260,841	89,746,634	1,136,007,475
Income	134,771,812	3,801,870	138,573,682
Expenses	(123,098,576)	(4,036,906)	(127,135,482)
Income/(loss) before taxes	15,234,145	35,747	15,269,892
Net income/(loss)	11,673,236	(235,036)	11,438,200

R$ thousand

	Brazil	Other countries	Total
	2011	2011	2011
Assets	904,464,642	62,358,426	966,823,068
Income	132,435,808	2,589,385	135,025,193
Expenses	(119,679,639)	(2,608,642)	(122,288,281)
Income before taxes	17,743,459	51,796	17,795,255
Net income	12,756,169	(19,257)	12,736,912

R$ thousand

	Brazil	Other countries	Total
	2010	2010	2010
Assets	763,603,737	39,216,058	802,819,795
Income	107,503,619	1,494,593	108,998,212
Expenses	(96,068,231)	(1,599,636)	(97,667,867)
Income before taxes	16,559,949	(9,083)	16,550,866
Net income	11,435,388	(105,043)	11,330,345

Income comprises interest and non-interest income. Expenses comprise interest expenses, allowance for loan losses and non-interest expenses.

Regarding overseas operations, the main contributions to the income are originated from the branches and subsidiaries located in Central and South America.

8 – Net interest income

R$ thousand

	2012	2011	2010
Interest income	**107,931,378**	**106,919,760**	**85,143,206**
Loans to customers	63,915,475	58,910,365	48,339,289
Securities purchased under resale agreements	14,736,104	14,482,276	11,978,802
Financial assets available for sale(1)	6,171,427	8,110,185	6,354,163
Compulsory deposits in central banks	5,792,202	7,067,594	3,389,012
Loans to financial institutions	3,820,058	6,081,465	4,211,211
Financial assets at fair value through profit and loss(2)	3,163,786	3,336,951	2,876,280
Financial assets held to maturity	814,072	1,260,825	1,252,413
Other interest income	9,518,254	7,670,100	6,742,037
Interest expense	**(59,355,538)**	**(61,403,710)**	**(43,061,187)**
Deposits of clients	(29,146,456)	(29,612,943)	(21,545,020)
Securities sold under repurchase agreements	(16,876,340)	(19,694,992)	(15,360,763)
Long-term liabilities	(10,791,824)	(7,471,160)	(4,069,091)
Short-term liabilities	(218,627)	(2,405,223)	(376,983)
Amount payable to financial institutions	(893,915)	(1,458,004)	(1,246,705)
Other interest expense	(1,428,375)	(761,388)	(462,624)
Net interest income	**48,575,840**	**45,516,050**	**42,082,019**

(1) Includes dividends income in the amount of R$ 129 thousand (R$ 430 thousand in 2011 and R$ 559 thousand in 2010).
(2) Includes dividends income in the amount of R$ 38 thousand (R$ 10 thousand in 2011 and R$ 19 thousand in 2010).

9 – Net commissions and fee income

R$ thousand

	2012	2011	2010
Commissions and fee income	**20,359,988**	**17,193,788**	**15,302,426**
Service rendering to customers	14,151,491	12,116,820	10,861,651
Asset management	4,122,821	3,701,584	3,211,906
Guarantees provided	213,939	192,224	200,342
Commissions	1,488,403	789,448	791,483
Other services	383,334	393,712	237,044
Commissions and fee expense	**(2,253,121)**	**(2,031,677)**	**(1,699,926)**
Service rendering	(2,221,417)	(1,992,424)	(1,666,905)
Commission expense	(5,464)	(3,498)	(2,687)
Other services	(26,240)	(35,755)	(30,334)
Net commissions and fee income	**18,106,867**	**15,162,111**	**13,602,500**

10 – Net gains/(losses) from financial assets and liabilities at fair value through profit or loss

R$ thousand

	2012	2011	2010
Derivative financial instruments	(1,403,458)	(1,309,850)	(2,202,671)
Other financial assets and liabilities at fair value through profit or loss	669,547	424,523	27,277
Total	**(733,911)**	**(885,327)**	**(2,175,394)**

11 – Net gains/(losses) from financial assets available for sale

R$ thousand

	2012	2011	2010
Debt instruments	382,004	356,893	372,977
Equity instruments	67,351	88,298	(8,830)
Total	**449,355**	**445,191**	**364,147**

12 – Other operating income / expenses

R$ thousand

Other operating income	2012	2011	2010
Gains derived from savings bonds	2,567,699	1,857,801	1,343,845
Income from non financial joint ventures	2,448,478	2,048,626	1,900,583
Gains from defined benefit plans (1)	2,436,990	3,995,737	4,504,258
Gains/(losses) from the disposal of other assets	1,122,747	(52,412)	(9,812)
Recovery of charges and expenses	989,057	746,240	1,516,683
Gains on translation of foreign monetary assets and liabilities	460,252	355,088	-
Gains/(losses) from the disposal of permanent investments	64,757	(7,129)	57
Gains derived from investments (3)	41,424	30,099	63,449
Reversal of provisions for sundry payments	40,665	56,984	57,082
Gain on the formation of joint ventures arising from the partnership with Mapfre	-	957,725	-
Net gains/(losses) from foreign exchange transactions	(1,753,342)	(1,828,816)	(984,209)
Other	1,829,823	2,673,872	1,616,016
Total	**10,248,550**	**10,833,815**	**10,007,952**

(1) Refers primarily to gains recorded in the period arising from actuarial surpluses in employees defined benefit plans.

(2) Refers mostly to income from dividends and interests on own capital.

R$ thousand

Other operating expenses	2012	2011	2010
Taxes	(4,985,069)	(4,694,096)	(4,168,965)
Financial expenses for technical provisions for insurance contracts and private pension plans	(4,108,021)	(2,869,340)	(2,151,736)
Expenses derived from savings bonds	(2,599,401)	(1,930,180)	(1,376,268)
Expenses from non financial joint ventures	(1,477,013)	(1,130,932)	(956,752)
(Constitution)/reversal of provision for labor, fiscal and civil claims	(1,036,124)	336,168	185,101
Monetary actualization of actuarial liabilities	(880,863)	(995,030)	(1,197,951)
Monetary actualization of deposits in guarantee	(274,870)	(424,633)	(483,894)
Service failures and operating losses	(188,174)	(459,663)	(263,689)
Negotial relationship bonus	(165,823)	(1,446,044)	(792,226)
Liabilities for transactions linked to transfer of financial assets not derecognised.	(36,279)	-	-
Capital losses	(23,772)	(24,473)	(25,073)
(Constitution)/reversal of provision for devaluation of other assets	(8,716)	(758,027)	17,606
Losses on translation of foreign monetary assets and liabilities	-	-	(186,174)
Reversal of impairment of property and equipment assets	(263)	(2,108)	(1,180)
Anticipated amortization of contracts	-	(211,126)	(191,010)
Reversal of impairment of intangible assets	3,686	3,755	(13,421)
(Constitution)/reversal of provision for other assets without loan characteristics	102,562	(137,251)	96,069
Other	(2,665,206)	(2,606,486)	(3,074,513)
Total	**(18,343,346)**	**(17,349,466)**	**(14,584,076)**

13 – Personnel expenses

R$ thousand

	2012	2011	2011
Wages and salaries	(10,318,141)	(9,371,730)	(8,159,512)
Social security costs	(3,479,869)	(3,106,820)	(2,581,726)
Benefits	(2,031,145)	(2,236,093)	(1,997,665)
Profit sharing	(1,837,932)	(1,789,742)	(1,756,091)
Directors' and officers' fees	(63,525)	(59,256)	(55,562)
Staff training	(51,960)	(70,357)	(83,912)
Others	(195)	(90)	-
Total	**(17,782,767)**	**(16,634,088)**	**(14,634,468)**

14 – Administrative expenses

R$ thousand

	2012	2011	2010
Outsourced services	(1,640,984)	(1,167,262)	(1,099,385)
Communication expenses	(1,383,703)	(1,319,832)	(1,237,567)
Transportation	(1,178,407)	(823,264)	(703,002)
Data processing	(819,000)	(657,495)	(1,050,103)
Rental and operating leases expenses	(862,901)	(714,501)	(599,839)
Surveillance and security services	(840,316)	(756,233)	(666,693)
Specialized technical services	(640,660)	(637,391)	(607,307)
Maintenance and preservation	(585,211)	(486,440)	(385,134)
Marketing expenses	(465,849)	(390,700)	(367,929)
Water, energy and gas	(388,650)	(354,148)	(332,520)
Promotion and public relations	(241,630)	(262,969)	(232,883)
Travel expenses	(173,773)	(206,147)	(178,989)
Office supplies	(146,323)	(138,239)	(126,031)
Philanthropic contributions	(72,766)	(72,520)	(90,268)
Other	(1,173,102)	(1,076,683)	(813,802)
Total	**(10,613,275)**	**(9,063,824)**	**(8,491,452)**

15 – Compulsory deposits with central banks

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Without remuneration (1)	**15,740,996**	**16,345,403**
Brazilian Central Bank	15,740,996	16,345,403
With remuneration (2)	**64,356,869**	**77,344,584**
Brazilian Central Bank	64,356,869	77,344,558
Other Central Banks	-	26
Total	**80,097,865**	**93,689,987**

(1) Compulsory payment on sight deposits in Brazil, corresponding to the minimum balance that financial institutions are required to maintain at Brazilian Central Bank, based on a percentage of deposits received from third parties, considered as resources of restricted use.

(2) Compulsory payment on demand on savings deposits in Brazil and sight deposits abroad.

16 – Loans to financial institutions

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Interbank deposits	29,813,817	27,425,064
Loan portfolios acquired with guarantee from the transferor	14,436,836	14,421,427
Allowance for losses on loan to financial institutions	(9,169)	-
Total	**44,241,484**	**41,846,491**

	Dec 31, 2012	Dec 31, 2011
Allowance for losses on loans to financial institutions		
Opening balance	**-**	**-**
Constitution	(9,169)	-
Low	-	-
Closing balance	**(9,169)**	**-**

17 – Securities purchased under resale agreements

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Sales pending settlement – held position	**22,011,906**	**13,543,024**
Treasury financial bills	3,145,040	704,394
National treasury notes	5,727,161	9,622,482
National treasury bills	12,694,635	2,870,134
Other securities	445,070	346,014
Sales pending settlement – financed position[(1)]	**167,261,653**	**125,489,177**
Treasury financial bills	104,449,107	106,931,871
National treasury notes	14,081,422	947,532
National treasury bills	48,362,285	17,590,708
Other securities	368,839	19,066
Sales pending settlement – sold position	**242,330**	**-**
Federal government securities – National Treasury	242,330	-
Sales pending settlement – chamber clearing and settlement	**-**	**-**
Total	**189,515,889**	**139,032,201**

(1) Refers to Securities purchased under resale agreements made and passed on to other borrowers, with an obligation to repurchase. Liabilities resulting from these operations totaled R$ 165,546,113 thousand in 2012 and R$ 128,695,555 in 2011 (Note 30).

18 – Financial assets and liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Debt instruments	**71,543,017**	**66,580,568**
Brazilian federal government bonds	54,805,986	49,735,889
Securities issued by financial companies	7,412,856	957,019
Securities issued by non-financial companies	6,333,940	7,414,363
Investments in mutual funds	2,284,390	6,968,883
Federal government bonds	604,806	1,189,015
Brazilian government bonds issued abroad	101,039	315,399
Equity instruments	**1,998,349**	**317,204**
Tradable equity shares	1,998,349	317,204
Total debt and equity instruments	**73,541,366**	**66,897,772**
Derivative financial instruments (assets)	**1,414,580**	**1,396,700**
Swaps	1,113,569	623,539
Forward operations	165,469	407,387
Other(1)	75,219	110,824
Options	60,323	254,950
Total financial assets at fair value through profit or loss	**74,955,946**	**68,294,472**

(1) Other derivatives contracts are related, essentially, to Non Deliverable Forward (NDF) contracts which are traded in over-the-counter (OTC) market.

The financial assets at fair value through profit or loss that are tied to collateral refers to government securities that are deposited as collateral in transactions involving derivatives, exchange of securities and exchange currencies in the Bolsa de Valores, Mercadorias e Futuros de São Paulo (BM&FBOVESPA) clearing, as well as collateral of operations involving stocks in the Câmara Brasileira de Liquidação e Custódia (CBLC) clearing.

Financial liabilities at fair value through profit or loss

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Derivative financial instruments (liabilities)	**3,439,482**	**3,620,655**
Swaps	1,902,137	1,243,001
Options	1,405,480	2,006,159
Forward operations	131,865	371,495
Other financial liabilities at fair value through profit or loss	**387,261**	**352,200**
Total financial liabilities at fair value through profit or loss	**3,826,743**	**3,972,855**

Fair value of the trading assets that are pledged as collateral for:

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Repurchase agreements	6,434,350	9,087,657
Guarantees provided	947,123	1,552,157
Compulsory deposits	45,523	54,747
Total	**7,426,996**	**10,694,561**

In the years ended in 2012 and 2011 no reclassifications were made for financial assets and liabilities at fair value through profit or loss.

Unrealized net gains/(losses) from assets and liabilities at fair value through profit or loss

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Unrealized net gains/(losses) from debt instruments	**2,168,255**	**356,314**
Brazilian federal government bonds	2,038,711	300,644
Securities issued by non-financial companies	74,840	6,026
Federal government bonds	46,813	103,184
Securities issued by financial companies	14,087	14,310
Brazilian government bonds issued abroad	1,263	(85)
Investments in mutual funds	(7,459)	(67,765)
Unrealized net gains/(losses) from equity instruments	**52,940**	**(1,850)**
Tradable equity shares	52,940	(1,850)
Gains/(losses) from derivative financial instruments	**308,161**	**336,577**
Gains/(losses) from other financial liabilities at fair value through profit or loss	**21,809**	**(13,252)**
Total	**2,551,165**	**677,789**

19 – Financial assets available for sale

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Debt instruments	**95,822,600**	**83,099,480**
Brazilian federal government bonds	48,005,060	48,668,493
Securities issued by non-financial companies	34,395,824	24,057,820
Federal government bonds	4,593,520	3,698,358
Brazilian government bonds issued abroad	4,392,999	3,312,925
Investments in mutual funds	2,305,386	1,674,564
Securities issued by financial companies	2,124,542	1,655,912
State and municipal bonds	5,269	31,408
Equity instruments	**882,060**	**1,228,709**
Tradable equity shares	882,060	1,228,709
Total	**96,704,660**	**84,328,189**

Financial assets available for sale that are tied to collateral refers to Brazilian government bonds that are deposited as collateral in transactions involving derivatives, securities exchange and currencies exchange) in the Bolsa de Valores, Mercadorias e Futuros de São Paulo (BM&FBOVESPA) clearing, as well as collateral of operations involving stocks in the Câmara Brasileira de Liquidação e Custódia (CBLC) clearing.

Fair value of the financial assets available for sale that are tied to:

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Repurchase agreements	40,465,146	39,115,929
Guarantees provided	4,429,414	3,811,345
Compulsory deposits	715,075	697
Total	**45,609,635**	**42,927,971**

In the half year ended December 31, 2012 and December 31, 2011, no reclassifications were made for financial assets available for sale.

Unrealized net gains/(losses) from financial assets available for sale

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Unrealized net gains/(losses) on debt instruments	**1,407,067**	**712,028**
Brazilian government bonds issued abroad	870,518	572,535
Investments in mutual funds	177,870	(63,339)
Federal government bonds	147,173	99,330
Securities issued by non-financial companies	95,300	70,342
Brazilian federal government bonds	89,775	29,063
Securities issued by financial companies	26,431	4,197
State and municipal bonds	-	(100)
Unrealized net gains/(losses) on equity instruments	**(26,149)**	**(17,270)**
Tradable equity shares	(26,149)	(17,270)
Total	**1,380,918**	**694,758**

20 – Financial assets held to maturity

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Debt instruments	**12,713,398**	**14,997,329**
Brazilian federal government bonds	12,509,409	14,800,877
Brazilian government bonds issued abroad	94,535	115,835
Securities issued by financial companies	-	80,617

Breakdown by maturity

R$ thousand

Due in up to one year	4,375,992
Maturing between 1 to 5 years	2,530,441
Maturing between 5 to 10 years	532,755
Maturing after 10 years	5,274,210
Total	**12,713,398**

During the half year ended December 31, 2012 and December 31, 2011, no reclassifications were made for financial assets held to maturity.

21 – Loans to customers

Loans portfolio by type

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Loans	**484,418,047**	**385,603,343**
Loans and securities discounted	220,444,535	167,300,341
Financing	138,447,452	117,292,903
Rural and agribusiness financing	112,263,199	93,207,757
Real estate financing	13,157,381	7,801,492
Infrastructure and development financing	16,067	850
Loan operations linked to cessions	89,413	-
Others receivables with loan characteristics	**27,773,331**	**22,663,441**
Credit card operations	16,087,368	12,473,666
Advances on foreign exchange contracts	11,351,557	9,773,934
Collateral honored	107,358	76,699
Others	227,048	339,142
Lease operations	**2,055,236**	**3,064,399**
Total loans to customers portfolio	**514,246,614**	**411,331,183**
Allowance for losses on loans to customers	**(16,175,830)**	**(12,298,689)**
Allowance for loan losses	(15,618,286)	(11,976,137)
Allowance for losses on other receivables	(426,978)	(146,784)
Allowance for losses on lease operations	(130,566)	(175,768)
Total loans to customers, net of allowance	**498,070,784**	**399,032,494**

The Bank provides loans to several entities related to the federal government, which is the Bank controlling stockholder. These transactions are practiced under usual market conditions, including interest rates and guarantees as required for transactions carried out with unrelated parties. The Bank does not grant loans to key management personnel (Note 44). Loans contracted with related parties totaled R$ 2,719,542 thousand (R$ 1,417,447 thousand as of December 31,2011).

Loans portfolio by economic sectors

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Public Sector	**12,804,452**	**8,636,275**
Private sector	**501,442,162**	**402,694,908**
Industrial	148,341,474	101,874,873
Individuals	123,648,793	108,304,921
Rural	86,625,648	68,088,247
Commerce	59,816,478	63,585,046
Habitation	10,195,825	6,073,590
Financial services	1,400,639	3,509,904
Other services	71,413,305	51,258,327
Total loans to customers	**514,246,614**	**411,331,183**
Allowance for losses on loan to customers	**(16,175,830)**	**(12,298,689)**
Total loans to customers, net of allowance	**498,070,784**	**399,032,494**

Loans to customers by maturity

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Installments falling due		
01 to 30 days	42,306,204	30,755,378
31 to 60 days	27,543,386	20,388,456
61 to 90 days	22,255,469	16,729,789
91 to 180 days	56,378,534	44,346,860
181 to 360 days	85,295,776	73,734,282
More than 360 days	274,243,241	218,983,530
Other (1)	736,901	946,397
Subtotal	**508,759,511**	**405,884,692**
Installments overdue		
01 to 14 days	947,594	1,483,698
15 to 30 days	504,109	425,846
31 to 60 days	645,132	578,346
61 to 90 days	511,649	443,576
91 to 180 days	1,028,717	803,412
181 to 360 days	1,220,509	1,169,826
More than 360 days	629,394	541,787
Subtotal	**5,487,103**	**5,446,491**
Total	**514,246,614**	**411,331,183**

(1) Transactions including third party risk related to Government Funds and Programs. Includes overdue installments' amounts, totaling R$ 60,214 thousand, which are in accordance with the rules defined in each reimbursement program by the fund's managers, not involving credit risk for the Bank.

Leasing portfolio by maturity

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Until a year (1)	1,243,616	1,660,145
Over one year through five years	805,479	1,395,600
Over five years	6,141	8,654
Total present value	**2,055,236**	**3,064,399**

(1) Includes amounts related to installments overdue.

Supplementary information

R$ thousand

	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Renegotiated loans	36,006,290	29,313,212	30,624,002
Recovery of loans previously written off as loss	2,598,252	2,809,527	2,483,983

22 – Allowance for loan losses

a) Movements

R$ thousand

	Dec 31, 2012					
	Initial balance	**Allowance for loan losses**	**Write-offs**	**Other movements**	**Exchange rate changes**	**Balance at the end of period**
Loan	**11,976,137**	**14,654,961**	**(11,292,271)**	**266,973**	**12,486**	**15,618,286**
Loans and securities discounted	6,473,736	7,937,404	(5,833,150)	226,801	12,486	8,817,277
Financing	2,100,249	3,159,575	(2,458,213)	40,172	-	2,841,783
Rural and agribusiness financing	3,370,565	3,373,242	(2,875,624)	-	-	3,868,183
Real estate financing	31,587	180,806	(124,061)	-	-	88,332
Infrastructure and development financing	-	147	(79)	-	-	68
Loan operations linked to cessions	-	3,787	(1,144)	-	-	2,643
Others receivables with loan characteristics	**146,784**	**685,685**	**(405,491)**	**-**	**-**	**426,978**
Credit card operations	32,072	141,827	(136,566)	-	-	37,333
Advances on foreign exchange contracts	91,507	389,524	(204,700)	-	-	276,331
Collateral honored	6,133	154,152	(56,185)	-	-	104,100
Others	17,072	182	(8,040)	-	-	9,214
Lease operations	**175,768**	**103,683**	**(135,978)**	**(12,907)**	**-**	**130,566**
Total	**12,298,689**	**15,444,329**	**(11,833,740)**	**254,066**	**12,486**	**16,175,830**

R$ thousand

	Dec 31, 2011					
	Initial balance	**Allowance for loan losses**	**Write-offs**	**Other movements**	**Exchange rate changes**	**Balance at the end of period**
Loan	**10,594,341**	**11,035,450**	**(9,729,008)**	**79,498**	**(4,144)**	**11,976,137**
Loans and securities discounted	5,627,443	6,077,148	(5,098,172)	(128,539)	(4,144)	6,473,736
Financing	1,462,395	1,756,017	(1,342,135)	223,972	-	2,100,249
Rural and agribusiness financing	3,504,553	3,054,688	(3,175,583)	(13,093)	-	3,370,565
Real estate financing	(50)	147,592	(113,113)	(2,842)	-	31,587
Infrastructure and development financing	-	5	(5)	-	-	-
Others receivables with loan characteristics	**278,019**	**100,884**	**(316,948)**	**84,829**	**-**	**146,784**
Credit card operations	82,424	77,407	(127,759)	-	-	32,072
Advances on foreign exchange contracts	117,678	20,399	(131,397)	84,827	-	91,507
Collateral honored	60,847	(11,844)	(42,870)	-	--	6,133
Others	17,070	14,922	(14,922)	2		17,072
Lease operations	**146,470**	**245,558**	**(142,976)**	**(73,284)**	**-**	**175,768**
Total	**11,018,830**	**11,381,892**	**(10,188,932)**	**91,043**	**(4,144)**	**12,298,689**

b) Allowance for loan losses, net of recovery

R$ thousand

	Dec 31, 2012	**Dec 31, 2011**
Allowance for loan losses	15,444,329	11,381,892
Recovery of loans written off as loss	(2,598,252)	(2,809,527)
Allowance for loan losses, net of recovery	**12,846,077**	**8,572,365**

c) Breakdown of provisions for losses on loans classified by modality

R$ thousand

	Dec 31, 2012						
	Individual[1]		Collective		Total		
	Credit amount	Allowance	Credit amount	Allowance	Credit amount	Allowance	Credit net of allowance
Loan operations	**4,509,323**	**1,090,031**	**479,908,723**	**14,528,255**	**484,418,046**	**15,618,286**	**468,799,760**
Loans and securities discounted	1,390,246	655,085	219,054,289	8,162,192	220,444,535	8,817,277	211,627,258
Financing	1,124,443	282,629	137,323,009	2,559,154	138,447,452	2,841,783	135,605,669
Rural and agribusiness financing	1,979,162	149,511	110,284,037	3,718,672	112,263,199	3,868,183	108,395,016
Real estate financing	15,472	2,806	13,141,908	85,526	13,157,380	88,332	13,069,048
Infrastructure and development financing	-	-	16,067	68	16,067	68	15,999
Loan operations linked to cessions		-	89,413	2,643	89,413	2,643	86,770
Other receivables with loan characteristics	**467,836**	**218,052**	**27,305,496**	**208,926**	**27,773,332**	**426,978**	**27,346,354**
Credit card operations	1,161	12	16,086,207	37,321	16,087,368	37,333	16,050,035
Advances on foreign exchange contracts	366,691	121,275	10,984,866	155,056	11,351,557	276,331	11,075,226
Collateral honored	96,765	96,765	10,595	7,335	107,360	104,100	3,260
Others	3,219	-	223,828	9,214	227,047	9,214	217,833
Lease operations	**655**	**291**	**2,054,581**	**130,275**	**2,055,236**	**130,566**	**1,924,670**
Total	**4,977,814**	**1,308,374**	**509,268,800**	**14,867,456**	**514,246,614**	**16,175,830**	**498,070,784**

(1) Includes individually assessed loan portfolios from Banco Votorantim and Banco Patagonia.

R$ thousand

	Dec 31, 2011						
	Individual		Collective		Total		
	Credit amount	Allowance	Credit amount	Allowance	Credit amount	Provision	Credit net of allowance
Loan operations	**2,534,403**	**440,519**	**383,068,940**	**11,535,618**	**385,603,343**	**11,976,137**	**373,627,206**
Loans and securities discounted	742,842	233,221	166,557,499	6,240,515	167,300,341	6,473,736	160,826,605
Financing	847,947	67,533	116,444,956	2,032,716	117,292,903	2,100,249	115,192,654
Rural and agribusiness financing	943,614	139,765	92,264,143	3,230,800	93,207,757	3,370,565	89,837,192
Real estate financing	-	-	7,801,492	31,587	7,801,492	31,587	7,769,905
Infrastructure and development financing	-	-	850	-	850	-	850
Other receivables with loan characteristics	**498,156**	**56,151**	**22,165,285**	**90,633**	**22,663,441**	**146,784**	**22,516,657**
Credit card operations	154	60	12,473,512	32,012	12,473,666	32,072	12,441,594
Advances on foreign exchange contracts	429,763	56,091	9,344,171	35,416	9,773,934	91,507	9,682,427
Collateral honored	64,691	-	12,008	6,133	76,699	6,133	70,566
Others	3,548	-	335,594	17,072	339,142	17,072	322,070
Lease operations	**2,718**	**744**	**3,061,681**	**175,024**	**3,064,399**	**175,768**	**2,888,631**
Total	**3,035,277**	**497,414**	**408,295,906**	**11,801,275**	**411,331,183**	**12,298,689**	**399,032,494**

R$ thousand

	Dec 31, 2010						
	Individual		Collective		Total		
	Credit amount	Allowance	Credit amount	Allowance	Credit amount	Provision	Credit net of allowance
Loan operations	**1,302,528**	**366,638**	**323,894,897**	**10,227,702**	**325,197,425**	**10,594,340**	**314,603,085**
Loans and securities discounted	246,859	129,723	140,209,677	5,497,720	140,456,536	5,627,443	134,829,093
Financing	245,780	74,819	103,378,308	1,387,576	103,624,088	1,462,395	102,161,693
Rural and agribusiness financing	809,889	162,096	76,829,444	3,342,457	77,639,333	3,504,553	74,134,780
Real estate financing	-	-	3,476,494	(51)	3,476,494	(51)	3,476,545
Infrastructure and development financing	-	-	974	-	974	-	974
Other receivables with loan characteristics	**144,920**	**127,572**	**19,844,875**	**150,448**	**19,989,795**	**278,020**	**19,711,775**
Credit card operations	32	-	10,623,937	82,424	10,623,969	82,424	10,541,545
Advances on foreign exchange contracts	84,521	74,967	8,970,361	42,711	9,054,882	117,678	8,937,204
Collateral honored	56,565	52,605	18,738	8,242	75,303	60,847	14,456
Others	3,802	-	231,839	17,071	235,641	17,071	218,570
Lease operations	**614**	**-**	**4,219,294**	**146,470**	**4,219,908**	**146,470**	**4,073,438**
Total	**1,448,062**	**494,210**	**347,959,066**	**10,524,620**	**349,407,128**	**11,018,830**	**338,388,298**

Loans to customers that are neither past due nor impaired are described in Note 43.

23 – Non-current assets held for sale

Non-current assets held for sale are included in the banking and insurance segments and refer to auctioned and awarded non-operating assets or received as settlement of non-performing customer loan, salvage from insurance operations, and items from property and equipment withdrawn from use.

R$ thousand

	2012	2011
Non-operating assets	125,314	57,178
Fixed assets withdrawn from use	83,126	57,210
Total	**208,440**	**114,388**

The Bank usually sells these assets by auction.

In 2012, the Bank recognized gain in sale of non-current assets in the amount of R$ 1,122,747 thousand (R$ 52,412 thousand of losses in 2011).

The amount of gain considers the result recorded on the disposal of properties to BB Progressivo II Fundo de Investimento Imobiliário (FII), as presented in Note 6.e.

24 – Investments in associates and joint ventures

a) Associated Companies

R$ thousand

Company	Equity interest percentage Dec 31, 2012		Stockholders' equity of investee		Carrying amount of investment		Equity in earnings of associated companies		
	Total	Common stocks	Dec 31, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011	2012	2011	2010
Itapebi Geração de Energia S.A. (1) (3)	19.00	19.00	398,514	396,095	75,718	75,258	35,291	27,337	28,623
Tecnologia Bancária S.A. – Tecban (1) (3)	13.53	13.53	194,075	150,931	26,259	20,421	5,838	(2,487)	1,507
Companhia Brasileira de Securitização – Cibrasec (1) (2)	12.12	12.12	75,204	75,445	9,121	9,144	1,111	1,283	413
Seguradora Brasileira de Crédito à Exportação – SBCE (1) (3)	12.09	12.09	25,158	23,576	3,041	2,850	191	85	741
Empresa Brasileira de Projetos – EBP (1) (3)	11.11	11.11	16,438	3,649	1,826	405	1,421	(2,875)	(1,760)
Companhia Brasileira de Soluções e Serviços – CBSS(5)	49.99	49.99	-	329,889	-	294,464	-	91,718	42,511
Pronor Petroquímica S.A. (4)	-	-	-	-	-	-	-	157	(2,887)
Other associated companies	-	-	1,850,131	1,666,614	47,758	111,664	2,072	34,973	58,472
Total			**2,559,520**	**2,646,199**	**163,723**	**514,206**	**45,924**	**150,191**	**127,620**

(1) Although real and potential voting rights held in those associate companies are lesser than 20%, significant influence exists by means of participation in the management of the associate company or by indication of the board of directors or equivalent management body, with participation in the preparation processes of financial and operating policies.

(2) The financial statements used for application of the equity method were dated as of November 2012.

(3) The financial statements used for application of the equity method were dated as of December 2012.

(4) Investment disposed as of May 2011.

(5) Investment proportionally included in the consolidated financial statements from January/2012.

Summarized financial information of associated companies, without adjustment to Bank's ownership interest

R$ thousand

	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Total assets	14,655,813	16,503,320	6,274,593
Total liabilities	12,283,085	13,857,121	5,083,038
Revenue	1,849,593	1,392,683	1,882,563
Net income for the period	304,171	475,164	322,902

Other information

i. Dividends and interest on equity recorded from investments in associated companies were R$ 35,973 thousand as of December 31, 2012 (R$ 48,623 thousand as of December 31, 2011 and R$ 32,326 thousand as of June 30, 2010).
ii. The shares of investments in associated companies held by the Bank are not regularly traded on stock exchanges.
iii. There are no discontinued operations in associated companies.

b) Joint ventures

The companies in which the Bank has a veto power over the financial and operating policy decisions that are established in the contractual arrangement are considered to be joint ventures.

Company	Description	Total equity interest (%) Dec 31, 2012	
		Total	Common stocks
Cielo S.A.	Provider of services related to credit and debit cards and payments services.	28.68	28.68
CBSS – Alelo	Provider of services related to prepaid cards.	49.99	49.99
Kepler Weber S.A.	Operates in the manufacture and trading of metallurgy products and raw materials, foreign trade and trading of products for agricultural industry.	17.56	17.56
Neoenergia S.A.	Acting as a holding company for other companies in the fields of electric power distribution, transmission, generation and trading.	11.99	11.99
Banco Votorantim S.A.	Performs various types of bank activities, such as consumer lending, leasing, and investment fund management.	50.00	49.99
BV Participações S.A.	Acting as a holding company for other services companies.	50.00	49.99
Brasilcap Capitalização S.A.	Deals with capitalization plans and other products and services that capitalization companies are allowed to provide.	66.66	49.99
Brasilprev Seguros e Previdência S.A.	Deals with life insurance with survivor coverage and with private retirement and benefit plans.	74.99	49.99
BB Mapfre SH1 Participações S.A.(1)	Acting as a holding company for other companies which deal with life, real estate and agricultural insurance.	74.99	49.99
Mapfre BB SH2 Participações S.A.(1)	Acting as a holding company for other companies which deal with P&C, including auto insurance and excluding real estate and agricultural insurance.	50.00	49.00
Elo Participações S.A.	Acting as a holding company which consolidates the joint business related to electronic payment.	49.99	49.99

(1) The configuration of these holding companies is described in more detail in Note 6.c.

Assets and liabilities of the joint ventures, adjusted for the ownership interest held by the Bank

R$ thousand

	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010
Total current assets	50,561,363	50,305,495	63,732,528
Total non-current assets	87,955,876	69,222,497	30,691,559
Total current liabilities	63,014,022	49,972,470	39,521,396
Total non-current liabilities	60,025,496	52,286,008	42,864,265
Revenues	21,438,221	22,336,336	15,360,348
Expenses	19,701,941	19,606,254	13,979,284

25 – Property and equipment

R$ thousand

	Land	Buildings	Furniture and equipment	Leasehold improve-ments	Data processing equipment	Vehicles	Other	Total
Acquisition cost								
Balance at Dec 31, 2010	**244,690**	**4,699,709**	**1,758,075**	**1,573,614**	**4,101,746**	**3,680**	**658,431**	**13,039,945**
Acquisitions	1,064	446,043	309,922	344,366	636,588	21,813	102,402	1,862,198
Acquisitions due to business combinations	14,322	127,792	30,431	(378)	8,004	4,705	841	185,717
Disposals	(8,445)	(35,959)	(41,950)	(46,280)	(195,624)	(129)	(176,553)	(504,940)
Balance at Dec 31, 2011	**251,631**	**5,237,585**	**2,056,478**	**1,871,322**	**4,550,714**	**30,069**	**585,121**	**14,582,920**
Acquisitions	340,796	690,032	574,069	469,091	609,707	3,922	101,360	2,788,977
Acquisitions due to business combinations	318	1,049	1,145	628	-	-	-	3,140
Disposals(1)	(22,815)	(677,543)	(303,466)	(24,597)	(226,765)	(1,032)	(25,939)	(1,282,157)
Balance at Dec 31, 2012	**569,930**	**5,251,123**	**2,328,226**	**2,316,444**	**4,933,656**	**32,959**	**660,542**	**16,092,880**
Accumulated depreciation								
Balance at Dec 31, 2010		**(2,666,796)**	**(887,318)**	**(1,051,521)**	**(2,511,313)**	**(2,137)**	**(361,889)**	**(7,480,974)**
Depreciation		(139,124)	(173,865)	(202,058)	(529,117)	(1,492)	(52,869)	(1,098,525)
Disposals		(15,842)	51,969	36,061	84,555	(18,695)	58,912	196,960
Balance at Dec 31, 2011		**(2,821,762)**	**(1,009,214)**	**(1,217,518)**	**(2,955,875)**	**(22,324)**	**(355,846)**	**(8,382,539)**
Depreciation		(171,039)	(222,079)	(91,942)	(558,454)	(1,971)	(46,882)	(1,092,367)
Disposals(1)		385,686	81,488	21,586	183,748	404	15,221	688,133
Balance at Dec 31, 2012		**(2,607,115)**	**(1,149,805)**	**(1,287,874)**	**(3,330,581)**	**(23,891)**	**(387,507)**	**(8,786,773)**
Impairment loss								
Balance at Dec 31, 2010		**(3,278)**	**(1,152)**	**-**	**(1,405)**	**-**	**-**	**(5,835)**
Losses		(1,291)	-	-	(817)	-	-	(2,108)
Reversal		424	262	-	1,262	-	-	1,948
Balance at Dec 31, 2011		**(4,145)**	**(890)**	**-**	**(960)**	**-**	**-**	**(5,995)**
Losses		(263)	(35)	-	-	-	-	(298)
Balance at Dec 31, 2012		**(4,408)**	**(925)**	**-**	**(960)**	**-**	**-**	**(6,293)**
Carrying amount								
Balance at Dec 31, 2010	244,690	2,029,635	869,605	522,093	1,589,028	1,543	296,542	5,553,136
Balance at Dec 31, 2011	251,631	2,411,678	1,046,374	653,804	1,593,879	7,745	229,275	6,194,386
Balance at Dec 31, 2012	569,930	2,639,600	1,177,496	1,028,570	1,602,115	9,068	273,035	7,299,814

(1) Includes the value of disposal transferred to BB Progressivo Fundo de Investimento Imobiliário (FII) (Note 6.e.).

Property and equipment includes property given as collateral, which totaled R$ 295,874 thousand (R$ 268,366 thousand as of December 31, 2011).

Impairment losses are recorded within other expenses in the consolidated statement of income.

Future payments for operating leases:

R$ thousand

	2013	2014	2015	2016	2017	After 2017	Total
Amounts payable	828,512	704,508	552,152	447,594	321,527	1,089,097	3,943,390

Expenses related to rental and operating leases were R$ 862,901 thousand (R$ 714,501 thousand for the year ended December 31, 2011). The Bank does not hold sublease contracts.

26 – Goodwill and other intangible assets

a) Goodwill separated by operating segment and by cash generating unit

R$ thousand

Operating segment/Cash generating unit	Dec 31, 2012	Dec 31, 2012
Banking	**621,368**	**591,581**
Banco do Brasil – São Paulo State – Goodwill of Banco Nossa Caixa	591,581	591,581
BB Americas(1)	29,787	-
Payment services	**1,439,954**	**1,002,124**
Cielo	1,002,124	1,002,124
CBSS – Alelo	129,551	-
Other(2)	308,279	-
Insurance and related	**1,380,555**	**1,204,288**
BB Seguros Participações S.A.	1,163,072	1,093,539
Brasilcap	110,749	110,749
Brasilprev	106,734	-
Total	**3,441,877**	**2,797,993**

(1) The goodwill arising from the acquisition of the foreign operation is translated at the closing rate at the date of the consolidated financial statements.
(2) This includes, mainly, the amount of goodwill generated from Cielo's business combinations.

Impairment test of goodwill

The recoverable value of goodwill related to business combinations is determined taking into account the value in use. The value in use is calculated using the discounted cash flow method, which is based on the projection of cash flow for the investee company (cash-generating unit) and the discount rate relating to those cash flows. Discounted cash flows were prepared based on the multi-annual budget (2012-2016) and growth projections were prepared for a ten-year period. The rates vary according to operating segment.

The impairment test of goodwill regarding the acquisition of Banco Nossa Caixa, which was incorporated by the Banco do Brasil, considers the value in use of the Banco do Brasil in the state of São Paulo (cash-generating unit). Cash flows are based on the result of the 2011 cash-generating unit, the growth in relating to Gross Domestic Product (GDP) and the National Consumer Price Index (IPCA), projected for ten years.

The discount rate is determined by the cost of own capital based on the CAPM (Capital Asset Pricing Model) model denominated in Brazilian currency in the unit form. This methodology is composed of the United States of America risk free rate, the EMBI + BR [1], index as premium by risk Brazil, the company's beta, the historical geometric average of the United States premium market, the adjustment factor between the Brazilian and the United States market premiums, the differential between the Brazilian and the United States inflation rates and the differential of productivity between the Brazilian and the U.S. economies. The parameters mentioned for determination of the cost of capital have been obtained from external sources.

Cash flows of cash generating units related to the segments of payment services and insurance and related were projected for ten years, perpetuating stabilized growth as of the 11th year. The Bank uses growth estimates consistent with those used by the companies in the situations which the budgets and business

[1] Emerging Market Bond Index Plus – Brazil, corresponding to the weighted average of the premiums paid by a virtual portfolio of Brazilian public debt in relation to equivalent roles within the U.S. Treasury. It is the surcharge that is paid in respect of profitability Treasury bonds guaranteed by the United States, which risk is considered zero.

plans of the companies have smaller projection periods than those defined by the Bank. The nominal discount rate was calculated every year based on the CAPM adjusted to the Brazilian market and referenced to the Real.

Assumptions used to estimate cash flows are based on the budget, business plan of the respective companies and public information, such as those from Brazilian Central Bank, IBGE (Brazilian Institute of Geography and Statistics), CVM (Securities and Exchange Commission of Brazil), Valor Econômico (one of the most important economic, finance and business media in Brazil), among others. These assumptions take into consideration present and past performance, as well as the expected growth in the relevant market of operation and in the entire macroeconomic environment.

The projection period adopted by the Bank is a market practice in Brazil in the face of the characteristics of the maturing Brazilian economy. According to this market practice, the Bank uses bigger projections of growth until the fifth year. Between the sixth and tenth years the growth projections will be smaller than the projections used until the fifth year because of the economic stabilized environment. From the 11th year, the Bank growth projection will be stabilized and the Brazilian economy will reach maturity.

According to the sensitivity analysis performed, in the current economic environment there is no indication that changes in assumptions would cause the carrying value of cash-generating units to exceed its recoverable amounts.

During the year 2012, there was no impairment loss on goodwill related to acquisition of investments.

Assumptions used in the impairment tests

Cash generating unit	Growth rate	Discount rate
Banco do Brasil – São Paulo State– Goodwill of Banco Nossa Caixa (1)	9.22%	11.82%

(1) Growth and discount by the geometric mean of the ten-year projection.

Cash generating unit (1)	Growth rate		Perpetuity rate	
	CAGR(2)	k(3)	g(4)	k(5)
Brasilcap	7.87%	9.16%	2.85%	8.87%
BB Mapfre SH1(6)	11.57%	10.93%	3.00%	11.24%
Mapfre BB SH2(6)	16.00%	10.93%	3.00%	11.24%

(1) The projection period is the period before the perpetuity, where for the Cash Generating Units BB Mapfre SH1, Mapfre BB SH2 e Brasilcap was designed first 10 years. All rates are presented in nominal values.
(2) Compound Annual Growth Rate is the uniform annual cash flow of the company's first group of projection periods. To Brasilcap, is the uniform annual rate of EBITDA – Earnings before interest, taxes, depreciation and amortization – for the first 10 years of the projection.
(3) Geometric average discount rate of the first cycle of the projection.
(4) Rates listed apply to cash flow the company after 10 years: g - growth rate.
(5) Rates listed apply to cash flow the company after 10 years: k - the discount rate.
(6) Cash generating unit linked to BB Seguros Participações S.A.

The recoverable amount of goodwill on acquisition of equity interest in the Cielo is determined by the net disposal amount, based on the market price of the shares issued by the company on the BM&FBovespa.

R$ thousand

Cash generating unit	Market Price CIEL3(1)
Cielo	50.59

(1) Closing price on September 28, 2012.

b) Changes in goodwill

R$ thousand

	2012	2011
Goodwill at the beginning of the period	**2,797,993**	**2,398,484**
Accumulated impairment loss	-	-
Initial balance	**2,797,993**	**2,398,484**
Goodwill recognized in the period	639,821	1,204,288
Deconsolidation of subsidiary(1)	-	(804,779)
Gross value of goodwill at the end of the period	**3,437,813**	**2,797,993**
Foreign currency translations adjustments	4,064	-
Accumulated impairment losses at the end of the period	-	-
Goodwill from acquisitions in the period	**3,441,877**	**2,797,993**

(1) Refers to deconsolidation of subsidiaries due to formation of joint ventures arising from the partnership with Mapfre in 2011.

c) Intangible assets with defined useful life

R$ thousand

	Software	Rights due to payroll management	Related to customers portfolio	Relating to contracts[(1)]	Other [(2)]	Total
Acquisition cost						
Balance at Dec 31, 2010	**1,461,407**	**9,492,917**	**4,303,106**	**863,062**	**1,774,666**	**17,895,158**
Internally generated	417,778	-	-	-	18,892	436,670
Acquisitions	131,058	2,270,911	170,508	-	702,086	6,098,420
Acquisitions due to business combinations	-	-	434,312	40,246	21,854	496,412
Write-offs	(64,587)	(959,062)	-	-	(468,567)	(1,492,216)
Balance at Dec 31, 2011	**1,945,656**	**10,804,766**	**4,907,926**	**3,727,165**	**2,048,931**	**23,434,444**
Balance at Dec 31, 2011	**1,945,656**	**10,804,766**	**4,907,926**	**3,727,165**	**2,048,931**	**23,434,444**
Internally generated	80,077	-	-	-	6,933	87,010
Acquisitions	618,050	1,338,285	19,455	4,662	70,114	2,050,566
Acquisitions due to business combinations	13	-	3,694	-	19,980	23,687
Write-offs	(448,533)	(2,877,009)	(104)	-	(29,057)	(3,354,703)
Foreign currency translations adjustments	-	-	21,258	1,693	1,996	24,947
Balance at Dec 31, 2012	**2,195,263**	**9,266,042**	**4,952,229**	**3,733,520**	**2,118,897**	**22,265,951**
Accumulated amortization						
Balance at Dec 31, 2010	**(749,949)**	**(3,816,642)**	**(815,477)**	**(200,787)**	**(811,281)**	**(6,394,136)**
Amortization	(222,325)	(2,006,046)	(626,735)	(132,063)	(120,791)	(3,107,960)
Acquisitions	(154,766)	-	-	-	(2,990)	(157,756)
Write-offs	49,162	959,062	-	-	468,567	1,476,791
Balance at Dec 31, 2011	**(1,077,878)**	**(4,863,626)**	**(1,442,212)**	**(332,850)**	**(466,495)**	**(8,183,061)**
Balance at Dec 31, 2011	**(1,077,878)**	**(4,863,626)**	**(1,442,212)**	**(332,850)**	**(466,495)**	**(8,183,061)**
Amortization	(269,437)	(1,904,908)	(650,133)	(313,812)	(58,851)	(3,261,251)
Write-offs	412,707	2,877,009	104	-	29,035	3,318,855
Other changes	(63,645)	-	(1,697)	-	(12,788)	(78,084)
Balance at Dec 31, 2012	**(998,253)**	**(3,891,525)**	**(2,093,892)**	**(646,662)**	**(573,209)**	**(8,203,541)**
Impairment loss[(3)]						
Balance at Dec 31, 2010	**(632)**	**(56,596)**	**-**	**-**	**-**	**(57,228)**
Addition/recognition	-	-	-	-	-	-
Reversal[(4)]	58	3,697	-	-	-	3,755
Balance at Dec 31, 2011	**(574)**	**(52,899)**	**-**	**-**	**-**	**(53,473)**
Balance at Dec 31, 2011	**(574)**	**(52,899)**	**-**	**-**	**-**	**(53,473)**
Reversal	-	3,112	-	-	-	3,112
Other changes	574	-	-	-	-	574
Balance at Dec 31, 2012	**-**	**(49,787)**	**-**	**-**	**-**	**(49,787)**
Carrying amount						
Balance at Dec 31, 2010	710,826	5,619,679	3,487,629	662,275	963,385	11,443,794
Balance at Dec 31, 2011	867,204	5,888,241	3,465,714	3,394,315	1,582,436	15,197,910
Balance at Dec 31, 2012	1,197,010	5,324,730	2,858,337	3,086,858	1,545,688	14,012,623

(1) Includes the right to use Banco Postal of Correios´ network to correspondent banking services in the amount of R$ 2,823,856 thousand, acquired in the second half of 2011 and the identified intangible assets from partnership with Mapfre.

(2) Includes mainly brands acquired due to business combinations, rights of use for license held by Neoenergia S.A. and trading cooperation agreement from Banco Votorantim and the right to exploit the distribution channels from partnership with Mapfre.

(3) The amount of impairment losses recognized/reversed during the period refers to banking and payment service segments and is recorded under "Other expenses".

(4) There was a partial reversal of impairment loss during the first half of 2012 and 2011 resulting, mainly, from the rescission of contracts of municipal payrolls.

Estimated expenses with amortization of intangible assets for the following years

R$ thousand

	2012	2013	2014	2015	2016	After 2016	Total
Amounts to be amortized	2,861,394	3,017,812	2,763,268	2,717,291	955,531	1,697,327	14,012,623

27 – Other assets and other liabilities

R$ thousand

Other assets	Dec 31,2012	Dec 31,2011
Post-employment benefit plans (Note 42.d)	16,249,057	13,372,004
Collateral deposits (Note 33.c)	13,940,648	13,328,328
PREVI's surplus – Pension Funds (Note 42.e)	9,198,717	9,638,387
Sundry debtors – domestic	6,397,633	4,212,513
Securities and credits receivable from the National Treasury	5,662,775	5,730,420
Receivable accounts	3,755,745	2,883,577
Prepaid expenses	2,490,157	2,360,500
Insurance and reinsurance operations	2,248,957	1,792,840
Salary change compensation fund – incorporated	2,012,007	1,897,511
Receivable income	1,822,166	1,488,710
Securities clearing accounts	604,735	317,141
Prepaid taxes	843,058	402,032
Non-operating assets, net of provision for devaluation	229,677	248,625
Advances to employees	284,280	238,201
Credit from capitalization operations	82,872	84,903
Other	2,992,893	3,576,616
Total	**68,815,377**	**61,572,308**

R$ thousand

Other liabilities	Dec 31,2012	Dec 31,2011
Advances received by exchange contract	17,997,704	19,631,530
Sundry creditors – domestic	12,824,057	9,211,568
Liabilities with credit card companies	7,002,397	5,207,137
Post-employment benefit plans (Note 42)	6,762,693	7,141,908
Receipts on account of third parties	5,537,904	4,123,185
Technical reserves of capitalization	4,443,064	3,470,646
Labor charges and obligations	4,172,571	3,730,414
Taxes	3,370,599	3,295,603
Net exchange portfolio	2,219,678	779,359
Accrual for sundry pending payments	1,706,384	827,770
Liabilities for official agreements and payment services	1,478,390	650,714
Collateral deposits	1,352,710	-
Dividends and pending bonuses	801,700	1,281,735
Debits of insurance, reinsurance and third-party deposits	930,764	678,204
Liabilities for securities dealings	662,090	333,195
Sundry creditors – overseas	606,526	404,468
Deferred income (1)	385,694	341,698
Liabilities from operations bound assignment	352,824	-
Provision for loss on guarantees provided	144,244	115,624
Other	4,594,264	4,651,862
Total	**77,346,257**	**65,876,620**

(1) Refers mainly to premiums received in guarantee contracts that are being gradually recognized as income.

28 – Deposits of clients

		R$ thousand
	Dec 31, 2012	Dec 31, 2011
Brazil	**427,105,771**	**409,220,816**
Demand deposits	70,195,865	57,646,016
Without remuneration	69,219,784	57,088,097
With remuneration (1)	976,081	557,919
Time deposits	239,165,863	251,464,961
Savings deposits	117,744,043	100,109,839
Abroad	**28,409,428**	**19,956,447**
Demand deposits	4,564,096	6,260,398
Without remuneration	4,564,096	4,365,475
With remuneration	-	1,894,923
Time deposits	23,845,332	13,696,049
Total	**455,515,199**	**429,177,263**

(1) Refers to "Special Accounts", whose purpose is to record the movement of foreign currency accounts opened in the country on behalf of embassies, legations abroad, international organizations, as well as public entities qualify for credit or borrowers of loans granted by bodies international financial and foreign government agencies.

29 – Amount payable to financial institutions

		R$ thousand
	Dec 31, 2012	Dec 31, 2011
Financial institutions deposits	16,568,656	14,450,354
Loan portfolios assigned with guarantee of the transferor	221,167	174,996
Total	**16,789,823**	**14,625,350**

Banco Votorantim, through its subsidiary BV Financeira, enters into transactions of loan portfolios assignment that result in the transfer of these financial assets to third parties or for investment funds in credit rights, but all credit risks associated with these operations are substantially retained by that bank.

The Bank continues to recognize these transactions in its entirety on its consolidated balance sheet and accounts for a financial liability for the payment received.

30 – Securities sold under repurchase agreements

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Own portfolio	**59,994,120**	**66,505,091**
Corporate bonds	19,642,180	10,996,105
Treasury financial bills	30,341,365	41,684,702
Securities abroad	266,553	450,359
National Treasury notes	2,165,001	2,431,697
National Treasury bills	5,740,101	8,137,004
Other Securities	1,838,920	2,805,224
Third-party portfolio	**165,546,113**	**128,695,555**
Treasury financial bills	103,044,579	107,356,968
National Treasury notes	14,086,398	947,549
National Treasury bills	46,641,515	17,181,358
Other	1,773,621	3,209,680
Free movement portfolio	**246,638**	**4,233**
Total	**225,786,871**	**195,204,879**

31 – Short-term liabilities

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Borrowings	10,208,270	10,000,184
Obligations in foreign currencies	278,980	2,949,119
Import financing	104,867	39,305
Export financing	365,701	-
Total	**10,957,818**	**12,988,608**

As of December 31, 2012, the average interest rate applicable to short-term liabilities was 2.46% p.a. (1.70% p.a. as of December 31, 2011).

32 – Long-term liabilities

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Onlendings	63,606,115	51,093,397
Subordinated debts	40,676,179	30,884,683
Liabilities from issuance of securities	69,479,688	30,316,693
Financial and development funds	5,088,607	4,002,255
Perpetual bonds	15,061,070	2,845,792
Debentures	986,771	1,844,534
Other	3,619,462	1,060,036
Total	**198,517,892**	**122,047,390**

a) Onlendings

Onlendings are sources of funding along with other financial institutions or national government agencies, which are predominantly long-term, to encourage domestic production. The funds come from the National Treasury, National Development Bank (BNDES), Caixa Econômica Federal (CEF), among others.

Thus, the Bank acts as financial agent of the government programs to encourage certain economic sectors. In agriculture, through onlendings, notably: (i) National Program for Strengthening Family Agriculture (Pronaf), (ii) Cocoa Farming Recovery Program (Cocoa), (iii) Program for Revitalization of Agricultural Production Cooperatives (Recoop), (iv) Coffee Economy Defense Fund (Funcafé), and (v) Rural Savings. In industry, through onlendings of programs, specially, of the BNDES and the Special Agency for Industrial Financing (FINAME). On the outside, characterized by the Bank funds in foreign currency applied to loans to customers.

Domestic

R$ thousand

Programs	Financial charges	Dec 31, 2012	Dec 31, 2011
National Treasury - Rural credit		**713,279**	**1,721,507**
Pronaf	TMS (if avaliable) or 0.5% p.a. to 4% p.a.(if applicable)	475,613	1,424,918
Cocoa	IGP−M + 8% p.a. or TJLP + 0.6%p.a. or 6.35%p.a.	86,715	103,007
Recoop	5.75% p.a. to 8.25% p.a. or IGP-DI + 1% p.a. or IGP-DI + 2% p.a.	69,955	96,511
Other		80,996	97,071
BNDES		**41,762,751**	**28,978,454**
Banco do Brasil(1)	0% p.a. to 11% p.a. or TJLP / exch. var. + 0% p.a. to 6% p.a.	40,284,112	27,227,981
Banco Votorantim(2)	Pre / TJLP / exch. var. + 0.5% p.a. to 9.91% p.a.	1,478,639	1,750,473
Caixa Econômica Federal		**895,482**	**338,253**
Finame		**19,494,062**	**17,506,428**
Banco do Brasil(3)	0% p.a. to 11% p.a. or TJLP/ exch. var. + 0.5% p.a. to 5.5% p.a.	18,489,696	16,176,962
Banco Votorantim(4)	TJLP / Pre + 0.3% to 11.5% p.a.	1,004,366	1,329,466
Other official institutions		**653,052**	**2,446,402**
Special supply − Rural savings	TR	-	1,991,552
Funcafé	TMS (if avaliable) or 6.75% p.a. (if applicable before Jul, 2012) or 5.5% p.a. (if applicable after Jul, 2012)	652,912	451,475
Other		140	3,375
Total		**63,518,626**	**50,991,044**

(1) The average maturity of BNDES obligations is 49 months.
(2) The average maturity of BNDES obligations is 52 months.
(3) The average maturity of Finame obligations is 38 months.
(4) The average maturity of Finame obligations is 61 months.

Notes:
TMS – Average SELIC rate disclosed by the Brazilian Central Bank.
TJLP – Long-term interest rate fixed by the National Monetary Council.
TR – Referential interest rate disclosed by the Brazilian Central Bank.
IGP-DI – General Market Price Index.

Foreign

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Free resources − Resolution CMN 3,844/2010	87,012	101,876
Special fund for support to small and medium-sized industrial – FAD 3	477	477
Total	**87,489**	**102,353**

b) Subordinated debts

R$ thousand

Borrowings		Issued value	Remuneration p.a.	Date of funding	Maturity	Dec 31, 2012	Dec 31, 2011
Banco do Brasil							
FCO – Resources from the Constitutional Fund for Developing the Center-west						**16,602,973**	**14,771,005**
Funds applied [(1)]						15,938,342	13,811,498
Resources available [(2)]						627,940	924,167
Charges to capitalize						36,691	35,340
Subordinated CDB issued in the country						**4,711,053**	**4,305,067**
		900,000	113.80% of CDI	03/2009	09/2014	1,344,943	1,227,011
		1,335,000	115.00% of CDI	03/2009	03/2015	2,000,773	1,823,569
		1,000,000	105.00% of CDI	11/2009	11/2015	1,365,337	1,254,487
Subordinated debt abroad						**6,673,140**	**4,683,538**
	US$ thousand	300,000	8.50%	09/2004	09/2014	619,378	576,210
	US$ thousand	660,000	5.38%	10/2010	01/2021	1,382,336	1,260,310
	US$ thousand	1,500,000	5.88%	05/2011	01/2022	3,105,980	2,847,018
	US$ thousand	750,000	5.88%	06/2012	01/2023	1,565,446	-
Subordinated letters of credit						**9,196,989**	**3,429,443**
		1,000,000	108.50% of CDI	03/2010	03/2016	1.331.338	1.219.800
		1,006,500	111.00% of CDI	03/2011	03/2017	1.210.944	1.107.259
		335,100	111.00% of CDI	04/2011	04/2017	401.218	366.864
		13,500	111.00% of CDI	05/2011	05/2017	15.997	14.627
		700,000	111.00% of CDI	09/2011	10/2017	788.399	720.893
		512,500	111.50% of CDI	05/2012	05/2018	537.769	-
		215,000	112.00% of CDI	05/2012	05/2019	225.565	-
		115,000	112.50% of CDI	05/2012	06/2020	120.632	-
		35,500	IPCA+5.45%	05/2012	06/2020	37.771	-
		12,000	111.50% of CDI	06/2012	06/2018	12.564	-
		100,000	IPCA+5.40%	06/2012	06/2018	105.833	-
		500,000	IPCA+5.53%	06/2012	06/2018	528.771	-
		7,200	IPCA+5.30%	06/2012	06/2018	7.615	-
		184,800	CDI+1.11%	06/2012	05/2018	193.503	-
		315,300	IPCA+5.56%	06/2012	06/2018	333.642	-
		308,400	CDI+1.10%	06/2012	04/2018	322.795	-
		20,000	IPCA+5.50%	06/2012	06/2018	21.154	-
		52,500	111.50% of CDI	06/2012	04/2018	54.852	-
		300	IPCA+5.32%	06/2012	01/2018	316	-
		49,800	111.50% of CDI	06/2012	01/2018	51.846	-
		873,600	IPCA+5.40%	06/2012	02/2018	921.522	-
		690,900	CDI+1.06%	06/2012	01/2018	720.162	-
		17,400	IPCA+5.33%	07/2012	06/2018	18.324	-
		27,000	IPCA+5.24%	07/2012	04/2018	28.413	-
		40,800	111.50% of CDI	07/2012	06/2018	42.446	-
		100,000	111.50% of CDI	07/2012	02/2018	103.998	-
		22,200	111.50% of CDI	07/2012	07/2018	23.088	-
		10,200	111.50% of CDI	07/2012	04/2018	10.604	-
		1,000,000	Pre 10.51%	09/2012	07/2018	1.025.908	-
Total subordinated debts of Banco do Brasil						**37,184,155**	**27,189,053**
Banco Votorantim							
Subordinated CDB issued in the country						**1,081,280**	**1,544,061**
		312,500	CDI+0.49%	11/2007	11/2012	-	486,988
		8,500	CDI+0.49%	12/2007	12/2012	-	13,223
		7,929	CDI+0.54%	12/2007	12/2012	-	12,359
		32,500	IGPM+7.22%	12/2007	12/2012	-	55,718
		57,500	IPCA+7.93%	03/2008	03/2013	108,244	94,825

		7,500	IPCA+7.86%	08/2009	08/2014	11,713	10,269
		5,250	IPCA+7.92%	08/2009	08/2014	8,217	7,199
		19,500	IPCA+8.00%	08/2009	08/2014	30,599	26,787
		2,500	IPCA+7.95%	08/2009	08/2014	3,915	3,429
		260,000	CDI+1.67%	08/2009	08/2014	377,837	342,697
		250,000	CDI+1.64%	12/2009	12/2014	351,056	318,518
		135,000	CDI+1.67%	12/2009	12/2014	189,699	172,049
Subordinated debt abroad	**US$ thousand**	**575,000**	**7.38%**	**01/2010**	**01/2020**	**1,346,054**	**1,099,873**
Subordinated letters of credit						**1,068,271**	**1,054,722**
		5,000	IPCA+7.25%	11/2010	11/2020[3]	-	5,422
		94,950	CDI+1.30%	11/2010	11/2016	95,587	95,964
		30,000	CDI+1.60%	12/2010	12/2016	30,020	30,042
		324,900	CDI+1.94%	05/2011	05/2017	328,186	329,887
		35,550	IGPM+7.55%	05/2011	05/2017	45,900	38,042
		1,400	IPCA+7.76%	05/2011	05/2017	1,719	1,510
		4,650	IPCA+7.85%	05/2011	05/2017	5,718	5,020
		7,500	IPCA+7.95%	05/2011	05/2017	9,206	8,079
		45,000	IPCA+7.95%	07/2011	07/2016	54,314	47,648
		15,000	IGPM+7.70%	07/2011	07/2017	19,148	15,813
		6,922	IPCA+8.02%	07/2011	07/2019	8,320	7,300
		25,000	IPCA+7.90%	08/2011	08/2016	30,137	26,420
		25,000	IPCA+7.93%	08/2011	08/2017	30,053	26,352
		20,000	IPCA+7.76%	08/2011	08/2017	23,902	21,002
		11,000	IPCA+7.85%	08/2011	08/2017	13,196	11,581
		10,050	IGPM+7.70%	08/2011	08/2017	12,861	10,571
		1,250	115.00% of CDI	08/2011	08/2017	1,446	1,317
		33,000	117.00% of CDI	09/2011	09/2017	33,645	34,034
		15,000	IGPM+6.74%	09/2011	09/2017	18,655	15,525
		250,000	119.00% of CDI	10/2011	10/2017	254,208	256,467
		215	IPCA+5.45%	10/2011	10/2014[3]	-	220
		18,000	IGPM+6.71%	10/2011	10/2017	22,266	18,454
		16,046	IPCA+7.10%	11/2011	11/2016[3]	-	17,392
		25,000	109.00% of CDI	11/2011	12/2013[3]	-	25,247
		5,349	IPCA+7.20%	11/2011	11/2016[3]	-	5,413
		16,920	IPCA+7.10%	11/2012	11/2016	17,207	-
		5,640	IPCA+7.20%	11/2012	11/2016	5,710	-
		5,640	IPCA+7.25%	11/2012	11/2020	5,719	-
		1,128	IPCA+7%	11/2012	11/2016	1,148	-
Total subordinated debt of Banco Votorantim						**3,495,605**	**3,698,656**
Subordinated debt issued by the Bank, in possession of subsidiary abroad						(3,581)	(3,026)
Total subordinated debt [4]						**40,676,179**	**30,884,683**

(1) Contracted charges are paid by borrowers with less the *del credere* financial institution.
(2) Remunerated based on extra-rate announced by the Brazilian Central Bank (Bacen).
(3) Operations paid in advance.
(4) The amount of R$ 32,400,578 thousand (R$ 24,522,493 thousand as of December 31, 2011) comprise the tier II of the Referential Equity Amount (RE), according to rules applied to financial institution in Brazil. As determined by the Bacen, subordinated debt issued by Banco Votorantim ceased to compose the Referential Equity of the Bank (Note 41).

Notes:
CDB – Bank Deposit Certificate.
CDI – Average rate of the interbank deposits.
IGPM – General Market Price Index.
IPCA – Broad Consumer Price Index.

c) Liabilities from issuance of securities

R$ thousand

Borrowings	Currency	Issued value	Remuneration p.a.	Date of funding	Maturity	Dec 31, 2012	Dec 31, 2012
"Global medium-term notes" program						**5,915,911**	**4,846,453**
	US$	100,000	Libor 6m+2.55%	07/2009	07/2014	206,658	188,595
	US$	950,000	4.50%	01/2010	01/2015	1,978,662	1,819,507
	US$	500,000	6,00%	01/2010	01/2020	1,044,118	957,919
	EUR	750,000	4.50%	01/2011	01/2016	2,098,921	1,880,432
	JPY	24.700.000	1.80%	09/2012	09/2015	587,552	-
"Senior Notes"						**4,952,108**	**934,260**
	US$	500.000	3.87%	11/2011	01/2017	1,033,277	934,260
	JPY	1.925.000	3.87%	10/2012	01/2022	3,918,831	-
Structured Notes	**US$**	**446,860**	**0.85% to 2.15%**	**03/2012**	**06/2013**	**688,797**	**-**
Deposit certificate						**1,926,853**	**1,795,894**
	US$	2,000	3.19%	05/2010	05/2013 (1)	-	3,750
	US$	100,000	2.78%	01/2011	01/2013 (1)	-	187,510
	US$	99,000	2.87%	02/2011	01/2013 (1)	-	185,635
	US$	100,000	2.72%	03/2011	03/2013 (1)	-	187,441
	US$	200,000	2.02%	03/2011	03/2013 (1)	-	371,867
	US$	10,000	3,00%	08/2011	08/2016	-	18,652
	US$	30,000	2.55%	09/2011	09/2013 (1)	-	56,253
	US$	233,900	2.25%	10/2011	02/2014	-	438,586
	US$	25,630	1.95%	11/2011	02/2013 (1)	-	48,059
	US$	150,000	2.93%	11/2011	12/2013 (1)	-	281,265
	US$	2,000	2.48%	12/2011	06/2013 (1)	-	3,750
	US$	2,000	1.79%	12/2011	04/2014	-	3,750
	US$	5,000	1.74%	12/2011	04/2013 (1)	-	9,376
	US$	10,000	3.27%	08/2012	08/2016	20,429	-
	US$	230,695	2.52%	08/2012	02/2014	471,286	-
	US$	35,000	2.40%	08/2012	08/2014	71,501	-
	US$	1,700	1.75%	09/2012	09/2014	3,455	-
	US$	11,000	1.88%	09/2012	09/2014	22,355	-
	US$	50,000	2.11%	10/2012	04/2014	102,145	-
	US$	26,674	3.50%	10/2012	07/2014	54,207	-
	US$	5,000	1.90%	10/2012	10/2015	10,215	-
	US$	25,709	3.50%	10/2012	10/2014	52,248	-
	US$	48,205	3.80%	10/2012	10/2015	97,965	-
	US$	32,137	3.80%	11/2012	11/2015	65,310	-
	US$	2,000	1.56%	12/2012	04/2014	4,086	-
	US$	199,000	2.42%	12/2012	12/2015	406,537	-
	US$	48,205	3.98%	12/2012	12/2015	97,965	-
	US$	215,000	2.42%	12/2012	12/2015	436,934	-
	US$	5,000	1.30%	12/2012	12/2013	10,215	-
Deposit certificate (2)			**0.23% to 9.40%**			**7,754,338**	**4,128,590**
Letters of credit – agribusiness (3)						**32,898,221**	**6,595,550**
Letters of credit (4)			**100% to 107% of CDI**			**3,569,719**	**3,486,743**
Total liabilities from issuance of securities of Banco do Brasil						**57,705,947**	**21,787,490**
Banco Patagonia						**393,669**	**99,481**
Bonds GPAT Série I	ARS	50,000	14.30%	03/2011	03/2012	-	19,648
Bonds GPAT Série II	ARS	94,310	14.12%	05/2011	05/2012	-	28,287
Bonds GPAT Série III	ARS	71,000	15.27%	08/2011	08/2012	-	31,886
Bonds GPAT Série IV	ARS	50,200	23.87%	11/2011	11/2012	-	19,660
Bonds GPAT Série V	ARS	100,000	19.34%	01/2012	01/2013	40,505	-
Bonds GPAT Série VI	ARS	150,000	15.64%	03/2012	03/2013	53,504	-

Bonds GPAT B Série VII	ARS	150,000	BADLAR + 200 bp.	04/2012	04/2013	59,714	-
Bonds GPAT A Série VIII	ARS	33,500	16.75%	07/2012	03/2013	15,085	-
Bonds GPAT B Série VIII	ARS	58,205	BADLAR + 350 bp.	07/2012	12/2013	24,215	-
Bonds GPAT A Série IX	ARS	27,400	18.00%	08/2012	05/2013	9,880	-
Bonds GPAT B Série IX	ARS	110,100	BADLAR + 399 bp.	08/2012	02/2014	44,471	-
Bonds G PAT A Série X	ARS	50,000	18.90%	11/2012	08/2013	21,372	-
Bonds G PAT B Série X	ARS	97,611	BADLAR + 429 bp.	11/2012	05/2014	41,769	-
Bonds Banco Patagonia Clase I Série 1	ARS	200,000	BADLAR + 400 PB	12/2012	06/2014	83,154	-
Special Purpose Entity – SPC abroad						**837,797**	**1,141,160**
	US$	250,000	6.55%	12/2003	12/2013	88,174	156,772
	US$	250,000	Libor 3m+0.55%	03/2008	03/2014	255,454	422,116
	US$	200.000	Libor 3m+1,20%	09/2008	09/2015	223,917	281,962
	US$	150.000	5.25%	04/2008	06/2018	270,252	280,310
Banco Votorantim							
Real estate receivables certificates			93.00 to 97.36% of CDI			**66,265**	**3,490**
Letters of credit – agribusiness						**1,106,694**	**825,979**
Post-fixed			80 to 97.5% of CDI	12/2007	03/2020	1,104,110	817,712
Pre-fixed			8.48 to 12.35%	05/2008	04/2013	2,584	8,267
Letters of credit						**5,483,544**	**3,572,168**
Pre-fixed			8.27 to 14.00%	07/2010	11/2022	90,269	28,443
Post-fixed			100 to 112.02% of CDI	09/2010	12/2017	5,159,520	3,446,800
Post-fixed			3.42 to 7.81% + IPCA	01/2011	09/2019	135,100	69,980
Post-fixed			108 to 109.30% of Selic	02/2011	04/2015	97,159	25,625
Post-fixed			5.05 to 5.99%+IGPM	08/2011	09/2013	1,496	1,320
"Global medium-term notes" program[5]						**4,005,727**	**2,966,110**
			0% to 13.90%			1,497,964	73,118
	R$	100,000	9.25%	12/2005	12/2012	-	44,476
	US$	47,666	3.91%	09/2006	09/2016	98,443	89,691
	R$	94,796	10.63%	04/2007	04/2014	104,851	104,721
	US$	250,000	4.25%	02/2010	08/2013[1]	-	471,976
	US$	37,500	4.25%	04/2010	02/2013[1]	-	71,329
	CHF	125,000	2.75%	12/2010	12/2013[1]	-	255,268
	US$	2,555	3.32%	02/2011	02/2016	2,557	2,236
	US$	625,000	5.25%	02/2011	02/2016	1,288,682	1,189,180
	US$	37,500	3.00%	03/2011	03/2014	74,571	68,159
	US$	2,044	4.27%	04/2011	03/2014	2,102	1,884
	R$	10,000	14.19%	05/2011	01/2015	19,627	17,368
	US$	1,022	3.29%	05/2011	05/2016	1,016	890
	R$	309,253	6.25%	05/2011	05/2016	550,584	518,959
	US$	29,800	3.50%	07/2011	07/2013[1]	-	56,855
	R$	13.994	5.45 to 19.77%	01/2007[6]	07/2014	17.432	-
	US$	20.005	0 to 8.90%	06/2009[7]	01/2017	26.260	-
	R$	1,250	91.00% DI	01/2012	01/2014	1,339	-
	R$	515	101.40% DI	02/2012	02/2017	552	-
	R$	125	10.17%	03/2012	02/2014	135	-
	R$	250	10.60%	03/2012	02/2016	271	-
	US$	1,000	5.53%	03/2012	03/2019	2,129	-
	R$	750	19.09%	04/2012	12/2019	854	-
	R$	150	9.14%	04/2012	04/2014	159	-
	R$	211	8.27%	05/2012	04/2014	221	-
	R$	1,000	9.56%	05/2012	05/2015	1,058	-
	R$	150	7.78%	07/2012	06/2014	156	-
	US$	25,000	4.40%	07/2012	07/2016	52,068	-
	US$	160	2.66%	08/2012	08/2014	331	-
	US$	550	2.70%	09/2012	09/2015	1,116	-
	US$	100	2.69%	09/2012	09/2015	202	-
	US$	500	3.00%	09/2012	09/2015	1,024	-
	US$	500	2.05%	09/2012	09/2014	1,027	-

	US$	250	4.24%	10/2012	10/2017	516	-
	R$	249	8.63%	10/2012	09/2015	255	-
	R$	365	9.20%	10/2012	10/2017	373	-
	US$	50,000	3.50%	10/2012	10/2015	103,020	-
	US$	250	2.35%	10/2012	10/2015	508	-
	US$	125	2.94%	11/2012	11/2015	257	-
	R$	125	6.22%	11/2012	05/2014	126	-
	US$	50,000	4.20%	11/2012	11/2017	102,700	-
	US$	25,000	4.00%	12/2012	12/2016	51,241	-
Total liabilities from issuance of securities of Banco Votorantim						**10,662,230**	**7,367,747**
Liabilities from issuance of securities issued by the Bank, in possession of subsidiary abroad						(119,955)	(79,185)
Total						**69,479,688**	**30,316,693**

(1) Operations settled in advance during the year 2012.
(2) Securities with a maturity less than 360 days.
(3) Securities with a maturity less than 720 days.
(4) Securities with a maturity more than 360 days.
(5) Securities with a maturity less than 360 days, foreign currency and national.
(6) Securities reclassified Deposit of Clients raised between Jan 2007 and Jul 2011 with a maturity between Dec 2013 and Jan 2017.
(7) Securities reclassified Deposit of Clients raised between Jun 2009 and Jul 2011 with a maturity between Apr 2014 and Dec 2014.

Notes:
Libor – London interbank rate.
Badlar – Buenos Aires interbank rate.

The values for the special purpose entity (SPE) abroad relate mainly backed securities in payment orders issued by bankers correspondents located in the United States of America and the Bank's branch in New York for any branch of the Bank in Brazil (rights of shipping). The Bank sells these flows for the "Dollar Diversified Payment Rights Finance Company," special purpose entity in which the Bank is the main beneficiary.

The bonds are paid by SPE funds accumulated in their account and the rights arising from remittances. Reached the volume corresponding to the next installment of fees and/or amortization on account of the EPE, the entire excess amount is automatically released to the Bank, which is obliged to redeem these bonds in specific cases of default or termination of operations of the entity.

d) Financial and development funds

R$ thousand

	Dec 31, 2012	Dec 31, 2011
PIS/Pasep[(1)]	1,969,767	1,983,929
Merchant Navy	2,250,825	1,352,310
Funds from the State Government of Sao Paulo	761,189	563,911
Special Lending Program for Agrarian Reform – Procera	25,007	27,705
Consolidation of Family Farming (CAF)	25,840	26,424
Combating Rural Poverty – Our First Plot of Land (CPR/NPT)	11,296	6,405
Land and Agrarian Reform – BB Banco da Terra	4,735	1,812
Other	39,948	39,759
Total	**5,088,607**	**4,002,255**

(1) The Bank is administrator of the Public Servant Heritage Formation Program − Pasep, guaranteeing a minimum return corresponding Long-Term Interest Rate − TJLP.

Financial and development funds have an indefinite maturity period.

e) Perpetual bonds

R$ thousand

Borrowings	Issued value (US$ thousands)	Remuneration p.a.	Date of funding	Dec 31, 2012	Dec 31, 2011
Perpetual bonds					
	1,750,000	9.25%	Jan and Mar, 2012	3,743,315	-
	1,500,000	8.50%	10/2009	3,104,493	2,848,001
	8,100,000	5.50%	09/2012	8,214,555	-
Total of Banco do Brasil	**11,350,000**			**15,062,363**	**2,848,001**
Perpetual bonds issued by the Bank, in possession of subsidiary abroad				(1,293)	(2,209)
Total consolidated				**15,061,070**	**2,845,792**

In the Perpetual Bonds, the amount of R$ 14,484,062 thousand compose the Referential Equity (R$ 2,718,895 thousand as of 12.31.2011), according to rules applied to financial institution in Brazil.

The bonds of US$ 1,500,000 thousand, issued in October 2009, have the option of redemption at the initiative of the Bank from 2020 and on each semi-annual payment of interest thereafter, provided by prior authorization of the Bacen. If the Bank does not exercise the option to redeem in October 2020, the interest on the bonds will be fixed on this date for 7.782% over the trading price of US treasury bonds of 10 years. Thereafter, every 10 years, the interest on the bonds will be corrected by taking into account the trading price of US Treasuries of 10 years.

The bonds issued in January and March (reopening), 2012, in the amounts of USD 1,000,000 thousand and USD 750 million, respectively, may have changed its terms and conditions, without the prior permission of the bondholders, in order to maintain or manage securities as tier I capital or tier II capital, due to the implementation of Basel III rules, provided that the modifications do not adversely affect the interests of the bondholders.

The bonds have the following options of redemption, subject to prior authorization of the Banco Central do Brasil:

(i) the Bank may, at its option redeem the bonds in whole but not in part in April 2023 and on each subsequent interest payment every six months, at the base price of redemption;

(ii) the Bank may, at its option redeem the bonds in whole but not in part, on any date prior to April 2023, according to tax event, at the base price of redemption;

(iii) the Bank may, at its option redeem the bonds in whole but not in part, on any date prior to April 2023, according to regulatory event, at the higher value between the base price of redemption and the Make-whole amount.

If the Bank does not exercise the redemption option in April 2023, the rate of bond interest is reset on that date and every 10 years according to the U.S. Treasury for 10 years in force at the time plus the initial credit spread.

The terms of perpetual bonds require that the Bank suspend payments of monthly interest and/or accessories on those securities issued (which shall not be paid or accrued) if:

(i) the Bank is not in accordance or such charges do not allow the Bank to be in compliance with the levels of capital adequacy, operational limits or its financial indicators are below the minimum level required by the rules applicable to Brazilian banks;
(ii) the Bacen or the regulatory authorities require the suspension of payments of these costs;
(iii) any event of insolvency occurs;
(iv) any default occurs; or
(v) the Bank has not distributed dividend payments or interest on own capital to common stockholders for the period corresponding to the period of calculation of such interest and/or accessories.

The bonus issued in September 2012, totaling R$ 8,100,000 thousand, will have interest paid semiannually updated by the Selic rate (basic interest rate of the Brazilian economy), within thirty calendar days (i) from the payment of dividends or interest on capital of the respective period, or (ii) from the capital increase provided by the shareholders profit, whichever is earlier.

There will be no payment of financial charges for a particular semester until (i) the payment or crediting of dividends (including interest on equity), or (ii) the capital increase provided by the shareholders. Unpaid financial charges do not accumulate. If the payment or crediting of dividends, or the capital increase doesn´t occur until June 30 or December 31 of the following fiscal year, the unpaid financial charges may cease to be required.

The payments will be postponed if the Bank is not framed in the operational limits established by regulations or if this payment does not allow the Bank to comply with those limits. In such cases the payment will be pro rata updated by Selic rate.

Amortization or redemption of debt, partial or full, agreed between the parties, can occur only if the dividends were being paid duly and authorized by the Banco Central do Brasil. The redemption of the obligation, even partial, is conditioned upon the Bank meet the requirements regarding operational limits established by regulation, and also that the redemption does not involve noncompliance situation. The amount due will be pro rata temporis updated by the agreed rate. The debt cannot be redeemed by State initiative.

In the event of dissolution or liquidation of the Bank, the payment of principal and charges debt will be subordinated to the other liabilities payment. This funding was authorized by the Banco Central do Brasil to integrate the Tier I capital to the regulatory limit, and the remaining to integrate Tier II capital, starting on September 2012.

f) Debentures

R$ thousand

Companies	Remuneration p.a.	Date of funding	Maturity	Dec 31, 2012	Dec 31, 2011
Banco Votorantim					
Post-fixed	CDI + 0,35%	07/2007	07/2012	-	809,898
Post-fixed	100 to 111% of CDI	06/2006	07/2027	748,029	755,676
Kepler Weber S.A.	TJLP + 3,08%	09/2007	09/2020	13,465	15,195
Ativos S.A.	CDI + 1,5%	03/2010	03/2014	37,812	68,053
Neoenergia S.A. (1)				187,465	195,712
Total				**986,771**	**1,844,534**

(1) Refers to securities with remuneration linked to CDI and IGPM.

g) Other liabilities

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Borrowings	3,538,656	941,058
Import financing	80,806	118,978
Total	**3,619,462**	**1,060,036**

h) Long-term liabilities, by period of enforceability

R$ thousand

For the year ended	Dec 31, 2012
2013	49,966,616
2014	42,019,944
2015	28,003,787
2016	20,719,922
2017	16,926,089
From 2018 (1)	40,881,532
Total	**198,517,892**

(1) Including liabilities with indefinite maturity.

33 – Provisions and contingent liabilities

Labor lawsuits

The Bank is a party to labor lawsuits mainly filed by former employees or trade unions of the banking industry. Allowance for probable losses represent various claimed requests, such as: compensation, overtime, distortion of the working day, additional function and representation, and others.

Tax lawsuits

The Bank is subject to challenges by the tax authorities in relation to taxes, which can give rise to notice assessments with the subject matter of jurisdiction or the sum of taxable income or deductible expense. Most of the lawsuits originating from tax assessment notices relate to Municipal and Federal taxes and welfare contribution to National Institution of Social Insurance (INSS). As guarantee for some of them, there are attachments in cash or in properties, when necessary.

Civil lawsuits

Among the civil litigations, those which are related to the collection of the difference between inflation correction of financial investments and judicial deposits related to the period of economic plans (Bresser, Verão and Collor I and II Plans) can be detached.

a) Provision

In accordance with IAS 37, the Bank recognizes provisions for labor, civil and tax lawsuits classified as "probable".

Provision for labor, tax and civil lawsuits classified as probable

R$ thousand

	2012	2011
Labor lawsuits		
Initial balance	**2,116,335**	**2,323,535**
Constitution	1,324,389	529,851
Reversal	(149,413)	(234,670)
Written off	(888,407)	(552,133)
Business combination adjustments	243,513	(197,075)
Price level correction	139,372	193,362
Amount added / embedded (1)	9,058	53,465
Balance at the end of period	**2,794,847**	**2,116,335**
Tax lawsuits		
Initial balance	**1,402,636**	**1,261,400**
Constitution	712,472	204,082
Reversal	(151,281)	(66,047)
Written off	(18,822)	71,656
Business combination adjustments	(478)	-
Price level correction	63,215	(13,077)
Changes in equity interest (2)	-	(237,556)
Amount added / embedded (1)	13,017	182,178
Balance at the end of period	**2,020,759**	**1,402,636**
Civil lawsuits		
Initial balance	**3,461,237**	**3,319,315**
Constitution	2,056,037	781,927
Reversal	(585,653)	(456,787)
Written off	(960,120)	(636,243)
Business combination adjustments	(173,717)	251,075
Price level correction	225,595	187,065
Amount added / embedded (1)	-	14,885
Balance at the end of period	**4,023,379**	**3,461,237**
Total labor, tax and civil lawsuits	**8,838,985**	**6,980,208**

(1) Refers to the balances originating from Banco Patagonia and from the companies that compose partnership with Mapfre.

(2) Refers to the change in the Bank's equity interest in non-financial companies.

b) Contingent liabilities

The labor, tax and civil lawsuits classified as "possible" are not recorded in the balance sheet but disclosed based on IAS 37.

Balances of contingent liabilities

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Labor lawsuits	90,720	140,115
Tax lawsuits(1)	5,032,809	4,092,203
Civil lawsuits	3,434,338	4,294,798
Total	**8,557,867**	**8,527,116**

(1) The main contingencies originate from (i) notices of labor infraction drawn by the INSS, aiming at the payment of contributions applicable on year-end bonuses paid in the collective agreements in the period from 1995 to 2006, in the amount of R$ 1,196,426 thousand, public transport pay and use of private car by employees of Banco do Brasil, in the amount of R$ 166,719 thousand and employee profit sharing corresponding to the period from April 2001 to October 2003, in the amount of R$ 27,202 thousand and (ii) notices of tax assessment drawn by the Treasuries of the Municipalities, which amounts R$ 332,365 thousand.

c) Collateral deposits

Deposits as collateral for appeals correspond to judicial deposits, represented by amounts deposited under a court order associated with outstanding legal suits, in which the Bank is the defendant. It is accounted for in the balance sheet in other assets.

Balances of the collateral deposits

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Labor lawsuits	2,730,298	2,522,179
Tax lawsuits	6,520,309	5,915,700
Civil lawsuits	4,690,041	3,749,986
Total	**13,940,648**	**12,187,865**

34 – Insurance and pension plan contracts

a) Assets and liabilities arising from insurance and private pension plan operations

R$ thousand

	Dec 31, 2012			Dec 31, 2011		
	Insurance	Reinsurance[1]	Net amount	Insurance	Reinsurance[1]	Net amount
Technical provisions – Insurance	**36,088,331**	**(611,811)**	**35,476,520**	**23,969,819**	**(225,534)**	**23,744,285**
Mathematical provision for future benefits	30,669,470	(4,057)	30,665,413	19,786,013	(5,333)	19,780,680
Provision for unearned premiums	3,157,912	(306,850)	2,851,062	2,226,200	(118,758)	2,107,442
Provision for unsettled claims	1,473,620	(242,984)	1,230,636	1,309,421	(82,398)	1,227,023
Provision for claims incurred but not reported − IBNR	445,575	(57,920)	387,655	337,381	(16,345)	321,036
Provision for premium insufficiency	235,247	-	235,247	181,796	-	181,796
Provision for redemptions and other regularizations	51,728	-	51,728	41,300	-	41,300
Mathematical provision for vested benefits	22,747	-	22,747	19,581	(1,591)	17,990
Other provisions	32,032	-	32,032	68,127	(1,109)	67,018
Technical provisions – Private pension plans	**19,754,967**	**(2,162)**	**19,752,805**	**17,673,642**	**(2,511)**	**17,671,131**
Mathematical provision for future benefits	17,626,120	-	17,626,120	15,810,931	-	15,810,931
Mathematical provision for vested benefits	848,123	-	848,123	754,458	-	754,458
Provision for financial surplus	428,238	-	428,238	418,493	-	418,493
Provision for contribution insufficiency	461,848	-	461,848	359,213	-	359,213
Provision for financial fluctuation	281,188	-	281,188	260,514	-	260,514
Provision for unexpired risks	12,016	(59)	11,957	5,840	(52)	5,788
Provision for claims incurred but not reported − IBNR	8,363	(98)	8,265	7,446	(77)	7,369
Other provisions	89,071	(2,005)	87,066	56,747	(2,382)	54,365
Total	**55,843,298**	**(613,973)**	**55,229,325**	**41,643,461**	**(228,045)**	**41,415,416**

(1) Refer to gross reinsurance amounts, not considering allowance for credit risk.

Technical and mathematical provisions are calculated in line with the criteria established by the National council of private insurance (CNSP) and by the Superintendence of private insurances (SUSEP).

Insurance

Mathematical provisions for future benefit and for vested benefit - correspond, respectively, to the commitments assumed by insurance companies with insureds, while the indemnity and/or benefit payment generating event has not started, and, otherwise, after the start of the indemnity and/or benefit payment generating event. They are calculated according to methodology described in an actuarial technical note of the plan or product.

Provision for unearned premiums – formed by the insurance premium corresponding to the period of risk not yet elapsed. The measurement is individual by policy or endorsement of the current contracts, on the date of formation, by the pro rata method with a basis on the validity start and end dates of the insured risk. The generating factor of the formation of this provision is the issuance of the policy or endorsement.

Provision for unsettled claims – calculated by estimate of probable payments, gross of reinsurance and net of recovery of coinsurance, based on the notifications and notices of claims received up to the balance sheet date, and include provisions for claims under litigation calculated according to the criteria defined and documented in an actuarial technical note. The accrued amounts are restated under the terms of the applicable legislation.

Provision for claims incurred but not reported – IBNR – calculated in accordance with the expected amount of claims incurred in risks assumed in the portfolio and not reported.

Provision for premium insufficiency – its purpose is to assess the sufficiency or insufficiency of premium reserves for coverage of future obligations related to the insurance contracts. The estimates are based on discounted cash flow of rights and future obligations of each contract, considering hypotheses and assumptions according to each type of risk.

Provision for redemptions and other regularizations – includes amounts relating to the redemptions to be regularized, the repayments of contributions or premiums and the portability requested, which have not yet been executed.

Other provisions – mainly include provisions for administrative expenses, for financial surplus and for benefits to be regularized.

Private pension plans

Mathematical provisions for future benefit and for vested benefit – refers, respectively, to commitments assumed with participants who have not yet started to receive the benefits and to those enjoying benefits.

Particularly for pension and insurance plans of the PGBL (Plano gerador de benefícios livres) and VGBL (Vida gerador de benefícios livres) types, the mathematical provision for future benefit payments represents the amount of premiums and contributions made by the participants, net of the loading fee, plus financial income earned in the application of the resources and minus any withdrawls and portability executed.

Provision for financial surplus - corresponds to the financial income that exceeds the minimum guaranteed yield, transferred to the contracts with financial surplus participation clause.

Provision for contribution insufficiency - its purpose is to assess the sufficiency or insufficiency of contributions provisions to coverage future obligations related to the pension plans. The estimates are based on the projection of the cash flow of the rights and future obligations of each contract considering hypotheses and assumptions according to each type of risk.

Provision for financial fluctuation - formed to deal with any impacts of unfavorable results on the investment of the resources intended for the payment of benefits and redemptions to the participants, considering the minimum remuneration guaranteed in a contract.

Provision for claims incurred but not reported – IBNR – formed in accordance with the expected amount of claims incurred in risks assumed in the portfolio and not reported.

Provision for unexpired risks – *pro rata* measured, from the portion of contributions/premiums corresponding to the periods of unexpired risks, contemplating estimate for the risks that are current but not issued.

Other provisions - mainly include provisions for redemptions and other amounts to be rectified, provisions for administrative expenses, for benefits to be rectified and for fluctuation of risks.

b) Changes in insurance contracts and private pension plans liabilities

R$ thousand

	2012				
	Initial Balance	Constitutions	Reversals	Monetary Restatements	Balance at the end of period
Technical reserves – Insurance	**23,969,819**	**20,496,355**	**(10,593,077)**	**2,215,234**	**36,088,331**
Mathematical provision for future benefits	19,786,013	9,052,295	(365,457)	2,196,619	30,669,470
Provision for unearned premiums	2,226,200	7,671,808	(6,740,096)	-	3,157,912
Claims reported	1,309,421	3,493,382	(3,345,609)	16,426	1,473,620
Incurred but not reported reserve – IBNR	337,381	119,599	(11,405)	-	445,575
Provision for insufficiency of contributions	181,796	79,282	(26,045)	214	235,247
Provision for redemptions and other regularizations	41,300	65,077	(56,624)	1,975	51,728
Mathematical provision for vested benefits	19,581	4,271	(1,105)	-	22,747
Other provisions	68,127	10,643	(46,736)	-	32,032
Technical reserves – Private pension plan	**17,673,642**	**1,708,266**	**(1,426,271)**	**1,799,330**	**19,754,967**
Mathematical provision for future benefits	15,810,931	1,026,673	(872,904)	1,661,420	17,626,120
Mathematical provision for vested benefits	754,458	252,164	(255,943)	97,444	848,123
Provision for financial surplus	418,493	54,447	(83,736)	39,034	428,238
Provision for insufficiency of contributions	359,213	110,946	(8,311)	-	461,848
Provision for financial fluctuation	260,514	22,218	(1,544)	-	281,188
Incurred but not reported reserve – IBNR	7,446	92,284	(91,367)	-	8,363
Reserve for unexpired risks	5,840	77,191	(71,015)	-	12,016
Other provisions	56,747	72,344	(41,451)	1,432	89,071
Total technical reserves	**41,643,461**	**22,204,621**	**(12,019,348)**	**4,014,564**	**55,843,298**

R$ thousand

	2011				
	Initial Balance	Constitutions	Reversals	Monetary Restatements	Balance at the end of period
Technical reserves – Insurance	**15,744,082**	**23,338,287**	**(16,269,357)**	**1,156,807**	**23,969,819**
Mathematical provision for future benefits	12,997,663	10,259,821	(4,644,475)	1,173,004	19,786,013
Provision for unearned premiums	1,464,124	6,301,886	(5,539,810)	-	2,226,200
Claims reported	887,758	5,177,989	(4,756,767)	441	1,309,421
Incurred but not reported reserve – IBNR	180,767	872,163	(715,549)	-	337,381
Provision for insufficiency of contributions	170,642	14,275	(3,121)	-	181,796
Provision for redemptions and other regularizations	25,301	536,610	(521,070)	459	41,300
Mathematical provision for vested benefits	14,350	32,982	(29,442)	1,691	19,581
Other provisions	3,477	142,561	(59,123)	(18,788)	68,127
Technical reserves – Private pension plan	**14,500,054**	**5,186,258**	**(2,728,326)**	**715,656**	**17,673,642**
Mathematical provision for future benefits	12,865,101	4,320,798	(1,973,507)	598,539	15,810,931
Mathematical provision for vested benefits	629,316	238,670	(195,218)	81,690	754,458
Provision for financial surplus	395,622	63,945	(75,410)	34,336	418,493
Provision for insufficiency of contributions	301,435	59,106	(1,328)	-	359,213
Provision for financial fluctuation	254,697	14,654	(8,837)	-	260,514
Incurred but not reported reserve – IBNR	6,094	83,191	(81,839)	-	7,446
Reserve for unexpired risks	5,708	69,325	(69,193)	-	5,840
Other provisions	42,081	336,569	(322,994)	1,091	56,747
Total technical reserves	**30,244,136**	**28,524,545**	**(18,997,683)**	**1,872,463**	**41,643,461**

c) Operating and financial income from insurance contracts and private pension plans

R$ thousand

	2012			2011			2010		
	Insurance	Pension plan	Total	Insurance	Pension plan	Total	Insurance	Pension plan	Total
Retained premiums and contributions	17,985,395	1,958,736	19,944,131	12,086,125	1,793,080	13,879,205	9,260,238	1,610,448	10,870,686
Change in technical provisions	(12,651,835)	(1,870,956)	(14,522,791)	(7,410,558)	(1,647,563)	(9,058,121)	(5,907,326)	(1,564,983)	(7,472,309)
Income from management fees and products	-	624,185	624,185	-	478,811	478,811	-	362,126	362,126
Retained claims	(2,482,321)	-	(2,482,321)	(2,104,555)	-	(2,104,555)	(1,447,697)	-	(1,447,697)
Benefits and redemption expenses	-	(35,803)	(35,803)	-	(28,745)	(28,745)	-	(36,150)	(36,150)
Selling expenses	(787,494)	(21,101)	(808,595)	(530,987)	(27,707)	(558,694)	(118,220)	(1,419)	(119,639)
Other operating income (expenses)	(193,288)	-	(193,288)	(197,924)	(10,525)	(208,449)	(231,732)	2,896	(228,836)
Operating results	**1,870,457**	**655,061**	**2,525,518**	**1,842,101**	**557,351**	**2,399,452**	**1,555,263**	**372,918**	**1,928,181**
Financial income	530,948	4,248,198	4,779,146	473,821	3,077,895	3,551,716	317,880	2,343,105	2,660,985
Financial expenses	(135,096)	(3,972,925)	(4,108,021)	(69,211)	(2,800,129)	(2,869,340)	(41,914)	(2,109,822)	(2,151,736)
Financial results	**395,852**	**275,273**	**671,125**	**404,610**	**277,766**	**682,376**	**275,966**	**233,283**	**509,249**
Total	**2,266,309**	**930,334**	**3,196,643**	**2,246,711**	**835,117**	**3,081,828**	**1,831,229**	**606,201**	**2,437,430**

d) Sensitivity analysis

The following information refers to the results of the sensitivity analysis and their impacts on the result and on stockholders' equity of the companies from the insurance and supplementary pension segment belonging to the Banco do Brasil, considering changes (shocks) in the main risk factors inherent to the companies' business.

Companies associated with the capitalization segment are not included in the scope of this analysis, since the contracts issued do not qualify as insurance contracts.

I – Market risk

Banco do Brasil defines market risk as the potential loss arising from variations in the interest rate, exchange rate, price of shares and prices of commodities.

The following risk factors are considered in the present sensitivity analysis: (i) interest rate and (ii) inflation-indexed bond coupons (National Consumer Price Index - INPC, General Market Price Index - IGP-M and National Amplified Consumer Price Index - IPCA), against the relevance in assets and liabilities positions of the companies.

For the purpose of this sensibility analysis simulation, only assets classified in the "financial assets at fair value through profit or loss" and/or "financial assets available for sale" categories, which are marked to market according to the pricing and risk calculation methodologies used by Banco do Brasil, were considered.

The definition of the quantitative parameters used in the sensitivity analysis was based on the analysis of the historical variations of interest rates in a recent period and the no change assumption of the inflation expectations curves, resulting in an impact on the respective inflation index coupons in the same magnitude as the interest rate. The common quantitative parameters applied are: i) 100 basis points in the interest rate structure; and ii) 100 basis points in the coupon rate structure, both in prevailing on December 31, 2012 and December 31, 2011.

The interest rate structure reflects the interest charged by the market for fixed-rate Brazilian government bonds, referred to Brazilian Reais, and the coupon rate structure reflects the interest charged by the market for Brazilian government bonds indexed to inflation, referred to Brazilian Reais. For each index inflation there is a corresponding coupon rate structure.

On June 01, 2012 was performed the split relating to the portfolio of pension plans of the Vera Cruz Vida e Previdência S.A, a company controlled by the holding BB Mapfre SH1 Participações S.A., which was not part of the Partnership Agreement with Mapfre, which resulted in the reduction of entity’s total assets in approximately R$ 1,79 billion.

It is emphasized that the sensitivity analysis of the holding companies from the insurance segment corresponds to the sum of the individualized analyses of each company.

The ownership interest held by the Bank in each company, for each period considered, is presented in Note 5.

R$ thousand

	Dec 31, 2012		Dec 31, 2011	
	Stockholders' equity	Income	Stockholders' equity	Income
Risk factors:				
Interest Rate – Increase				
BB Mapfre SH1 Participações S.A. (1)	(13,361)	(13,361)	(6,580)	(6,580)
Mapfre BB SH2 Participações S.A. (2)	(10,952)	(10,952)	(5,125)	(5,125)
Brasilprev Seguros e Previdência S.A. (3)	(24,879)	(24,879)	(7,797)	(7,797)
Interest rate – Decrease				
BB Mapfre SH1 Participações S.A. (1)	14,221	14,221	8,198	8,198
Mapfre BB SH2 Participações S.A. (2)	11,869	11,869	5,704	5,704
Brasilprev Seguros e Previdência S.A. (3)	28,460	28,460	8,571	8,571

(1) Comprise the companies Companhia de Seguros Aliança do Brasil, Mapfre Vida S.A. and Vida Seguradora S.A.

(2) Comprise the companies Aliança do Brasil Seguros S.A., Brasilveículos Companhia de Seguros, Mapfre Seguros Gerais S.A. and Mapfre Affinity Seguradora S.A.

(3) Comprise de following risk factors: interest rate and inflation-indexed bond coupons (General Market Price Index (IGP-M) and National Amplified Consumer Price Index (IPCA).

II – Business risk

Banco do Brasil defines business risk as the possibility of losses resulting from faults in the pricing of the insurance and supplementary pension products, as well as inadequacy in relation to the estimate of the liabilities under insurance and supplementary pension contracts (technical provisions).

Liabilities under insurance and supplementary pension contracts represent a significant amount of the liabilities and correspond to the various future financial commitments of the insurance companies with their customers.

Due to the relevance of the financial amount and of the uncertainties that involve the calculations of provisions, the most relevant variables for each type of business was considered in the sensitivity analysis, through the simulation of impacts on the income and stockholders' equity of the companies.

The analysis considers the following relevant variables, designated as risk factors: (i) loss ratio of the portfolio for all the lines in which the companies operate; (ii) escalation in the factors of provision for claims incurred but not reported (IBNR), by means of the simulation of the increase in the delay between the reporting date and the date of occurrence of the claims; (iii) escalation in the mortality table used to calculate the provision for premium insufficiency (PPI); and (iv) reduction in the discount rate used to estimate the actuarial flows projected by the PPI.

R$ thousand

	Dec 31, 2012		Dec 31, 2011	
	Stockholders' equity	Income	Stockholders' equity	Income
Risk factors:				
Loss ratio (1)				
BB Mapfre SH1 Participações S.A.	(45,768)	(45,768)	(59,811)	(59,811)
Mapfre BB SH2 Participações S.A.	(72,276)	(72,276)	(84,706)	(84,706)
Technical Provisions (2)				
BB Mapfre SH1 Participações S.A.	(128,434)	(128,434)	(100,708)	(100,708)
Mapfre BB SH2 Participações S.A.	(14,751)	(14,751)	(7,447)	(7,447)
Subscription (3) – Increase				
Brasilprev Seguros e Previdência S.A. (4)	(23,221)	(23,221)	(19,301)	(19,301)
Subscription – Decrease				
Brasilprev Seguros e Previdência S.A. (4)	20,101	20,101	16,712	16,712

(1) Quantitative parameter: increase of 5% in the loss ratio of the portfolio for all the lines in which the company operates.

(2) Quantitative parameters:

a) increase in the factors of the provision for claims incurred but not reported (IBNR);

b) grievance of provision for premium insufficiency – Long Term (PPI):

. increase of 5% in the mortality table;

. reduction of 1% in the discount rate.

(3) Quantitative parameters:

a) hypotheses of cancellation: 100 basis points in the expectation that participants redeem the reserve accumulated prior to retirement date;

b) hypotheses of annuitization: 10% in the expectation that the participants choose to reverse, on the date of retirement, the accumulated reserve in continued income.

c) hypotheses of survival: 5% in the time expectation of payment continued income.

(4) Quantitative parameters: increases and reductions of 1%, 10% and 5% for each case related to the risk factor, respectively.

e) Change of deferred selling expenses

Deferred selling expenses basically represent costs with the sale of insurance contracts, i.e., the brokerage commissions. These commissions are amortized in proportion to the recognition of earned premium revenue i.e., according to the validity period of the insurance.

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Opening balance	**636,847**	**402,152**
Constitutions	470,600	1,955,429
Amortization	(198,659)	(1,720,734)
Closing balance	**908,788**	**636,847**
Balance to be amortized up to 12 months	606,150	477,432
Balance to be amortized after 12 months	302,638	159,415

f) Liability adequacy test (LAT)

As established in IFRS 4, the liability adequacy test shall be drawn up at each reporting period for all insurance contracts in progress by the time of the test execution. This test is designed considering as carrying amount all liabilities of insurance contracts net of deferred acquisition costs and intangible assets directly related to insurance contracts.

For test execution, all contracts are grouped based on similar risks or when the insurance risk is jointly managed by the Administration.

The methodology considers the best estimation of all future cash flows, taking into account assumptions of cancellation, accidents, longevity, annuitization, other expenses related to operations and business revenues.

The main assumptions used in the test were:

Assumptions	Description
Discount rate	Interest rate risk-free prefixed

Group	Loss ratio
Damage insurance	Based on historic values
Life insurance	Based on historic values

Regarding the liability adequacy test related to operations of private pension plans, the methodology considers the best current estimates of cash flows of all risks undertaken until the reporting period and gross of reinsurance, segregated into premiums flows and contributions currently registered and in the future, with the following assumptions:

a) premiums and future contributions, conversion into income, withdrawals, expenses with future benefit payments and cancellations based on the best practices and analysis of the experience;

b) mortality and survival by biometric tables BR-EMS, increased by the continuous improvement in life expectancy.

The test conducted for the period ended on December 31, 2012 showed no inadequacy in any group of insurance contracts.

g) Concentration risk

Potential exposures to concentration risks are monitored by the analysis of concentrations in insurance products and pension funds.

The table below shows the concentration risk based on the retained premium and the percentage of retention.

R$ thousand

	Dec 31, 2012			
	Insurance Premium[1]	Retained Premium[2]	Retention [3]	Participation [4]
Insurance	**6,830,511**	**6,217,835**	**91.03%**	**31.22%**
Auto	1,839,524	1,836,707	99.85%	9.22%
Life	3,036,274	3,020,746	99.49%	15.17%
Casualty	1,716,685	1,122,354	65.38%	5.64%
Dpvat	238,028	238,028	100.00%	1.20%
Pension fund	**13,697,002**	**13,697,002**	**100.00%**	**68.78%**
Free benefit generating plan - PGBL	1,627,743	1,627,743	100.00%	8.17%
Living benefits life insurance - VGBL	11,819,743	11,819,743	100.00%	59.35%
Traditional plans	249,516	249,516	100.00%	1.25%
Total	**20,527,513**	**19,914,837**	**97.02%**	**100.00%**

R$ thousand

	Dec 31, 2011			
	Insurance Premium[1]	Retained Premium[2]	Retention [3]	Participation [4]
Insurance	**5,716,398**	**5,214,745**	**91.22%**	**37.24%**
Auto	1,615,873	1,615,110	99.95%	11.53%
Life	2,383,114	2,363,895	99.19%	16.88%
Casualty	1,500,014	1,018,343	67.89%	7.27%
Dpvat	217,397	217,397	100.00%	1.55%
Pension fund	**8,789,413**	**8,789,413**	**100.00%**	**62.76%**
Free benefit generating plan - PGBL	1,442,485	1,442,485	100.00%	10.30%
Living benefits life insurance - VGBL	7,055,896	7,055,896	100.00%	50.38%
Traditional plans	291,032	291,032	100.00%	2.08%
Total	**14,505,811**	**14,004,158**	**91.31%**	**100.00%**

(1) Corresponds to the premiums issued - cancellations - reimbursed – discounts + accepted coinsurance – ceded coinsurance.
(2) Corresponds to the insurance premium – ceded reinsured + retrocession.
(3) Corresponds to the ratio of retained premium and insurance premium.
(4) Corresponds to the participation of each insurance plan/pension fund to the total retained premium.

h) Claims development table

The claims development table aims to present the degree of uncertainty inherent in the estimates of provisions for unsettled claims and for claims incurred but not reported (IBNR).

The top half of the table illustrates the reconciliation of the cumulative claims to the amount appearing in the balance sheet.

In the lines below table presents the amounts of claims expected by year of occurrence and, the total claims for which payment was made and the total claims pending payment, reconciled with the accounting balances.

I – Gross of reinsurance

R$ thousand

Provisions for unsettled claims and for claims incurred but not reported (IBNR)	Dec 31, 2012
Liabilities presented in the claims development table	1,688,877
Dpvat operations	227,660
Retrocession and other estimates	2,658
Total provisions for unsettled claims and for claims incurred but not reported (IBNR) (1)	**1,919,195**

(1) Refers to the total balance of provisions for unsettled claims and for claims incurred but not reported (IBNR) as presented in note 34.a.

R$ thousand

Occurrence date	Dec 31, 2006	Dec 31, 2007	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	Total
Claims estimated amount								
At end of the accident year	1,072,813	1,326,804	1,454,260	1,733,703	1,927,981	2,328,046	2,461,884	-
One year later	1,157,162	1,516,936	1,542,381	1,687,275	1,985,993	2,405,156	-	-
Two years later	1,171,422	1,487,390	1,531,513	1,728,432	2,015,665	-	-	-
Three years later	1,177,049	1,477,427	1,542,406	1,734,565	-	-	-	-
Four years later	1,180,225	1,487,691	1,552,697	-	-	-	-	-
Five years later	1,190,238	1,494,699	-	-	-	-	-	-
Six years later	1,201,506	-	-	-	-	-	-	-
Estimate in 12.31.2012	**1,201,506**	**1,494,699**	**1,552,697**	**1,734,565**	**2,015,665**	**2,405,156**	**2,461,884**	**12,866,172**
Payments until 12.31.2012	1,164,378	1,450,219	1,496,784	1,658,498	1,883,340	2,183,487	1,592,833	11,429,540
Liability recognized in the Balance Sheet	**37,128**	**44,480**	**55,913**	**76,067**	**132,325**	**221,669**	**869,051**	**1,436,632**
Claims liabilities prior to 12.31.2006								252,245
Total Liability	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,688,877**

II – Net of reinsurance

R$ thousand

Provisions for unsettled claims and for claims incurred but not reported (IBNR)	Dec 31, 2012
Liabilities presented in the claims development table	1,387,973
Dpvat operations	227,660
Retrocession and other estimates	2,658
Total provisions for unsettled claims and for claims incurred but not reported	**1,618,291**

(1) Refers to the total balance of provisions for unsettled claims and for claims incurred but not reported (IBNR) presented in note 34.a.

R$ thousand

Occurrence date	Dec 31, 2006	Dec 31, 2007	Dec 31, 2008	Dec 31, 2009	Dec 31, 2010	Dec 31, 2011	Dec 31, 2012	Total
Claims estimated amount								
At end of the accident year	1,047,366	1,228,895	1,366,570	1,524,946	1,780,041	2,511,561	2,142,289	-
One year later	1,095,623	1,269,911	1,383,198	1,522,436	1,860,370	2,579,240	-	-
Two years later	1,108,094	1,277,264	1,385,922	1,550,408	1,887,049	-	-	-
Three years later	1,112,092	1,277,764	1,397,524	1,560,369	-	-	-	-
Four years later	1,119,788	1,290,558	1,408,134	-	-	-	-	-
Five years later	1,132,780	1,298,188	-	-	-	-	-	-
Six years later	1,139,996	-	-	-	-	-	-	-
Estimate in 12.31.2012	**1,139,996**	**1,298,188**	**1,408,134**	**1,560,369**	**1,887,049**	**2,579,240**	**2,142,289**	**12,015,266**
Payments until 12.31.2012	1,109,779	1,260,910	1,362,154	1,502,810	1,803,453	2,416,626	1,403,264	10,858,995
Liability recognized in the Balance Sheet	**30,217**	**37,279**	**45,980**	**57,559**	**83,596**	**162,615**	**739,025**	**1,156,270**
Claims liabilities prior to 12.31.2006								231,702
Total liabilities	-	-	-	-	-	-	-	**1,387,973**

35 – Income tax

a) Income taxes presented in the statement of income

R$ thousand

	2012	2011	2010
Current			
Current year	(6,852,935)	(4,743,175)	(6,272,318)
Prior year adjustments	(6,891)	2,549	(28)
Total current	**(6,859,826)**	**(4,740,626)**	**(6,272,346)**
Deferred			
Actuarial gains	(516,887)	(1,137,073)	65,722
Interest and inflation adjustment of judicial deposits	(243,581)	(329,147)	(290,212)
Credit assignment co-obligation	(180,714)	89,131	130,055
Provision for deferred income and social contribution taxes	(134,366)	(83,928)	(527,542)
Deferred tax positions related to fair value adjustments	(69,166)	93,891	165,308
Business combination adjustments – fair value adjustments	(12,035)	281,545	(62,199)
Recognition of income tax losses	(951)	(29,349)	86,381
Recognition of social contribution tax loss carry forwards	(283)	(17,595)	90,524
Adjustments arising from the partnership with Mapfre	-	(383,090)	-
Lease operations portfolio adjustment	156,082	79,948	(100,643)
Business combination adjustments – intangible assets	320,169	311,306	292,935
Allowance for loan losses	604,301	(212,291)	110,945
Other deferred expenses	3,105,565	1,018,935	1,090,551
Total deferred	**3,028,134**	**(317,717)**	**1,051,825**
Total income taxes	**(3,831,692)**	**(5,058,343)**	**(5,220,521)**

b) Reconciliation of income tax expense

R$ thousand

	2012	2011	2010
Income before taxes	15,269,892	17,795,255	16,550,866
Income taxes (40%) at the nominal rates	**(6,107,957)**	**(7,118,102)**	**(6,620,346)**
Charges for interest on capital	1,341,517	1,220,523	961,300
Revenues from the Center-West Financing Fund	375,041	312,894	304,247
Expenses for loss in investments abroad	184,101	142,035	(74,470)
Equity in earnings of associates	18,370	60,076	51,048
Charges on non-taxable revenues/non-deductible expenses	357,236	324,231	157,700
Income taxes expense	**(3,831,692)**	**(5,058,343)**	**(5,220,521)**
Effective rate	**25.09%**	**28.43%**	**31.54%**

c) Income taxes recorded in stockholders' equity

R$ thousand

	2012	2011	2010
Income taxes expenses in the statement of income	(3,831,692)	(5,058,343)	(5,220,521)
Income taxes on unrealized gains/losses on financial instruments	(414,618)	(200,740)	(111,888)
Income taxes included in other comprehensive income	**(4,246,310)**	**(5,259,083)**	**(5,332,409)**

d) Deferred income taxes presented in the consolidated balance sheet

Liabilities

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Deferred tax liabilities		
From actuarial gains	(4,937,007)	(4,453,083)
Adjustment of the commercial leasing portfolio	(551,816)	(768,976)
Interest and inflation adjustment of judicial deposits	(386,239)	(356,541)
From partnership with Mapfre	(383,090)	(383,090)
Positive fair value adjustments of financial assets	(334,200)	(263,190)
Other timing differences	(297,686)	(440,898)
Total	**(6,890,038)**	**(6,665,778)**

Assets

R$ thousand

	Dec 31, 2011	Constitutions	Write-offs	Dec 31, 2012
Deferred tax assets				
Allowance for loan losses	4,919,474	4,977,654	(2,226,058)	7,671,070
Provision for labor, fiscal and civil lawsuits	2,792,083	1,769,500	(1,025,989)	3,535,594
Provision for post-employment benefit plans	2,856,763	633,297	(784,983)	2,705,077
Social contribution to offset	2,487,845	-	(456,423)	2,031,422
Negative fair value adjustments of financial assets	263,311	337,368	(88,239)	512,440
Effective interest rate	210,271	77,720	-	287,991
Credit assignment co-obligation	327,089	-	(180,715)	146,374
Sum of losses/negative basis of income taxes	174,894	29,178	(94,648)	109,424
Other provisions	6,386,593	1,622,722	(1,801,450)	6,207,865
Total	**20,418,323**	**9,447,439**	**(6,658,505)**	**23,207,257**

The branch of Banco do Brasil in New York has tax losses in the amount of R$ 383,861 thousand, which deferred tax asset was not recognized since there is no probability of realization, according to the management evaluation.

e) Expected realization of deferred tax assets (tax credits)

R$ thousand

	Deferred tax assets
In 2013	4,856,096
In 2014	4,779,511
In 2015	3,695,764
In 2016	3,629,004
In 2017	5,527,863
In 2018	65,656
In 2019	47,109
In 2020	39,912
In 2021	36,341
In 2022	359,809
In 2023	170,192
Total	**23,207,257**

Expected realization of deferred tax assets is supported by a technical study prepared as of December 31, 2012.

During the period of 2012, there was realization of deferred tax assets in Banco do Brasil in the amount of R$ 6,149,326 thousand, corresponding to 153.64% of the forecast reported in a technical study prepared as of December 31, 2011.

The realization of the nominal value of tax credit assets, based on a technical study conducted by the Banco do Brasil as of December 31, 2012, is designed for 5.5 years in following proportions:

	Tax losses carry forwards/CSLL(1) recoverable (2)	Temporary differences (3)
In 2013	48%	18%
In 2014	46%	18%
In 2015	1%	18%
In 2016	1%	18%
In 2017	1%	28%
From 2018	3%	-

(1) Contribution on net income.

(2) Projected consumption linked to the capacity to generate taxable amounts in subsequent periods.

(3) The consumption capacity arises from movement in provisions (expectation of reversals, write-offs and uses).

36 – Stockholders' equity

a) Equity per common share

	Dec 31, 2012	Dec 31, 2011
Stockholders' equity (R$ thousand)	69,024,508	62,549,946
Equity per share (R$)(1)	24.09	21.83

(1) The equity per stock calculation is made by dividing the stockholders' equity by the number of common stocks.

b) Capital

The capital, entirely subscribed and paid-in, in the amount of R$ 48,400,000 thousand (R$ 33,122,569 thousand as of December 31, 2011), is divided into 2,865,417,020 book-entry common stocks without par value. The Brazilian Federal Government is the largest stockholder, holding control of the majority of our voting stocks.

The increase of the capital in 2012, in the amount of R$ 15,277,431 thousand, resulted from the use of Statutory Reserve to Operating Margin, approved by the Special Meeting of Stockholders held on December 18, 2012 and by the Banco Central do Brasil on February 14, 2013.

The Bank may, even without amending its by-laws, if approved by a General Assembly Meeting, and in the conditions established therein, increase its capital up to the limit of R$ 80,000,000 thousand, by issuing common stocks, granting stockholders preference for subscribing the capital increase proportionally to the number of held stocks, while maintaining the rights of subscription bonus holders issued by the Bank.

c) Capital reserve

Capital reserve refers to the interest increase in Banco Patagonia resulting from the Mandatory Stock Acquisition Public Offer in the amount of R$ 140 thousand. The Bank acquired the controlling interest of Banco Patagonia on April 12, 2011, according to Note 6.a.

d) Profit reserves

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Profit reserves	**16,132,047**	**24,121,303**
Legal reserve	4,112,056	3,496,563
Statutory reserves	12,019,991	20,624,740
Operating margin	7,744,181	16,589,586
Equalization of dividends	4,275,810	4,035,154

The legal reserve has the purpose of ensuring the integrity of capital and may only be used to offset losses or increase the capital. Five percent (5%) of net income, before any other allocation, will be transferred to the legal reserve, which shall not exceed twenty percent (20%) of the capital.

Statutory reserve for operating margin is designed to guarantee operating margin consistent with the development of the Bank's operations and consists of up to 100% of net income, after the legal destinations, including dividends, limited to 80% of the capital.

Statutory reserve for dividend equalization provides funds for the payment of dividends, the portion consisting of up to 50% of net income, after the legal destinations, including dividends, up to 20% of the capital.

e) Other accumulated comprehensive income

Other accumulated comprehensive income refers to the fair value adjustment effect of the available-for-sale financial assets (net of income taxes), net effect of cash flow hedge and foreign investments translation adjustments. In 2011, the Bank recognized in other accumulated comprehensive income the effect of foreign investments translation adjustments of Banco Patagonia S.A and BB Americas.

f) Unallocated retained earnings

Net income determined according to accounting practices adopted in Brazil is totally distributed in the form of dividends and the formation of profit reserves. Hence the balance presented in this account, in these financial statements prepared in accordance with IFRS, represents the effect of the differences between accounting practices adopted in Brazil and IFRS.

g) Interest on own capital and dividends

	Amount (R$ thousand)	Amount per share (R$)	Base date of payment	Payment date
First quarter of 2012				
Dividends	181,408	0.063	5/10/2012	5/22/2012
Interest on own capital	840,366	0.293	3/22/2012	5/22/2012
Second quarter of 2012				
Dividends	350,274	0.122	8/21/2012	8/31/2012
Interest on own capital	850,328	0.297	6/21/2012	7/23/2012
Third quarter of 2012				
Dividends	304,244	0.106	11/16/2012	11/26/2012
Interest on own capital	817,566	0.286	9/11/2012	9/20/2012
Fourth quarter of 2012				
Dividends	734,230	0.258	3/1/2013	3/8/2013
Interest on own capital	845,532	0.297	12/12/2012	12/28/2012
Total allocated to the stockholders in 2012	**4,923,948**	**1.722**		
Dividends	1,570,156	0.549		
Interest on own capital (1)	3,353,792	1.173		
Net income for the period (2)	12,309,870			

(1) Amounts subject to the rate of 15% Income Tax Withholding.

(2) Net income determined according to accounting practices adopted by financial institutions in Brazil.

	Amount (R$ thousand)	Amount per share (R$)	Base date of payment	Payment date
First quarter of 2011				
Dividends	449,024	0.157	5/19/2011	27/05/2011
Interest on own capital	723,921	0.253	3/22/2011	27/05/2011
Second quarter of 2011				
Dividends	595,322	0.208	8/18/2011	26/08/2011
Interest on own capital	736,680	0.258	6/21/2011	26/08/2011
Third quarter of 2011				
Dividends	360,714	0.126	11/17/2011	11/26/2012
Interest on own capital	795,800	0.278	11/17/2011	25/11/2011
Fourth quarter of 2011				
Dividends	442,565	0.154	2/17/2012	29/02/2012
Interest on own capital	794,907	0.277	12/21/2011	7/2/2012
Total allocated to the stockholders in 2011	**4,898,933**	**1.711**		
Dividends	1,847,625	0.645		
Interest on own capital (1)	3,051,308	1.066		
Net income for the period (2)	12,247,330			

(1) Amounts subject to the rate of 15% Income Tax Withholding.

(3) Net income determined according to accounting practices adopted by financial institutions in Brazil.

	Amount (R$ thousand)	Amount per share (R$)	Base date of payment	Payment date
First quarter of 2010				
Dividends	444,161	0.173	5/21/2010	31/05/2010
Interest on own capital	518,155	0.202	3/24/2010	31/05/2010
Second quarter of 2010				
Dividends	564,785	0.220	8/18/2010	26/08/2010
Interest on own capital	525,372	0.205	5/24/2010	26/08/2010
Third quarter of 2010				
Dividends	375,970	0.131	11/22/2010	30/11/2010
Interest on own capital	673,935	0.236	9/22/2010	30/11/2010
Fourth quarter of 2010				
Dividends	917,410	0.321	2/23/2011	28/02/2011
Interest on own capital	685,788	0.240	12/22/2010	30/12/2010
Total allocated to the stockholders in 2010	**4,705,576**	**1.728**		
Dividends	2,302,326	0.845		
Interest on own capital (1)	2,403,250	0.883		
Net income for the period (2)	11,758,093			

(1) Amounts subject to the rate of 15% Income Tax Withholding.

(4) Net income determined according to accounting practices adopted by financial institutions in Brazil.

In accordance with Brazilian laws and the Bank's Bylaws, Management decided on the payment of interests on own capital to its stockholders, imputed to the value of the dividends, plus additional dividends, equivalent to 40% of the net income.

h) Stockholdings (number of stocks)

Stocks held by the Bank's stockholders, directly or indirectly, of more than 5%, by the Board of Directors, Executive Board and Audit Committee are as follows:

R$ thousand

Stockholders'	Dec 31, 2012		Dec 31, 2011	
	Stocks	% Total	Stocks	% Total
Brazilian Federal Government	1,693,127,780	59.1	1,693,127,780	59.1
Ministry of Finance	1,453,487,115	50.7	1,483,727,780	51.8
Guarantee fund to Exports	-	-	139,400,000	4.9
Tax fund for Investment and Stability	110,650,000	3.9	62,500,000	2.2
Guarantee Fund for Investments	7,500,000	0.3	7,500,000	0.2
Fund for Investment in stocks	9,466,808	0.3	-	-
Fund for Investment Multimarket	6,360,290	0.2	-	-
Banco do Brasil Employees Retirement Fund – Previ	297,523,314	10.4	296,773,911	10.4
BNDES Participações S.A. – BNDESPar (1)	5,522,648	0.2	3,696,348	0.1
Treasury stocks	20,200,047	0.7	32	-
Other stockholders	849,043,231	29.6	871,818,949	30.4
Total	**2,865,417,020**	**100.0**	**2,865,417,020**	**100.0**

(1) Connected to the Controller.

	Common stocks (ON)	
	Dec 31, 2012	Dec 31, 2011
Board of Directors	8	11
Executive Board	112,821	27,463
Audit Committee	75	823

i) Quantity of issued stocks and quantity of stocks in the market (free float)

	Quantity of stocks	
	Commom stocks	Treasury stocks
Balance on Jan 01, 2010	**2,569,860,512**	**(1,150,369)**
Movements	290,868,735	1,140,616
Balance on Dec 31, 2010	**2,860,729,247**	**(9,753)**
Movements	4,687,773	9,721
Balance on Dec 31, 2011	**2,865,417,020**	**(32)**
Movements	-	(20,200,015)
Balance on Dec 31, 2012	**2,865,417,020**	**(20,200,047)**

	Dec 31, 2012		Dec 31, 2011	
	Number	%	Number	%
Free float at the beginning of the year	**871,791,466**	**30,4**	**870,752,058**	**30,4**
Acquisition of stocks – repurchase program	(20,200,000)		-	
Acquisition of stocks – Share-based payment	(130,146)		-	
Acquisition of stocks by BNDESPar	(1,826,300)		(3,461,229)	
Acquisition of stocks by Previ	(749,403)		(209,000)	
Sale of stocks by Federal Government	-		6,283	
Subscription of Bonus Stocks	-		4,687,773	
Other changes (1)	44,776		15,581	
In the market (free float) (2)	**848,930,393**	**29,6**	**871,791,466**	**30,4**
Total issued	2,865,417,020	100,00	2,865,417,020	100,00

(1) Refers mainly to changes arising from Technical and Advisory Bodies.

(2) Does not include any stocks held by the Board of Directors and Executive committee.

j) Treasury stocks

On July 13, 2012, the Board of Directors approved the repurchase program of up to 50 million stocks within 180 days from that date, aiming at the acquisition of stocks to hold in treasury for subsequent sale or withdrawal without capital reduction, aiming at generating value for stockholders. Until December 31, 2012, 20,200,000 stocks were acquired, in the amount of R$ 461,246 million, related to the repurchase program. Minimum, average and maximum cost per stock are respectively R$ 18.28, R$ 22.83 e R$ 26.78. The market value for each of these stocks as of December 31, 2012, was R$ 25.60.

On January 08, 2013, the Bank communicated the closing of the stocks repurchase.

k) "C" subscription bonuses (convertible securities)

On March 30, 2011 the Bank announced the conditions to convert the "C" subscription bonuses ("Bonus") issued gratuitously to the stockholders of the record on June 17, 1996. The conversion period was established as being between March 31, 2011 and June 30, 2011. Each Bonus had the right to be converted into 3.131799 common stocks at the price of R$ 8.50 per Bonus, adjusted for inflation based on the Fundação Getúlio Vargas index. The holders of 1,496,831 Bonuses exercised their right to convert their Bonuses into common stocks resulting in the issuance of 4,687,773 common stocks on 10.27.2011, upon the approval of the Brazilian Central Bank. The non converted Bonuses in the amount of 2,831,873 expired on June 30, 2011.

l) Share-Based Payment

As of November 2011, the Bank approved variable compensation payment in stocks or stock-based instruments to the members of the Executive Board. They received, as a 2011 annual bonus, and according to the global amount approved at the Annual Meeting of Stockholders as of April 27, 2011, an amount between two and four salaries, according to the achievement of the Return on Equity – ROE target, set at 20%. For performances between 100% and 105% of target achievement, each member of the Executive Board would receive two additional salaries; for performances between 105% and 115%, the compensation would be proportionately calculated, and for greater performances above 115 %, each member would receive four salaries.

In 2011 the Return on Equity - ROE was 22.6%. Depending on the percentage of achieving the goal, the Bank allocated R$ 3,593 thousand for share-based payment to be made in three annual installments.

As of February 2012, the Bank reacquired 130,146 stocks, placed in treasury, of which 130,131 were transferred to members of the Executive Board as of March 08, 2012. The stocks transferred were blocked for trading, and the release will occur in three annual installments, according to the schedule presented in the table below.

Share-Based Payment – Schedule of release	Number of stocks	Release Date
First installment	43,409	03/08/2013
Second installment	43,361	03/10/2014
Third installment	43,361	03/09/2015
Total	**130,131**	

Minimum, average and maximum cost per stock are respectively R$ 27.38, R$ 27.61 and R$ 27.88. The market value for each of these stocks as of December 31, 2012, was R$ 25.60.

The regulations issued by the Brazilian Central Bank which deals with the remuneration policy for financial institutions executives, requires that, at least 50% of variable remuneration shall be paid in stocks or stock-based instruments, of which at least 40% should be deferred for future payment, with a minimum period of three years, set by the risks and the executive activity.

Due to the related Resolution, the Bank approved a new policy of variable remuneration for the Executive Board, valid from 2012. Such policy covers, besides the Return of Equity - ROE recurrent, the achievement of several requirements which are still being calculated, i.e., individual evaluation and performance agreement of the Unit which the Manager is linked. Therefore, the closing process of all requirements and the calculation of the exact value to be paid to the Executive Board will be done at an opportune time.

For the financial year 2012, in accordance with the global amount approved by the Annual Meeting of Stockholders, on April 26, 2012, the Bank accrued R$ 16,324 thousand, which is equivalent to 10 fees per beneficiary, for the payment of variable remuneration to the members of the Executive Board.

Based on the result of the 1st half of 2012, on October 04, 2012, an advance of 2.5 fees was carried out for each member of the Executive Board. If the constraints set out in the remuneration policy for the year 2012 are not achieved, the anticipated value will be reverted in favor of the Bank.

37 – Earnings per share

	2012	2011	2010
Net income attributable to owners of the parent (in R$ thousand)	11,245,922	12,681,922	11,296,009
Weighted average of the basic shares in the market	2,861,260,055	2,861,404,718	2,711,976,359
Dilutive effect			
Average of convertible securities	-	8,445,079	15,892,064
Weighted average of the diluted shares in the market	2,861,260,055	2,869,849,797	2,727,868,423
Earnings per share			
Basic earnings per share (in R$)	3.93	4.43	4.17
Diluted earnings per share (in R$)	3.93	4.42	4.14

The **basic earnings per share** is calculated by dividing net income attributable to owners of the parent by the weighted average number of common shares outstanding in each of the periods presented.

The **diluted earnings per share** is calculated by dividing net income attributable to owners of the parent by the weighted average number of common shares outstanding, including the potential dilutive effect of the convertible securities.

38 – Fair value of the financial instruments

R$ thousand

	Dec 31, 2012		Dec 31, 2011	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets				
Cash and bank deposits	12,690,806	12,690,806	10,492,143	10,492,143
Compulsory deposits with central banks	80,097,865	80,097,865	93,689,987	93,689,987
Loans to financial institutions	44,241,484	42,349,107	41,846,491	40,509,083
Securities purchased under resale agreements	189,515,889	189,432,418	139,032,201	138,800,266
Financial assets at fair value through profit or loss	74,955,946	74,955,946	68,294,472	68,294,472
Financial assets available for sale	96,704,660	96,704,660	84,328,189	84,328,189
Financial assets held to maturity	12,713,398	16,137,896	14,997,329	16,622,287
Loans to customers	498,070,784	499,736,615	399,032,494	391,503,766
Liabilities				
Deposits of clients	455,515,199	455,413,631	429,177,263	429,647,623
Amount payable to financial institutions	16,789,823	16,850,702	14,625,350	15,070,839
Financial liabilities at fair value through profit or loss	3,826,743	3,826,743	3,972,855	3,972,855
Securities sold under repurchase agreements	225,786,871	225,402,847	195,204,879	195,185,239
Short-term liabilities	10,957,818	11,000,046	12,988,608	13,439,108
Long-term liabilities	198,517,892	198,516,158	122,047,390	119,284,889

The fair value of a financial instrument is the value at which the instrument could be exchanged in a normal transaction between the stakeholders, and that is not a judicial or liquidation sale. The Bank considers as a financial instrument's fair value the amount for which it could be traded in a current transaction between knowledgeable and willing parties and conducted on arm's length basis. If a price quoted in an active market is available for a financial instrument, its fair value will be calculated based upon that price. In the absence of an active market for a financial instrument, its fair value will be calculated by an impartial estimate, aiming at a fair and equitable valuation of financial instruments.

Measurement methods used for estimating fair value of different types of financial instruments:

a) Cash and bank deposits

Carrying amounts shown in the consolidated balance sheet under “cash and bank deposits” relate to high liquidity assets. Thus, the carrying amount substantially represents the fair value.

b) Compulsory deposits with central banks

The carrying amounts presented in the consolidated balance sheet in the group of “compulsory deposits with central banks” are approximately equivalent to their fair values.

c) Loans to financial institutions and securities purchased under resale agreements

The fair value of loans to financial institutions and investments in repurchase agreements with prefixed rates was determined through the discounting of estimated cash flows using interest rates equivalent to current contracting rates for similar instruments. For variable rate instruments, carrying amounts have been deemed approximately equivalent to fair value.

d) Financial assets and liabilities at fair value through profit or loss, financial assets available for sale and financial assets held to maturity

These accounts are composed mostly of debt and equity instruments and derivatives. Considering the concept of fair value presented previously, if there is no price quoted in an active market available for a financial instrument and if it is not possible to identify recent operations with a similar financial instrument, the Bank defines the fair value of financial instruments based on assessment methodologies usually regarded by the market as the present value method obtained from discounted cash flows and the Black-Scholes model.

In accordance with the present value method to assess financial instruments, the expected future cash flows are discounted at present value considering the usual market conditions, profitability curves and volatility factors, using the observable market interest rates.

In the valuation of financial instruments, especially for derivatives swaps, futures and forward currency, we use the present value method. As for options, the Black-Scholes model is applied.

The Black-Scholes model is used to evaluate European options. The option price can be measured from a 'closed' formula and, except for the volatility, the input variables are directly observable. The Bank has chosen this model without dividends payment to get the respective volatility, since it is widely used by the market and stock exchanges for the settlement prices measurement of European options. In call options that will be used to obtain the inputs, there is equivalence between American and European models, which allows the use of the model mentioned even in the case of American type call options.

The primary sources are the origin bases of the market information that provides inputs to the developed models. The primary sources used for each class of financial assets are as follows: Public securities (Anbima/Bacen), private securities (BM&FBovespa, SND – National System of Debentures, Anbima and Cetip) and derivatives (BM&FBovespa, Broadcast and Reuters).

Alternative sources of information (secondary sources) are used in the case of unavailability of information from primary sources or a situation of a systemic crisis, under the occurrence of lack of liquidity for certain assets or class of assets and significant difference among information given by market providers. As an alternative source, the Bank has Bloomberg. Additionally, in situations of critical missing information, it is assumed using day before information of primary sources.

e) Loans to customers

The fair values were estimated for groups of similar loans to customers based on the type of loan, quality of credit and maturity. The fair value of fixed rate loans to customers was determined by discounting estimated cash flows using interest rates equivalent to the current contract rates for loans of similar type, quality and maturity. For variable rate loans to customers, values have been deemed approximately equivalent to fair value.

With regard to loans to customers which are in default of contract terms, we consider that their carrying amount s minus their respective loan loss provisions adequately represent their fair values.

f) Deposits of clients

The fair value of the fixed rate deposits with pre-established maturities was calculated through the discounting of the contractual cash flows using interest rates currently offered in the market for instruments with similar maturity periods. For variable rate deposits and those with maturities of up to 30 days, the carrying amount was considered approximately equivalent to the fair value.

g) Securities sold under repurchase agreements

The fair value of “securities sold under repurchase agreements” with fixed interest rates was determined through discounted cash flows using interest rates equivalent to the current rates for similar instruments. For variable rate securities sold under repurchase agreements, carrying amounts have been deemed approximately equivalent to fair value.

h) Short-term liabilities

The fair values of short-term liabilities were calculated by means of discounting cash flows using interest rates offered in the market for liabilities with similar contractual terms, maturities, and risk.

i) Long-term liabilities

Fair values for long-term liabilities were calculated based on discounted cash flows, which takes into account the interest rates offered in the market for liabilities with similar contractual terms, maturities, and risks (see Note 32).

j) Level of information regarding assets and liabilities measured at fair value in the balance sheet

According to the level of information in the measurement at fair value, the assessment techniques used by the Bank are as follows:

Level 1 – Prices quoted are used in active markets for identical financial instruments. A financial instrument is considered quoted in an active market if the quoted prices are readily and regularly available and these prices represent real market transactions which occur regularly on an arm's length basis.

Level 2 – Available information other than Level 1 is used, including the prices quoted in non-active markets or for similar assets and liabilities, or that can be corroborated by information observed in the market to support the assessment of the assets and liabilities.

Level 3 – Information that is not available in the market is used in the definition of the fair value. If the market for the financial instrument is not active, the entity establishes the fair value using the valuation technique which takes into account internal data that is consistent with the economic methodologies accepted for pricing of financial instruments.

Assets and liabilities measured at fair value in the balance sheet

R$ thousand

	Dec 31, 2012	Prices quoted in active markets for identical assets Level 1	Prices quoted in non-active markets for similar assets Level 2	Unavailable significant information Level 3
Assets	192,377,711	110,188,963	81,158,065	1,030,683
Financial assets at fair value through profit or loss	74,955,946	55,212,237	19,453,366	290,343
Debt and equity instruments	73,541,366	55,212,237	18,039,725	289,404
Derivatives (1)	1,414,580	-	1,413,641	939
Financial assets available for sale	96,704,660	54,976,726	40,987,594	740,340
Loans to customers(2)	20,717,105	-	20,717,105	-
Liabilities	**5,291,627**	**-**	**5,291,575**	**52**
Financial liabilities at fair value through profit or loss	3,826,743	-	3,826,691	52
Debt instruments (3)	387,261	-	387,261	-
Derivatives	3,439,482	-	3,439,430	52
Long-term liabilities(4)	1,464,884	-	1,464,884	-

R$ mil

	Dec 31, 2011	Prices quoted in active markets for identical assets Level 1	Prices quoted in non-active markets for similar assets Level 2	Unavailable significant information Level 3
Assets	**173,809,660**	**106,110,747**	**66,114,128**	**1,584,785**
Financial assets at fair value through profit or loss	68,294,472	49,422,582	18,593,642	278,248
Debt and equity instruments	66,897,772	49,297,223	17,323,122	277,427
Derivatives (1)	1,396,700	125,359	1,270,520	821
Financial assets available for sale	84,328,189	56,688,165	26,333,487	1,306,537
Loans to customers(2)	21,186,999	-	21,186,999	-
Liabilities	**5,072,729**	**194,059**	**4,862,387**	**16,283**
Financial liabilities at fair value through profit or loss	3,972,855	194,059	3,762,513	16,283
Debt instruments (3)	352,199	-	352,199	-
Derivatives	3,620,656	194,059	3,410,314	16,283
Long-term liabilities(4)	1,099,874	-	1,099,874	-

(1) Includes future contracts relating to securities dealings, which are recorded in other assets.
(2) Refers to the Loans to customer portfolios from Banco Votorantim S.A.
(3) Amounts recorded in Long-term obligations.
(4) Refers to the subordinated debt from Banco Votorantim S.A.

Level 3 – Changes

R$ thousand

	Debt and equity instruments	Derivatives (Asset)	Financial assets available for sale	Derivatives (Liability)
Balance at Dec 31, 2010	**206,140**	**179,079**	**941,760**	**152,041**
Acquisition of unlisted companies shares	233,546	-	-	-
Sale/redemption of unlisted companies shares	(165,198)	-	-	-
Debentures – increase in fair value adjustment	2,939	-	288,105	-
Income – fair value adjustments	-	-	76,672	-
Options – transfer to Level 2 (1)	-	(5,635)	-	(56,837)
Credit linked notes – transfer to Level 2 (1)	-	(160,270)	-	(73,772)
Equity linked notes – transfer to Level 2 (1)	-	-	-	(4,658)
Credit derivative – decrease in fair value adjustment	-	(2,892)	-	-
Credit derivative – increase in fair value adjustment	-	-	-	453
Credit derivative – transfer to Level 2 (1)	-	(9,461)	-	(944)
Balance at Dec 31, 2011	**277,427**	**821**	**1,306,537**	**16,283**
Acquisition of unlisted companies shares	55,858	-	13,570	-
Sale/redemption of unlisted companies shares	-	-	(77,927)	-
Acquisition of debentures	4,293	-	-	-
Sale/redemption of debentures	-	-	(4,849)	-
Debentures – transfer to Level 2 (2)	(48,174)	-	(458,725)	-
Debentures – increase in fair value adjustment	-	-	1,255	-
Income – fair value adjustments	-	-	(39,521)	-
Credit derivative – decrease in fair value adjustment	-	-	-	(16,231)
Credit derivative – increase in fair value adjustment	-	118	-	-
Balance at Dec 31, 2012	**289,404**	**939**	**740,340**	**52**

(1) Regarding Derivatives (Liability), we observed the existence of indicative rate published by ANBIMA which has been adopted as the current credit spread.
(2) We observed the existence of indicative rate for a paper or a basket of papers (according to their similarity), adopting the same rate as credit spread.

The fair value of financial instruments classified as Level 3 does not provide pricing information in an active market. Pricing criteria are used as mathematical models known in the academic environment and/or through specific governance with the participation of experts and structured internal processes.

The goal is to obtain the most appropriate value to the presentation of these operations. It is considered that the methodologies adopted are appropriate and consistent with the prevailing practices in the market. Debentures, unlisted companies shares and credit derivatives are classified as Level 3.

The movements in 2012 were from Level 3 to Level 2 basically due to the change in pricing methodology of financial instruments, which were measured at fair value based on internal mathematical models and currently measured using observable Bloomberg data.

39 – Derivative financial instruments

Derivatives are financial instruments that meets the all following requirements: (i) their value change due to changes in an underlying variable (exchange rate, interest rate, price index, price of a commodity etc); (ii) it requires no initial payout or the initial payout is less than it would be required for other types of contracts, when it would be expected to have a similar response to changes in markets factors; and (iii) the financial instrument is settled at a future date.

Derivatives held or maintained by the bank are essentially traded for the purpose of trading, most related to agreements with their customers. The bank may also take positions with expectation of profit, taking into account favorable changes in prices, rates or index.

The following table demonstrates the composition of derivatives portfolio by type of risk with their notional values recorded as assets or liabilities, as well as their respective fair values and the composition of the portfolio of derivatives by maturity of their notional values.

a) Breakdown of the portfolio of derivatives for trading per type of risk.

R$ thousand

	Dec 31, 2012	Dec 31, 2011
	Notional value	Notional value
Futures contracts		
Purchase commitments	**25,829,761**	**48,657,214**
Interest rate risk	8,235,604	31,920,368
Currency risk	10,122,399	9,412,815
Other risks	7,471,758	7,324,031
Sales commitments	**46,314,994**	**56,534,961**
Interest rate risk	35,374,250	47,493,509
Currency risk	2,717,229	384,140
Other risks	8,223,515	8,657,312

Futures contracts are contractual arrangements between two parties who agree to buy or sell a financial instrument at a fixed price at a future date. These contracts are standardized and only traded on stock exchange according to specific rules. Contracts are adjusted to fair value daily and are subject to margin deposits in cash on the stock exchange to guarantee the transactions.

R$ thousand

	Dec 31, 2012		Dec 31, 2011	
	Notional value	fair Value	Notional value	Fair Value
Forward operations agreements				
Asset position	**4,976,836**	**165,468**	**4,408,996**	**407,387**
Currency risk	4,953,396	164,720	4,407,514	407,194
Other risks	23,440	748	1,482	193
Liability position	**5,053,850**	**(131,865)**	**3,908,174**	**(371,482)**
Currency risk	5,032,598	(129,612)	3,888,879	(367,624)
Other risks	21,252	(2,253)	19,295	(3,858)

Forwards contracts are customized contractual arrangements between two parties who agree to buy or sell at a future date a financial instrument at a price fixed on the contract date. These contracts can only be fully settled at maturity date and may be traded on the stock exchange or on the over-the-counter (OTC) market.

R$ thousand

	Dec 31, 2012		Dec 31, 2011	
	Notional value	**Fair value**	**Notional value**	**Fair value**
Option market				
Purchase position	**11,924,743**	**75,219**	**128,346,890**	**254,950**
Interest rate risk	7,300,000	7,763	93,063,793	553
Currency risk	4,173,885	27,251	3,988,423	239,668
Other risks	450,858	40,205	31,294,674	14,729
Sold position	**16,406,310**	**(1,405,480)**	**109,204,001**	**(2,006,159)**
Interest rate risk	9,935,002	(1,313,016)	101,785,609	(1,787,740)
Currency risk	5,572,997	(76,599)	6,391,716	(212,586)
Other risks	898,311	(15,865)	1,026,677	(5,833)

Option contracts are contractual arrangements which provide for the buyer, upon payment of a premium to the seller, the right to buy or sell a financial instrument at a fixed price, at a fixed future price or within a predetermined time period. The Bank buys and sells options through a regulated market.

R$ thousand

	Dec 31, 2012		Dec 31, 2011	
	Notional value	**Fair value**	**Notional value**	**Fair value**
Swap contracts				
Asset position	**18,420,272**	**1,106,586**	**13,329,461**	**600,930**
Interest rate risk	9,082,422	325,055	7,751,469	298,820
Currency risk	5,932,540	344,943	3,383,803	170,130
Other risks	3,405,310	436,588	2,194,189	131,980
Liability position	**20,328,318**	**(1,897,834)**	**21,931,593**	**(1,224,927)**
Interest rate risk	8,481,814	(506,968)	8,163,128	(298,433)
Currency risk	8,172,375	(835,881)	10,053,526	(584,089)
Other risks	3,674,129	(554,985)	3,714,939	(342,405)

Swap contracts are contractual arrangements between two parties who agree to exchange payment flows over time based on notional values, related to variations in a specific index which is derived, such as interest rate, foreign exchange rate or equity index.

Interest rate swaps are contracts made by the Bank with other financial institutions in which the Bank receives or pays a variable interest rate in exchange to the receipt or payment, respectively, of a fixed interest rate.

In currency swaps, the Bank pays specific amount of a type of currency and receives a specific amount of other type of currency.

R$ thousand

	Dec 31, 2012		Dec 31, 2011	
	Notional value	**Fair value**	**Notional value**	**Fair value**
Other derivative agreements				
Asset position	**8,251,772**	**60,323**	**1,766,010**	**110,824**
Currency risk	8,251,772	60,323	1,766,010	110,824

Other derivatives contracts are related, essentially, to Non Deliverable Forwards (NDF) which are traded in the over-the-counter (OTC) market and have as their underlying variable an exchange rate of a specific currency.

b) Composition of the portfolio of derivatives for trading by maturity date

R$ thousand

Notional value – asset position	Maturity in days 0-30	31-180	181-360	Above 360	Dec 31, 2012	Dec 31, 2011
Futures contracts	3,407,872	12,442,845	1,708,232	8,270,812	25,829,761	48,657,214
Forward operations agreements	1,001,545	3,014,429	573,431	387,431	4,976,836	4,408,996
Option market	9,587,563	2,098,168	161,630	77,382	11,924,743	128,346,890
Swap contracts	962,469	5,937,386	1,697,423	9,822,994	18,420,272	13,329,461
Other derivative agreements	4,773,010	1,953,419	1,278,306	247,037	8,251,772	1,766,010

R$ thousand

Notional value – liability position	Maturity in days 0-30	31-180	181-360	Above 360	Dec 31, 2012	Dec 31, 2011
Futures contracts	4,751,539	7,955,408	7,789,893	25,818,154	46,314,994	56,534,961
Forward operations agreements	1,359,436	2,140,192	1,273,444	280,778	5,053,850	3,908,174
Option market	10,213,025	3,135,656	643,927	2,413,702	16,406,310	109,204,001
Swap contracts	3,215,540	7,038,503	2,573,543	7,500,732	20,328,318	21,931,593

c) Breakdown of the credit derivatives portfolio

R$ thousand

	Dec 31, 2012		Dec 31, 2011	
	Notional value	Fair value	Notional value	Fair value
Asset position – Transferred risk	**1.563.278**	**6.983**	**1.861.338**	**22.608**
Credit swaps – Derivatives with banks	1.563.278	6.983	1.861.338	22.608
Liability position – Received risk	**354.558**	**(4.303)**	**178.201**	**(18.073)**
Credit swaps – Derivatives with banks	354.558	(4.303)	178.201	(18.073)

d) Portfolio of derivatives designated as fair value hedge

Hedge accounting transactions consist of applying specific rules and accounting procedures to mitigate the volatility arising from the accounting implications of derivatives at fair value through profit or loss. The main purpose of hedge accounting is to record gains and losses from derivatives in the same period that the hedged items affect the entity's accounting results in order to reduce the accounting results volatility arising from the fair value of the derivative. The transactions related to hedge accounting are designated as fair value hedges.

The Bank enters into derivatives in order to reduce its exposure to credit and market risks, according to the Bank's assets and liabilities management. The Bank uses fair value hedges to protect itself from exposures in interest and exchange rate fluctuations of their financial instruments. The Bank uses swaps as hedging instrument (Cross Currency Interest Rate Swap – CCIRS) with the purpose of protecting its external funding against interest rate and foreign exchange fluctuations. The hedges are highly correlated as regards changes in their fair value in relation to the fair value of the hedged item, both at inception and throughout the life of the contract (effectiveness from 80% to 125%).The hedges were deemed as effective, according to the requirements of IAS 39, which prove the effectiveness of the hedge is the range of 80% to 125%.

A substantial portion of the derivatives designated as fair value hedges are accounted for by Banco Votorantim. In order to manage fixed interest rate risks of loans, financing and commercial leasing operations, the Banco Votorantim enters into operations involving derivative financial instruments using highly-liquid instruments traded on the futures market (BM&FBOVESPA). These derivative financial instruments' notional value was R$ 23,738,526 thousand as of December 31, 2012.

In order to manage the variable interest rate risks (Dollar) of export financing, the exchange coupon future contracts (DDI) have been traded at BM&FBOVESPA, according to the due date flow of installments. These derivative instruments' notional value was R$ 1,479,970 thousand as of December 31, 2012.

The Cielo, until obtaining the funds through the issuance of "bonds" in November 2012, designated as "Hedge" of net investments in foreign operations the derivative financial instrument denominated *Non Deliverable Forward* - NDF, the notional amount equivalent to US$ 134.796 thousand, whose amount was considered sufficient to protect investment abroad against foreign exchange fluctuation arising from U.S. dollar.

The derivative acquired by Cielo as a hedging instrument for the value of the investment in Cielo USA, in the amount of US$ 88.971 mil in November 2012, had the objective of protect the value of the Company's investment in subsidiary abroad against positive and negative fluctuations in the exchange rate, consistent with the risk management strategy of the Company. The values of the derivative financial instruments are plus the "gross-up" of income tax and social contribution (rate of 34% as tax legislation in Brazil).

The accumulated result of the operation of derivatives designated as hedging instrument's net investment abroad, net of tax effect, is recorded in equity and has accumulated losses of R$ 2.380 thousand, before taxes, for the year ended December 31, 2012. Cielo, after the capture of funds through the issuance of "bonds" in November 2012 and based in Interpretation No. 16 of IFRS Interpretations Committee - IFRIC, and based on IAS 39, opted to designate as "hedge" for the value of the investment in Cielo in USA in US$ 88.971 thousand, operation "*ten years bonds*", held by the Company in US$ 134.796 thousand. The value of the financial instrument designated, in other words, operation "*ten years bonds*", is increased by the "gross-up" of income tax and social contribution (rate of 34% as tax legislation in Brazil) for analysis of the effectiveness of "hedge accounting".

The application of effectiveness tests described in accounting practices demonstrated the effectiveness of the financial instrument; thus, for the year ended December 31, 2012, there was no ineffectiveness recognized in earnings resulting from the "hedges" of net investment in Cielo USA; consequently, gains or losses on these transactions were fully recorded in equity of the Company.

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Fair value hedge instruments		
Assets	**5.663.119**	**10.776.038**
Future	3.811.931	6.991.760
Swap	1.851.188	2.068.382
Options	-	1.715.896
Liabilities	**23.334.672**	**26.580.744**
Future	21.277.102	24.451.844
Swap	2.057.570	1.195.548
Options	-	933.352
Hedged items		
Assets	**25.125.015**	**22.368.654**
Loans to customers	22.951.419	21.186.999
Financial assets at fair value through profit or loss	2.173.596	222.674
Financial assets available for sale	-	1.530
Foreign Investments	-	360.021
Other assets	-	597.430
Liabilities	**5.014.884**	**4.040.513**
Other liabilities	5.014.884	4.040.513
Net investments foreign operations hedge instruments		
Liabilities	**(275.376)**	**-**
Swap	(275.376)	-
Hedged items of net investments foreign operations		
Assets	**181.760**	**-**
Foreign Investments	181.760	-

During the years 2012, 2011 and 2011 were recognized gains and losses arising from hedge instruments and hedged items which were attributable to the hedged risk according to the following.

R$ thousand

	2012	2011	2010
Losses on hedged items	(2.682.508)	(499.978)	(100.566)
Gains on hedge instruments	2.659.181	550.872	112.370
Net effect	**(23.327)**	**50.894**	**11.804**
Gains on hedged items	2.991.250	589.055	199.621
Losses on hedge instruments	(2.947.269)	(587.577)	(188.104)
Net effect	**43.980**	**1.478**	**11.517**

40 – Financial guarantees and other commitments

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Credit commitments	138,611,766	111,974,517
Guarantees provided	15,927,569	12,604,492
Confirmed export credit	1,634,685	1,037,372
Opened import credit	713,220	505,697

Credit commitments consist of values related to items such as: overdraft protection, revolving credit lines, and other similar items. The open letters of credit (standby) and collateral provided are conditional commitments, generally to guarantee the performance of a customer before a third party in loan contracts.

In financial instruments related to credit, the contractual sum represents the maximum potential of credit risk in the event the counterpart fails to fulfill the terms of the contract. The majority of these commitments mature without being drawn upon. As a result, the total amount is not representative of the effective future exposure to credit risks or liquidity requirements originating from these commitments. To decrease the credit risk, the Bank requires the contracted party to deliver, as collateral, cash resources, securities or other assets to collateralize the credit facility, similar to the collateral required for loans to customers.

Pursuant to standard IAS 37, to support probable losses resulting from the need to pay off obligations resulting from agreements of the nature specified above, the Bank has recorded a provision for estimated probable losses over guarantees and other commitments as of December 31, 2012 in the amount of R$ 144,244 thousand (R$ 115,624 thousand as of December 31, 2011).

41 – Regulatory capital and fixed asset limit

Capital management

Banco do Brasil is subject to the regulations of the Brazilian Central Bank (Bacen), which publishes several rules referring to the monetary, foreign currency and credit policies for financial institutions operating in Brazil. Moreover, the Superintendence of Private Insurance (Susep) issues regulations that affect insurance operations, private pension and capitalization plans.

Additionally, the Bacen establishes the minimum capital requirements, fixed assets limits, the accounting practices and the amount of compulsory deposits required, and also requires banks to comply with rules similar to the Basel Capital Accord with respect to capital adequacy.

The Basel Accord requires banks to present a relationship between the Referential Equity (RE), also known as regulatory capital, and Required Referential Equity (RRE), which corresponds to risk-weighted exposures, of at least 8%.

It is emphasized that, as permitted in Basel Accord, the Bacen has adopted more restrictive parameters on capital adequacy, as follows:

(i) the requirement of the relationship between RE and RRE of at least 11%; and
(ii) certain risk weighting factors assigned to some assets and other exposures.

At Banco do Brasil, the process of adequacy of the RE aims to ensure that the institution maintains a solid capital base to face the activities and risk exposures, whether in normal, either in adverse market conditions, besides comply with the minimum capital requirements set by Bacen.

For the purpose of capital management, the board have, among other tools, the Prudential Basel Index (PBI) and the Capital Forum.

The PBI reflects the Bank’s guideline to maintain the index two points above the minimum regulatory capital requirements (BIS Ratio), in order to support the interest rate risk of operations not included in the trading book and serve as a prudential margin to support other risks not considered in the current capital requirements.

In the Capital Forum, representatives from various departments of the Bank meet monthly with the aim of promoting technical discussions on capital, especially:

(i) behavior analysis of the institution’s capital requirement;
(ii) measurement of the PBI impacts arising from changes in the regulatory environment;
(iii) presenting and discussing the projection of the PBI and the underlying assumptions;
(iv) measurement of the impact on PBI resulting from acquisitions of shares and incorporations of financial institutions, as well as other relevant exposures.

The capital management process is performed under a consolidated basis and, on an individual basis, in each country where it operates, subject to local regulatory requirements. The capital management process of Banco Votorantim is performed by the institution itself.

The Bank measures the minimum capital requirement based on the consolidation of all financial subsidiaries and non-financial companies, including branches and investments abroad in accordance with the rules applied to financial institutions Brazilian.

In general, the allocation of financial resources and capital prioritizes business portfolio with the highest positive impact on the Institution's profitability and shareholder value. The Bank periodically reallocates capital among business portfolios and capital components.

The PBI is determined according to the criteria established by Bacen, not including information relating to the Banco Votorantim. During the semester the Bank met all minimum capital requirements to which it is subject.

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Referential Equity – RE	**107,925,146**	**80,481,841**
Tier 1	76,769,399	60,615,163
Tier 2	36,074,411	24,877,818
Deduction from the RE	(4,918,664)	(5,011,140)
Required Referential Equity – RRE	**80,034,881**	**63,326,079**
Credit risk	76,076,547	59,802,205
Market risk	207,377	90,442
Operational risk	3,750,957	3,433,432
BIS Ratio (RE*100)/(RRE/11%)	14.83%	13.98%
Surplus regulatory capital on the minimum regulatory capital required	27,890,265	17,155,762

The RE capital is the sum of the Tier 1 and Tier 2. The Tier 1 capital generally corresponds to the shareholders' capital, retained earnings, funding instruments eligible as capital and certain reserves. In turn, the Tier 2 capital includes assets revaluation reserves and subordinated debt, being limited to the 50%¨amount of Tier 1.

Referential Equity

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Referencial Equity [(1)]	**107,925,146**	**80,481,841**
Tier 1	**76,769,399**	**60,615,163**
Shareholder's equity	66,069,965	58,416,370
Revaluation reserves	(4,645)	(4,731)
Deferred fixed assets	(110,795)	(164,671)
Fair value adjustments [(2)]	(700,536)	(350,594)
Deferred tax assets excluded from Tier 1 [(3)]	-	(106)
Hybrid capital and debt instruments [(4)]	11,515,410	2,718,895
Tier 2	**36,074,411**	**24,877,818**
Fair value adjustments	700,536	350,594
Hybrid capital instruments[(4)]	2,968,652	-
Subordinated debt eligible as capital [(5)]	32,400,578	24,522,493
Resources taken at Fundo Constitucional do Centro Oeste (FCO)	16,602,973	14,771,005
Resources taken abroad	6,001,028	4,228,367
Resources taken with Certificate of Deposits (CDB)	1,615,433	2,337,638
Resources taken with financial letters	8,181,144	3,185,483
Revaluation reserves	4,645	4,731
RE Deductions	**(4,918,664)**	**(5,011,140)**
Financial instruments [(6)]	(4,918,664)	(5,011,140)

(1) The values for the Reference Equity are presented in the financial statements of the Bank prepared in accordance with the standards applicable to financial institutions in Brazil (BR GAAP).

(2) Refers to non-realized gains / (losses) derived from fair value adjustments of securities classified as “financial assets available for sale” and derivative financial instruments used to hedge of net investment in foreign operations.

(3) Refers to the deferred tax assets recorded in the accounting books until December 20, 2002, including those derived from social contributions on the net profit for periods closed on December 31, 1998, with an expected realization timeframe exceeding five years.

(4) Corresponds to hybrid capital and debt instruments that meet requirements determined by the Bacen and, since authorized, limited to 15% of Tier 1 capital.

(5) Corresponds to the subordinated debt instruments that meet the requirements determined by the Bacen and, since authorized, limited to 50% of Tier 2 capital.

(6) Since July 2, 2007, the balance of assets represented by the following deposit instruments issued by financial institutions and other institutions authorized to operate by the Bacen are deduced from the RE: shares issued by financial institutions, assets classified as hybrid capital and debt instruments and assets classified as subordinated debt instruments.

Subordinated debt eligible as capital

R$ thousand

	Date Funding	Dec 31, 2012 Balance	Dec 31, 2012 Reducer	Dec 31, 2012 RE Composition	Dec 31, 2011 Balance	Dec 31, 2011 Reducer	Dec 31, 2011 RE Composition
Resources from FCO		**16,602,973**	**-**	**16,602,973**	**14,771,005**	**-**	**14,771,005**
Subordinated CDB's issued in the country		**4,711,053**		**1,615,433**	**4,305,067**		**2,337,638**
	03/2009	1,344,943	80%	268,989	1,227,011	60%	490,805
	03/2009	2,000,773	60%	800,309	1,823,569	40%	1,094,141
	11/2009	1,365,337	60%	546,135	1,254,487	40%	752,692
Subordinated financial letters		**9,196,989**		**8,181,144**	**3,429,443**		**3,185,483**
	03/2010	1,331,338	40%	798,803	1,219,800	20%	975,840
	03/2011	1,210,944	20%	968,755	1,107,259	-	1,107,259
	04/2011	401,218	20%	320,975	366,864	-	366,864
	05/2011	15,997	20%	12,798	14,627	-	14,627
	09/2011	788,399	20%	630,720	720,893	-	720,893
	05/2012	537,769	-	537,769	-	-	-
	05/2012	225,565	-	225,565	-	-	-
	05/2012	120,632	-	120,632	-	-	-
	05/2012	37,771	-	37,771	-	-	-
	06/2012	12,564	-	12,564	-	-	-
	06/2012	105,833	-	105,833	-	-	-
	06/2012	528,771	-	528,771	-	-	-
	06/2012	7,615	-	7,615	-	-	-
	06/2012	193,503	-	193,503	-	-	-
	06/2012	333,642	-	333,642	-	-	-
	06/2012	322,795	-	322,795	-	-	-
	06/2012	21,154	-	21,154	-	-	-
	06/2012	54,852	-	54,852	-	-	-
	06/2012	316	-	316	-	-	-
	06/2012	51,846	-	51,846	-	-	-
	06/2012	921,522	-	921,522	-	-	-
	06/2012	720,162	-	720,162	-	-	-
	07/2012	18,324	-	18,324	-	-	-
	07/2012	28,413	-	28,413	-	-	-
	07/2012	42,446	-	42,446	-	-	-
	07/2012	103,998	-	103,998	-	-	-
	07/2012	23,088	-	23,088	-	-	-
	07/2012	10,604	-	10,604			
	09/2012	1,025,908	-	1,025,908	-	-	-
Subordinated debt abroad		**6,470,931**		**6,001,028**	**4,551,846**		**4,228,367**
	09/2004	587,379	80%	117,476	539,132	60%	215,653
	10/2010	1,327,885	-	1,327,885	1,218,815	-	1,218,815
	05/2011	3,043,921	-	3,043,921	2,793,899	-	2,793,899
	06/2012	1,511,746	-	1,511,746		-	-
Total		**36,981,946**		**32,400,578**	**27,057,361**		**24,522,493**

Deductions from the Referential Equity

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Deposit instruments		
Shares issued by financial institutions	4,010,814	3,683,523
Assets classified as subordinated debt instruments	907,850	1,327,617
Total	**4,918,664**	**5,011,140**

Required Referential Equity

From the perspective of Bacen, financial institutions are required to maintain, permanently, capital compatible with the risks of their activities, represented by the Required Referential Equity.

The RRE is the sum of capital requirements for credit, market and operational risks, as follows:

$$RRE = \underbrace{P_{epr}}_{\text{Credit Risk}} + \underbrace{P_{jur} + P_{acs} + P_{com} + P_{cam}}_{\text{Market Risk}} + \underbrace{P_{opr}}_{\text{Operational Risk}}$$

Where:

P_{epr} = portion related to exposures weighted by the relevant risk factor weighting;
P_{jur} = portion related to risk from operations subject to interest rates variations;
P_{acs} = portion related to risk from operations subject to stock price variations;
P_{com} = portion related to risk from operations subject to commodity price variations;
P_{cam} = portion related to risk from exposures to gold, foreign currency and in operations subject to foreign exchange variations; and
P_{opr} = portion related to operational risk.

Required Referential Equity

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Credit risk [1]	**76,076,547**	**59,802,205**
Loans to customers	47,823,190	35,537,834
Others assets (gold, advances to Fundo Garantidor de Crédito and others advances)	9,666,757	8,206,613
Financial instruments and derivatives	3,583,842	3,762,155
Credit commitments	2,041,823	1,775,171
Property and equipment	3,009,466	2,951,064
Others	9,951,469	7,569,368
Market risk [2]	**207,377**	**90,442**
Interest rates	202,715	83,522
Commodities	4,055	6,237
Stocks	607	683
Operational Risk [3]	**3,750,957**	**3,433,432**
Corporate finance	8,980	52,442
Trading and sales	1,116,061	980,964
Retail	627,908	544,481
Commercial	1,066,246	954,694
Payments and settlements	450,454	434,220
Financial agent services	102,293	91,109
Asset management	121,684	115,543
Retail brokerage	4,227	4,261
Non-financial companies and Banco Votorantim [4]	253,104	255,718
Required Referential Equity	**80,034,881**	**63,326,079**

(1) Simplified standardized approach;
(2) Standardized approach;
(3) Alternative standardized approach;
(4) Additional equity.

Fixed asset ratio and surplus capital

	Dec 31, 2012	Dec 31, 2011
Fixed asset ratio	21.64%	22.11%
Surplus capital in relation to the fixed asset ratio (R$ thousand)	30,604,958	22,445,587

As defined by the Brazilian Central Bank, the fixed asset ratio indicates the percentage of compromise of the Referential Equity with fixed assets. Since December 2002, the maximum rate allowed is 50%.

The surplus capital refers to the difference between the limit of 50% of the Referential Equity and total fixed assets.

Capital requirements management in Banco Votorantim

Information about regulatory capital shall be measured separately by Banco Votorantim and monitored by Banco do Brasil, in compliance with the Bacen requirements.

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Referential Equity – RE	**12,110,639**	**12,054,180**
Tier 1	7,874,507	8,086,351
Tier 2	4,236,132	3,967,829
Required Referential Equity – RRE	**9,315,088**	**9,385,714**
Credit risk (1)	8,720,810	8,923,661
Market risk (2)	294,179	193,114
Operational risk (3)	300,099	268,939
BIS Ratio	14.3%	14.2%
Surplus regulatory capital on the minimum regulatory capital required	2,795,551	2,668,466

(1) Simplified standardized approach;
(2) Standardized approach;
(3) Alternative standardized approach.

42 – Employee benefits

Banco do Brasil sponsors the following private pension and complementary health plan entities that provide for complementation of retirement and healthcare benefits for its employees:

	Plans	Benefits	Classification
Previ – Caixa de Previdência dos Funcionários do Banco do Brasil	Previ Futuro	Retirement and Pension	Defined contribution
	Plano de Benefícios 1	Retirement and Pension	Defined benefit
	Plano Informal	Retirement and Pension	Defined benefit
Cassi – Caixa de Assistência dos Funcionários do Banco do Brasil	Plano de Associados	Health Care	Defined benefit
Economus – Instituto de Seguridade Social	Prevmais	Retirement and Pension	Defined contribution
	Regulamento Geral	Retirement and Pension	Defined benefit
	Regulamento Complementar 1	Retirement and Pension	Defined benefit
	Grupo B'	Retirement and Pension	Defined benefit
	Plano Unificado de Saúde – PLUS	Health Care	Defined benefit
	Plano Unificado de Saúde – PLUS II	Health Care	Defined benefit
	Plano de Assistência Médica Complementar - PAMC	Health Care	Defined benefit
Fusesc – Fundação Codesc de Seguridade Social	Multifuturo I	Retirement and Pension	Defined contribution
	Plano de Benefícios 1	Retirement and Pension	Defined benefit
SIM – Caixa de Assistência dos Empregados dos Sistemas Besc e Codesc, do Badesc e da Fusesc	Plano de Saúde	Health Care	Defined contribution
Prevbep – Caixa de Previdência Social	Plano BEP	Retirement and Pension	Defined benefit

Number of participants covered by benefit plans sponsored by the Bank

	2012			2011		
	# of participants			# of participants		
	Actives	Retired/Users	Total	Actives	Retired/Users	Total
Retirement and Pension Plans	**116,867**	**101,994**	**218,861**	**115,842**	**106,149**	**221,991**
Plano de Benefícios 1 – Previ	28,826	84,964	113,790	30,659	83,825	114,484
Plano Previ Futuro	70,609	544	71,153	67,507	443	67,950
Plano Informal	--	4,182	4,182	--	7,649	7,649
Other plans	17,432	12,304	29,736	17,676	14,232	31,908
Health Care Plans	**118,534**	**94,253**	**212,787**	**117,376**	**92,481**	**209,857**
Cassi	104,824	84,867	189,691	103,293	83,202	186,495
Other plans	13,710	9,386	23,096	14,083	9,279	23,362

Bank's contributions to benefit plans

R$ thousand

	2012	2011
Retirement and pension plans	**2,243,701**	**1,164,046**
Plano de Benefícios 1 – Previ (1)	1,521,578	495,401
Plano Previ Futuro	299,276	240,647
Plano Informal	297,589	297,618
Other plans	125,258	130,380
Health care plans	**927,960**	**894,943**
Cassi	817,542	799,390
Other plans	110,418	95,553
Total	**3,171,661**	**2,058,989**

(1) Refers to the contributions from participants comprised by Agreement 97 and Plan 1, considering that these contributions occurred respectively by the realization of the Parity Fund (Note 42.e.1) and the Contribution Fund (Note 42.e.3). The Agreement 97 aims to regulate the way funding is required to achieve a portion equivalent to 53.7% of guarantee amount concerning the payment of supplement retirement due to the participants who joined the Bank up to April 14, 1967 and who have retired or will retire after the aforementioned date, except for those participants who are part of the Plano Informal.

The Bank's contributions to benefit plans during the 1st half 2013 are estimated in R$ 1,804,873 thousand.

Values recognized in income

			R$ thousand
	2012	**2011**	**2010**
Retirement and pension plans	**1,453,449**	**2,327,438**	**3,532,137**
Plano de Benefícios 1 – Previ	1,355,234	2,981,314	4,299,199
Plano Previ Futuro	(299,276)	(240,647)	(184,045)
Plano Informal	463,240	(244,809)	(522,033)
Other plans	(65,749)	(168,420)	(60,984)
Health care plans	**(1,302,529)**	**(1,132,022)**	**(954,904)**
Cassi	(1,151,709)	(998,483)	(892,045)
Other plans	(150,820)	(133,539)	(62,859)
Total	**150,920**	1,195,416	**2,577,233**

a) Retirement and pension plans

Previ Futuro (Previ)

Participants in this plan are the Bank's employees hired as from December 24, 1997. The active participants contribute to Previ an amount between 7% and 17% of their contribution salary, which varies based on time of service and the amount of the contribution salary. There is no contribution for retired participants. The sponsor contributes an amount equal to the contributions of the participants, limited to 14% of the total contribution payroll of these participants.

Plano de Benefícios 1 (Previ)

The participants of this plan are the Bank's employees who were enrolled up to December 23, 1997. Due to the establishment of parity between the Bank's and participants' contributions, in December 2000, a parity fund was set up, and its resources are being used for the purpose of offsetting contributions to the plan. Due to the accumulated surplus, the contributions of participants, beneficiaries (retirees and pensioners) and of the sponsor (Banco do Brasil) were suspended, since January 2007. According to the Memorandum of Understanding signed between the Bank, Previ and entities representing the beneficiaries, it was proposed to amend the Rules of the Plan 1, which includes the suspension of contributions for the years 2011, 2012 and 2013, being linked to its continued existence of the Reserve Special plan.

Plano Informal (Previ)

This plan is the sole responsibility of Banco do Brasil whose contractual obligations include (a) retirement pensions to founder participants and pension payments to beneficiaries of participants deceased up to April 14, 1967; (b) payment of retirement supplements to the other participants employed by Banco do Brasil that retired up to April 14, 1967 or who, on that date, would have the right through length of service to retire and who had at least 20 years of effective service with the Bank; and (c) increase in the amount of retirement benefits and of pensions in addition to that provided for in the benefit plan of Previ, resulting from judicial decisions and from administrative decisions on account of restructuring of the job and salary plan and of incentives created by the Bank.

Prevmais (Economus)

The participants of this plan are the employees from Banco Nossa Caixa (merged into Banco do Brasil on November 30, 2009) enrolled after August 1, 2006, and the participants previously linked to the Regulamento Geral benefit plan who opted for the distribution of their vested account balances. The funding for income benefits is equally provided by employees and employer, not exceeding 8% of the participants' salary. The plan also provides risk benefits, such as complementation of sickness aid, work – related accident, disability benefits and death pension.

Regulamento Geral (Economus)

The participants of this plan are the employees from Banco Nossa Caixa enrolled up to July 31, 2006. The plan is closed to new applicants. Employees and the sponsor contribute equally, on average, with 12.11% of participation salary.

Regulamento Complementar 1 (Economus)

The participants of this plan are the officials from Banco Nossa Caixa. This plan offers the benefits of supplemental sickness benefit and annuity for death and disability. The cost of the plan is the responsibility of the sponsor, participants and assisted.

Grupo B' (Economus)

The employees from Banco Nossa Caixa admitted between January 22, 1974 to May 13, 1974 and their beneficiaries participate in this plan. This plan is closed to new members. The level of benefit to be granted when the implementation of all the conditions laid down in regulation is known a *priori*.

Multifuturo I (Fusesc)

The participants of this plan are the employees from Banco do Estado de Santa Catarina - Besc (merged into Banco do Brasil on September 30, 2008) enrolled after January 12, 2003 and the employees previously linked to Fusesc's Benefit Plan 1 who opted for this plan. Employees and sponsor equally contribute from 2.33% to 7% of participation salary to that plan, as determined by each participant.

Plano de Benefícios 1 (Fusesc)

The participants of this plan are the employees from Besc enrolled until January 11, 2003. The plan is closed to new applicants. Employees and the sponsor contribute equally, on average, with 9.89% of participation salary.

Plano BEP (Prevbep)

Participants of this plan are the employees from Banco do Estado do Piauí – BEP (merged in to Banco do Brasil on November 30, 2008). Employees and the sponsor contribute equally, on average, with 3.58% of participation salary.

b) Health care plans

Plano de Associados (Cassi)

The Bank is the sponsor of a health plan managed by Cassi which the main objective is to provide coverage for expenses related to the promotion, protection, recovery and rehabilitation of a member's health and of his/her enrolled beneficiaries. Each month, the Bank contributes with a sum equivalent to 4.5% of the total payroll or of the total retirement or pension plan benefit. Monthly contributions from members and pension beneficiaries amount to 3% of the total payroll or the total retirement or pension plan benefits and co-participation in some hospital procedures.

Plano Unificado de Saúde − PLUS (Economus)

The participants of this plan are the employees from Banco Nossa Caixa. Participation in this plan takes place by means of a 1.5% contribution of gross salary, without limitation, covering the owner and his/her preferred dependants, deducted from the owner's payroll and 10% as a co-participation in the price of each medical visit and low-cost exams, made by the owner and his/her dependants (preferred and non-preferred).

Plano Unificado de Saúde − PLUS II (Economus)

The participations of this plan are the employees from Banco Nossa Caixa. Participation in this plan takes place by means of a 1.5% contribution of gross salary, without limitation, covering the owner and his/her preferred dependants, deducted from the owner's payroll and 10% as a co-participation in the price of each medical visit and low-cost exams, made by the owner and his/her preferred dependants and children of age. The plan does not provide for non-preferred dependants.

Plano de Assistência Médica Complementar − PAMC (Economus)

The participants of this plan are the employees from Banco Nossa Caixa stationed in the State of São Paulo. The plan owners are those employees retired due to disability in Groups "B" and "C", and their dependants, who participate in costs in as much as they use it, and according to the salary range progressive table.

Plano de Saúde (SIM)

The participants of this plan are the employees from Besc. Monthly contributions from members amount to 3% of the total payroll.

c) Actuarial valuations

The actuarial valuations are prepared every six months and the information contained in the tables below refers to those carried out on the base dates of December 31, 2012 and December 31, 2011.

Changes in present value of defined benefit actuarial obligations

R$ thousand

	Plano 1 – Previ		Plano Informal – Previ		Plano de Associados – Cassi		Other plans	
	2012	2011	2012	2011	2012	2011	2012	2011
Initial Balance	**(98,849,541)**	**(90,805,477)**	**(1,905,370)**	**(1,994,759)**	**(6,046,932)**	**(5,297,173)**	**(5,622,610)**	**(5,189,411)**
Interest cost	(10,235,720)	(9,798,080)	(177,875)	(204,672)	(625,078)	(577,040)	(573,868)	(540,832)
Current service cost	(514,081)	(517,332)	-	-	(95,589)	(84,607)	(38,113)	(49,031)
Benefits paid net contributions retirees	7,502,104	6,718,424	297,318	297,618	487,418	503,816	403,496	371,864
Liabilities transferred from other plans	-	-	-	-	-	-	-	(6,576)
Reductions / Settlements	-	-	1,217,263	-	-	-	130,640	-
Actuarial loss on actuarial obligation	(26,316,202)	(4,447,076)	(522,353)	(3,557)	(1,437,674)	(591,928)	(1,249,223)	(208,624)
Closing Balance	**(128,413,440)**	**(98,849,541)**	**(1,091,017)**	**(1,905,370)**	**(7,717,855)**	**(6,046,932)**	**(6,949,678)**	**(5,622,610)**
Present value of actuarial liabilities with surplus	(128,413,440)	(98,849,541)	-	-	-	-	(4,921,429)	(4,477,749)
Present value of actuarial liabilities without surplus	-	-	(1,091,017)	(1,905,370)	(7,717,855)	(6,046,932)	(2,028,249)	(1,144,861)

(1) In Plano Informal, it refers mainly to the migration of Grupo Especial to Plano de Benefícios 1 – Previ. (Notes 42.e and 42.f)

(2) The actuarial loss in 2012 is due mainly to the decrease in the discount rate, that was 10.56% p.a. on 12.31.2011 and 8.71% p.a. on 12.31.2012.

Changes in fair value of plan assets

R$ thousand

	Plano 1 – Previ		Plano Informal – Previ		Plano de Associados – Cassi		Other plans	
	2012	2011	2012	2011	2012	2011	2012	2011
Initial Balance	**133,079,396**	**141,566,322**	**-**	**-**	**-**	**-**	**4,477,749**	**4,339,122**
Estimated yield on plan assets	13,460,271	14,934,610	-	-	-	-	474,934	478,661
Contributions received	1,521,818	495,904	297,318	297,618	487,418	503,816	157,399	155,699
Benefits paid net contributions retirees	(7,502,104)	(6,718,424)	(297,318)	(297,618)	(487,418)	(503,816)	(403,496)	(371,864)
Equity transfer	-	-	-	-	-	-	-	6,576
Gain / (loss) on actuarial plan assets	11,469,755	(17,199,016)	-	-	-	-	214,843	(130,445)
Closing Balance	**152,029,136**	**133,079,396**	**-**	**-**	**-**	**-**	**4,921,429**	**4,477,749**

Amounts recognized in the balance sheet

R$ thousand

	Plano 1 – Previ		Plano Informal – Previ		Plano de Associados – Cassi		Other plans	
	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012	Dec 31, 2012
1) Fair value of the plan assets	152,029,136	133,079,396	-	-	-	-	4,921,429	4,477,749
2) Present value of actuarial liabilities	(128,413,440)	(98,849,541)	(1,091,017)	(1,905,370)	(7,717,855)	(6,046,932)	(6,949,678)	(5,622,610)
3) Surplus/(deficit) (1+2)	23,615,696	34,229,855	(1,091,017)	(1,905,370)	(7,717,855)	(6,046,932)	(2,028,249)	(1,144,861)
4) Surplus/(deficit) − quota sponsor	11,807,848	17,114,928	(1,091,017)	(1,905,370)	(7,717,855)	(6,046,932)	(1,287,286)	(863,246)
5) Unrecognized actuarial gains/(losses)	(4,441,209)	3,742,924	(109,101)	(162,896)	(2,577,272)	(1,240,517)	(695,413)	(270,228)
6) Net actuarial (liability)/asset (4-5)[1]	**16,249,057**	**13,372,004**	**(981,916)**	**(1,742,474)**	**(5,140,583)**	**(4,806,415)**	**(591,873)**	**(593,018)**

(1) The actuarial assets recorded in other assets (Note 27) will be realized before the end of the plan. The end of the plan is understood as the date in which the last commitment will be paid.

The actuarial assets recorded in other assets will be realized before the end of the plan. The end of the plan is defined as the date in which the last commitment will be paid.

Amounts recognized in statement of income relating to defined benefit plans

R$ thousand

	Plano 1 – Previ			Plano Informal – Previ			Plano de Associados – Cassi			Other plans		
	2012	2011	2010	2012	2011	2010	2012	2011	2010	2012	2011	2010
Cost of current service	(257,040)	(258,666)	(223,772)	-	-	-	(95,589)	(84,608)	(70,937)	(13,653)	(24,592)	(20,985)
Contributions from participants	-	-	-	-	-	-	-	-	-	-	-	(4,366)
Interest cost	(5,117,860)	(4,899,040)	(4,217,378)	(177,875)	(204,672)	(202,866)	(625,078)	(577,041)	(542,750)	(91,889)	(298,536)	(283,195)
Expected earnings on the plan's assets	6,730,134	7,467,305	6,981,848	-	-	-	-	-	-	-	238,942	268,359
Amortization of net actuarial gains/(losses)	-	671,715	1,758,501	(259,387)	(40,137)	(319,167)	(91,006)	(31,347)	(2,307)	(106,314)	(77,356)	(17,055)
Unrecognized past service cost	-	-	-	-	-	-	(9,912)	(9,913)	(9,913)	-	-	-
Expense with active employees	-	-	-	-	-	-	(330,124)	(295,574)	(208,894)	(131,300)	-	-
Expenses with extraordinary contribution	-	-	-	-	-	-	-	-	(57,244)	-	-	-
Effect of liability/asset not recognized	-	-	-	-	-	-	-	-	-	-	(92)	(30,995)
Other adjustments	-	-	-	900,502	-	-	-	-	-	126,587	(134)	-
(Expense)/income recognized in statement of income	**1,355,234**	**2,981,314**	**4,299,199**	**463,240**	**(244,809)**	**(522,033)**	**(1,151,709)**	**(998,483)**	**(892,045)**	**(216,569)**	**(161,768)**	**(88,237)**

Composition of the plan assets, shown as a percentage of total

	Plano 1 - Previ		Plano Informal - Previ		Plano de Associados - Cassi		Other plans	
	2012	2011	2012	2011	2012	2011	2012	2011
Fixed revenue	31.5%	30.2%	-	-	-	-	88.9%	90.9%
Floating revenue	59.6%	62.2%	-	-	-	-	6.4%	4.3%
Real estate investments	5.2%	4.0%	-	-	-	-	2.1%	1.8%
Loans and financing	3.3%	3.2%	-	-	-	-	2.0%	1.8%
Others	0.4%	0.4%	-	-	-	-	0.6%	1.2%
Amounts listed in fair value of plan assets								
In their own financial instruments of the entity	8.1%	5.5%	-	-	-	-	-	-
In properties or other assets used by the entity	0.1%	0.1%	-	-	-	-	-	0.1%

Comparative table showing expected and actual return from plan assets

	Plano 1 – Previ		Plano Informal – Previ		Plano de Associados – Cassi		Other plans	
	2012	2011	2012	2011	2012	2011	2012	2011
Expected yield nominal rate on plan assets	10.56% a.a	10.96% a.a.	-	-	-	-	10.56% a.a	10.96% a.a.
Expected yield on assets for the period (R$ thousand) (1)	13,460,271	14,934,610	-	-	-	-	474,934	478,661
Effective yield (R$ thousand)	24,930,026	(2,264,406)	-	-	-	-	689,777	354,792

(1) 12.31.2011 to 12.31.2012 – Real rate 6.10% p.a. and Inflation rate 4.20% p.a.
12.31.2010 to 12.31.2011 – Real rate 6.30% p.a. and Inflation rate 4.38% p.a.

(2) Considers the effects of floating income investments.

Main actuarial assumptions adopted in each period

	Plano 1 – Previ		Plano Informal – Previ		Plano de Associados – Cassi		Other plans[1]	
	2012	2011	2012	2011	2012	2011	2012	2011
Inflation rate (p.a.)	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%	4.20%
Real discount rate (p.a.)	4.33%	6.10%	4.33%	6.10%	4.33%	6.10%	4.33%	6.10%
Nominal return rate of investments (p.a.)	8.71%	10.56%	-	-	-	-	8.71%	10.56%
Real rate of future salary growth (p.a.)	0.14%	-	-	-	-	-	0.52%	0.65%
Average remaining work period (years)	1.92	2.35	-	-	14.24	14.12	6.18	6.73
Table actuarial survival[2]	AT-83		AT-83		AT-83		AT-83	
Capitalization regime	Projected credit unit		Projected credit unit		Projected credit unit		Projected credit unit	

(1) Grouped actuarial assumptions are expressed as weighted averages.

(2) Prevmais, Multifuturo I and Plano de Benefícios 1 (Fusesc) plans used the AT-2000.

Actuarial amounts for the current period and for the last three years

R$ thousand

	Dec 31, 2012	Dec 31, 2011	Dec 31, 2010	Dec 31, 2009
Plano 1 (Previ) – Surplus/(deficit)	**23,615,696**	**34,229,855**	**50,760,845**	**57,543,364**
Defined benefit obligation	(128,413,440)	(98,849,541)	(90,805,477)	(80,270,786)
Plan assets	152,029,136	133,079,396	141,566,322	137,814,150
Experience adjustment on the plan liabilities (p.a.)	(20.5%)	(2.6%)	(8.4%)	(3.6%)
Experience adjustment on plan assets (p.a.)	7.5%	(6.9%)	16.7%	20.8%
Plano Informal (Previ) – Surplus/(deficit)	**(1,091,017)**	**(1,905,370)**	**(1,994,759)**	**(1,743,386)**
Defined benefit obligation	(1,091,017)	(1,905,370)	(1,994,759)	(1,743,386)
Experience adjustment on the plan liabilities (p.a.)	(22.6%)	(2.2%)	(3.7%)	(6.1%)
Plano de Associados (Cassi) – Surplus/(deficit)	**(7,717,855)**	**(6,046,932)**	**(5,297,172)**	**(4,943,220)**
Defined benefit obligation	(7,717,855)	(6,046,932)	(5,297,172)	(4,943,220)
Experience adjustment on the plan liabilities (p.a.)	(14.8%)	(5.3%)	(2.9%)	(0.3%)
Other plans – Surplus/(deficit)	**(2,028,249)**	**(1,144,861)**	**(850,289)**	**(489,570)**
Defined benefit obligation	(6,949,678)	(5,622,610)	(5,189,411)	(4,432,673)
Plan assets	4,921,429	4,477,749	4,339,122	3,943,103
Actuarial gain / (loss) on actuarial obligation	(1,249,223)	(208,624)	(515,228)	(802,924)
Actuarial gain / (loss) on plan assets	214,843	(130,445)	52,660	(118,451)
Experience adjustment on the plan liabilities (p.a.)	(13.3%)	(4.7%)	(6.9%)	(17.6%)
Experience adjustment on plan assets (p.a.)	2.0%	(2.5%)	(0.5%)	(3.2%)

d) Overview of actuarial asset/(liability) recorded by the Bank

R$ thousand

	Actuarial assets		Actuarial liabilities	
	Dec 31, 2012	Dec 31, 2011	Dec 31, 2012	Dec 31, 2011
Plano 1 (Previ)	16,249,057	13,372,004	-	-
Plano Informal (Previ)	-	-	(981,916)	(1,742,474)
Plano de Associados (Cassi)	-	-	(5,140,583)	(4,806,415)
Regulamento Geral (Economus)	-	-	(115,616)	(163,932)
Regulamento Complementar 1 (Economus)	-	-	(2,299)	-
Plus I e II (Economus)	-	-	(352,724)	(313,822)
Grupo B' (Economus)	-	-	(121,234)	(115,264)
Total	**16,249,057**	**13,372,004**	**(6,714,372)**	**(7,141,907)**

e) Allocations of the surplus – Plano 1

	2012	2011
Fundo Paridade		
Initial balance	**1,608,379**	**1,524,374**
Restatement	183,275	167,125
Contributions to the Plano 1 – Contract 97[1]	(37,257)	(83,120)
Contribuição amortizante antecipada – Grupo Especial [2]	(1,013,754)	
Closing balance	**740,643**	**1,608,379**
Fundo de Destinação		
Initial balance	**3,684,325**	**7,594,993**
Restatement	331,001	489,911
Transfers to Fundo de Contribuição and Fundo de Utilização	(1,641,801)	(4,400,579)
Closing balance	**2,373,525**	**3,684,325**
Fundo de Contribuição		
Initial balance	**1,096,433**	**-**
Constitution [3]	-	1,398,467
Restatement	100,619	110,247
Contributions to the Plano 1	(470,415)	(412,281)
Closing balance	**726,637**	**1,096,433**
Fundo de Utilização		
Initial balance	**3,249,250**	**-**
Constitution [3]	1,641,801	3,002,112
Restatement	466,861	247,138
Closing balance	**5,357,912**	**3,249,250**

(1) Includes the positive amount of R$ 185 thousand in the 2nd half (R$ 392 thousand in 2012 and R$ 503 thousand in 2011) related to partial reversals for adjustments in prior periods.

(2) Refers to the payment of 100% of mathematical reserves guarantors of additional supplemental retirement of the Special Group.

(3) Funds setted up in the first half 2011.

e.1) Fundo Paridade

The plan was funded, up to December 15, 2000, through a contribution of 2/3 (two thirds) from the Bank and another of 1/3 (one third) from participants. As from December 16, 2000, in order to adjust to the provisions of Constitutional Amendment 20, both the Bank and the participants started to make a contribution of 1/2 (one half), and an agreement was signed by the parties involved and duly approved by the Supplementary Pension Plan Secretariat.

The cost for the implementation of the equal contributions was defrayed by using the Plan's surplus at the time. As a result of this Agreement, the Bank, yet, was entitled to recognize the amount of R$ 2,227,254 thousand, which was recorded in other assets. This Asset is monthly adjusted based on the actuarial goal (INPC + 5% per year) and, since January 2007, has been used to offset any financial imbalance in the ratio between the Unamortized Reserve and Advanced Amortization arising from the agreement entered into with Previ in 1997, which granted supplementary benefits to the participants of Plano 1 who joined the Plan up to April 14, 1967 and had not retired up to that date.

e.2) Fundo de Destinação

On November 24, 2010, Banco do Brasil signed a Memorandum of Understanding with the entities that represent current and retired employees, the aim of which was to allocate and use a share of the Plan's surplus, as determined by Supplementary Law 109/2001 and CGPC Resolution 26/2008.

In view of the approval of the measures provided for in the Memorandum of Understanding by Previ's Decision-Making Council, the Bank recorded, as of November 30, 2010, under other assets, the amount of R$ 7,519,058 thousand against the write-off of the amount from "other assets − actuarial assets", adjusted by the actuarial target (INPC + 5% p.a.).

e.3) Fundo de Contribuição

The fund is composed by resources transferred from the Fundo de Destinação to support the interruption of contribution payments for a period of three exercises, as established in the Memorandum of Understanding. The amount related to the Bank's contributions is transferred to Previ, in a monthly basis. The Fundo de Contribuição is updated by an actuarial goal (INPC + 5% p.a.).

e.4) Fundo de Utilização

The fund is composed by resources transferred from the Fundo de Destinação and it can be used by the Bank after fulfilling the requirements established by applicable law. The Fundo de Utilização is updated by an actuarial goal (INPC + 5% p.a.).

f) Effects, in Plano Informal, of the migration of Grupo Especial from Plano Informal to Plano de Benefícios 1 – Previ:

R$ mil

	Before reduction	Gain with reduction	After reduction
Net present value of obligation	2,090,104	(999,087)	1,091,017
Fair value of plan assets	-	-	-
Subtotal	**2,090,104**	**(999,087)**	**1,091,017**
Non recognized actuarial gain / (loss)	(403,550)	294,449	(109,101)
Net liability recognized in the balance sheet	**1,686,554**	**(704,638)**	**981,916**

43 – Risk Management

a) Risk governance

Risk management in Banco do Brasil covers credit, market, liquidity and operational risks. Management activities are performed by specific and specialized structures, according to objectives, policies, strategies, processes and systems described in each one of these risks.

The risk governance framework of the Bank involves a structure of committee and subcommittees, with involvement of several areas of the Institution, covering the following aspects:

(i) segregation of duties: business *versus* risk;
(ii) specific structure for risk management;
(iii) defined management process;
(iv) decisions at several hierarchical levels;
(v) clear rules and approval levels structure; and
(vi) reference to best management practices.

All decisions related to risk management are taken on a collegiate basis and in accordance with the internal guidelines and rules of Banco do Brasil.

The risk governance of Banco do Brasil, including the bank and its subsidiaries, is focused in the Global Risk Committee (CRG), which consists of the following permanent voting members of the Board of Directors:

(i) President of the Bank;
(ii) Vice President of Financial and Investor Relations;
(iii) Vice President of Wholesale, International Business and Private Banking;
(iv) Vice President of Retail, Distribution and Operations;
(v) Vice President of Internal Controls and Risk Management;
(vi) Vice President of Human Resources Management and Sustainable Development.

The main competencies of CRG are:

(i) establish strategy for market, liquidity, credit and operational risk management;
(ii) establish the exposure global limits for risks;
(iii) decide on minimum liquidity reserves and liquidity contingency plan; and

(iv) approve the capital allocation depending on the risks.

The CRG meets ordinarily once a month, and extraordinarily, when convoked by the coordinator, at the request of any one of its members, for subjects that require an urgent decision, observing the quorum and administrative convenience.

In order to provide agility to the management process, the bank created the Subcommittees of Credit Risk (SCR), of Market and Liquidity Risk (SMLR) and of Operational Risk (SOR), which decide and/or instrumentalize the CRG, with decision-making power by delegation.

Amongst the competencies of the SCR, stand out:

(i) decide on credit risk management models, observing the strategies approved in the CRG;
(ii) decide on the implementation of actions that improve the credit portfolio management;
(iii) establish credit portfolio risk indicators and respective goals, contingency plans concerning credit risk management, among others; and
(v) send the CRG proposals regarding subjects related to credit risk.

Amongst the competencies of the SMLR, stand out:

(i) decide on models for market and liquidity risk management, observing the strategies approved in the CRG;
(ii) establish specific of market risk exposure limits;
(iii) analyze and propose to CRG the market risk exposure global limits;
(iv) analyze and propose to CRG the capital allocation for market risk coverage;
(v) propose to CRG the minimum reserve and liquidity risk global limits;
(vi) propose to CRG the liquidity contingency plans; and
(vii) evaluate the backtesting results and adopt, when necessary, corrective measures in market and liquidity risk management models.

Amongst the competencies of the SOR, stand out:

(i) decide on operational risk management models, observing the strategies approved in the CRG;
(ii) decide on the establishment of key risk indicators and respective levels of tolerance, warning and criticism;
(iii) approve specific operational risk exposure limits;
(iv) approve contingency plans concerning operational risk management;
(v) define mitigation actions for losses and key risk indicators in the critical ranges;
(vi) monitor and evaluate the actions implemented for the management of operational risk associated with relevant outsourced services for the Bank's regular operation; and
(vii) propose operational risk exposure global limits.

The subcommittees meet ordinarily once a month, and extraordinarily, when convoked by the coordinator, or at the request of any one of its members, for subjects that require an critical decision, observing the quorum and administrative convenience.

As regards the reporting mechanisms of the risks exposure levels to senior management, special emphasis is placed on the Risks Panel, prepared and reported monthly to the risk subcommittees and to the CRG.

The Risk Management Unit (DIRIS), linked to the Vice-Presidency of Internal Controls and Risk Management (VICRI), is responsible for the management of market, liquidity, operational and credit risks, This integration promotes synergy of processes and specialization, contributing to better capital allocation, and adhering to the New Basel Agreement.

In the risk management process, decisions are communicated to the intervening areas by means of resolutions that objectively express Management view, providing application at all levels of the Bank.

b) Risk management process

Banco do Brasil considers risk management one of the main vectors for the decision-making process.

The risk management process involves a continuous flow of information, observing the following phases:

Preparation

Refers to data collection and analysis, Actions for handling the risks are analyzed and proposed in this stage for discussion and approval in the subcommittees and, if necessary, for subsequent discussion and resolution in GRC.

Decision

Decisions are taken jointly at the competent levels and are communicated to the intervening areas.

Execution

The intervening areas apply the decisions made.

Monitoring/Management

It is the control of the fulfillment of resolutions and their impacts on the Bank by DIRIS, communicating the status of these actions to the competent forum (subcommittee or GRC), Control over these decisions and reporting to the sub-committees/GRC assist in improving the management process.

c) Market risk

Market risk reflects the possibility of loss that can be caused by changes in the behavior of interest rates, foreign exchange rates, equity prices and commodity prices.

Policies

The market risk and the use of derivative financial instruments policies, approved by the Board of Directors, are part of the strategic documentation regarding the Bank's market risk management.

These documents establish guidelines to be complied with in the Company's business decisions, They involve market risk assessment, dealing with quantitative aspects, such as metrics used, and also qualitative aspects such as the hedging policy, scope of management, and segregation of functions.

Within the sphere of the market risk management policies and strategies of Banco do Brasil, a general principle adopted is that the management model is intended to identify, assess, monitor and control exposures to the risks of its own positions.

As regards the use of financial derivative instruments, the Bank stipulates, among its policies and strategies, the performance of operations to satisfy the needs of its clients and for the management of its own positions, considering the various risk categories and adopting a consolidated view of the different risk factors.

It is also emphasized that trading with derivative financial instruments is dependent upon prior evaluation of the nature and the dimension of the risks involved.

Regarding the hedging policies adopted for market risk management, the objectives to be achieved with the hedging operations are defined in a consolidated manner for the whole Bank, guaranteeing the individual effectiveness of each operation, and complying with local regulations, in the case of overseas branches.

Risk measuring systems and communication and information processes

The market risk measuring process makes use of corporate systems and of the Riskwatch application, developed by the Canadian company Algorithmics, The infrastructure of information technology associated with this process is installed in environments located in Brasília (DF) and in Rio de Janeiro (RJ).

The main objectives of the Riskwatch application are to:

(i) consolidate management information of the Bank, ascertaining and providing information for market and liquidity risk management and for assets and liabilities management; and
(ii) provide market and liquidity risk measurements (products/cash flows by currency and index), as well as assets and liabilities management.

Riskwatch functions that merit special emphasis are:

(i) calculate market risk indicators, such as Value-at-Risk (parametric and nonparametric), duration, yield, etc;
(ii) elaborate cash flow reports, either consolidated or by product, marked to market or nominal;
(iii) determine the portfolio sensitivity to the fluctuations in national and international interest rates;
(iv) calculate the theoretical result of portfolios after the application of historical and stress scenarios;and
(v) elaborate reports on the mismatching of maturities, rates, indexes and currencies.

In the Bank, proprietary positions are segregated in trading portfolio and nontrading portfolio, Through a resolution issued by the GRC, a policy is stipulated for classification of transactions in the trading portfolio, This document defines that in the sphere of Banco do Brasil, its subsidiaries and controlled companies, operations with own positions carried out with the intention of trading or to hedge the trading portfolio, for which there is the intention of trading them prior to their contractual period, observing normal market conditions, and in cases where they are not nonnegotiable, are classified in the trading portfolio.

Transactions with proprietary positions not classified in the trading portfolio are considered components of the nontrading portfolio, The proprietary positions held by companies that are not part of the Bank are not subject to classification in the trading portfolio.

For the market risk management process, the Bank makes use of a structure of management groups and books, both for the domestic area and for the international area, with specific objectives and limits of exposure to risks.

As regards the limits of exposure to market risks, the GRC establishes the following classification criteria:

Global limits: applied to the trading and banking book portfolios, to the set of transactions subject to capital requirements and to the interest rate risk in the banking book portfolio (RBan) and approved by GRC, The main metrics used for management are Value-at-Risk, stress and financial volume.

Specific limits: applied to the management groups and books of the trading and banking book portfolios or to both portfolios, to the market risk factors of transactions subject to capital requirements and to the market risk factors sensitive to the interest rate risk in the banking book portfolio (risk factors of RBan) and approved by the SRML, The main metrics used for management are Value-at-Risk and stress.

Operational limits: applied to transactions that make up the management groups and books, enabling the disclosure of the effective risk level of assumed exposures and aiming to ensure compliance with the strategies and the global and specific limits established, They are defined and approved by DIRIS presenting as main metrics the Value-at-Risk and operating bands of exposure to market risks.

DIRIS reports daily to the managers of the groups and books of the trading and banking book portfolios, on the consumption of the specific and operational limits. It reports monthly to the strategic committees on the consumption of overall limits, through the market risk management report.

In case limits exceeded, DIRIS, responsible for controlling and monitoring the portfolio, issues a document called the "Limit Exceeding Form". The managers of groups and books should submit their reasons for exceeding limits and specify the deadline for regularization. In turn, the hierarchical level with the authority to manage the case should issue an opinion on the manager's pronouncement. The team responsible for monitoring the limit is responsible for keeping track of the categorization actions.

The communication of the Bank risks to Senior Management occurs at the monthly ordinary meetings of the strategic risk committees and subcommittees.

The Bank uses statistical methodologies to measure the market risks of its positions. Among the metrics resulting from the use of these methodologies, it is worth highlighting:

(i) Sensitivity analysis;
(ii) Value-at-Risk;
(iii) Stress.

(i) Sensitivity analysis

Analysis method and objective

The Bank conducts a quarterly sensitivity analysis of the exposures to the interest rate risk of its own positions, using as a method the application of parallel shocks on the market curves of the most relevant risk factors. Such method is intended to simulate the impacts on the Bank's income vis-à-vis potential scenarios, which consider possible fluctuations in the interest rates practiced in the market.

Method assumptions and limitations

The application of parallel shocks on the market curves assumes that uptrends or downtrends in the interest rates occur in an identical way, both for short terms and for longer terms. As market movements do not always present such behavior, this method can present minor deviations in the simulated values.

Scope, method application scenarios and implications for income

The sensitivity analysis process at Banco do Brasil is carried out considering the following scope:

(i) operations classified in the trading portfolio, basically composed of government bonds and derivative financial instruments, whereas the positive or negative effects resulting from the possible movements in the interest rates practiced in the market generate a direct impact on the Bank's result; and

(ii) operations classified in the nontrading portfolio, in which the positive or negative effects resulting from changes in the interest rates practiced in the market, do not directly affect the Bank's income, since the aforesaid portfolio is mainly composed of operations contracted with the intention of being held until the respective maturities - loans to customers, funding in the retail market, government bonds - and which are accounted for with a basis on the contracted rates.

Two potential scenarios are considered for the performance of the sensitivity analysis, in which the benchmark annual Selic rate would suffer parallel shocks, an increase or a decrease of 100 basis points (+/- 1 percentage point).

Results of the sensitivity analysis

The tables below present the results obtained for the trading portfolio and for the set of operations recorded in the trading and nontrading portfolios.

Sensitivity analysis for trading portfolio

R$ thousand

Risk factors	Exposures	Dec 31, 2012		Dec 31, 2011	
		+100 bps	-100 bps	+100 bps	-100 bps
Pre fixed rate	Fixed interest rates	(14,021)	13,963	(3,138)	3,186
Interest rate coupons	Interest rate coupons	(48)	48	(183)	183
Price index coupons	Price index coupons	(1,015)	1,055	(782)	805
Foreign currency coupons	Foreign currency coupons	(1,554)	1,116	(794)	592
Total		**(16,638)**	**16,182**	**(4,897)**	**4,766**

Sensitivity analysis for bank booking portfolio

R$ thousand

Risk factors	Exposures	Dec 31, 2012		Dec 31, 2011	
		+100 bps	-100 bps	+100 bps	-100 bps
Pre fixed rate	Fixed interest rates	(3,471,483)	3,542,502	(1,372,068)	1,395,100
Interest rate coupons	Interest rate coupons	2,730,206	(2,795,568)	2,090,904	(2,133,231)
Price index coupons	Price index coupons	(299,989)	316,941	(453,882)	473,540
Foreign currency coupons	Foreign currency coupons	296,003	(289,442)	330,749	(316,032)
Total		**(745,263)**	**774,433**	**595,703**	**(580,623)**

(ii) Value-at-Risk

The Value-at-Risk is a metric used to estimate the potential maximum loss, under routine market conditions, in monetary values, considering a particular confidence interval and time horizon,

Methodology

To measure Value-at-Risk, Banco do Brasil adopts the historical simulation method and the following parameters: (i) 99% of one-tailed confidence interval; (ii) 252 retrospective scenarios of daily shock factors; and (iii) 10 business days as time horizon.

The historical simulation method assumes as relevant the possibility of future occurrence of events recorded in the historical series (retrospective scenarios), Hence each retrospective scenario corresponds to a possible "market state" under the simulation time horizon. One of Value-at-Risk major advantages by historical simulation method concerns the fact that the modeling risk is mitigated, since the use of the empirical distribution of returns renders the assumption of the hypothesis of normality unnecessary for the time series of returns, commonly assumed by other methods such as the parametric method.

The risk factors employed to measure Value-at-Risk for exposures subject to market risks are rated in the following classes: (i) interest rates: risk of changes in the coupon interest rates practiced in the market, (Example: Prefixed, dollar coupon, IPCA (Amplified Consumer Price Index) coupon, TR (Referential Rate) coupon); (ii) exchange rates: risk of changes in the exchange rates practiced in the market, (Example: reais *versus* dollar, reais *versus* euro, reais *versus* yen); (iii) stock prices: risk of changes in stock prices practiced in the market, (Example: PETR4 (Petrobras-PN), VALE5 (Vale-PNA)); and (iv) prices of commodities: risk of changes in the prices of commodities in the market, (Example: cattle, soy, corn).

Process of backtesting

The objective of backtesting, executed monthly, is to assess the accuracy of the market risk model (Value-at-Risk), This assessment is separated from the Value-at-Risk metric development and use procedures.

The methodology used by the Bank consists of verifying whether the number of extrapolations (quantity of times the negative returns exceeded the losses estimated by Value-at-Risk) is compatible with that provided for by the model (from the statistical viewpoint), and whether they occurred independently over time.

Complementarily, aiming to offer a comparison between models, there is an evaluation of the magnitude of extreme values, in addition to the arrangement of the Value-at-Risk models.

Value-at-Risk results

The following table presents the minimum, average and maximum Value-at-Risk of the Bank, except for Banco Votorantim:

Minimum, average, and maximum Value-at-Risk

R$ thousand

Period	Minimum	Average	Maximum
January to December / 2012	1,072,784	1,530,693	2,080,263
January to December / 2011	491,501	939.342	1,877,574

Trading group

For the purposes of management, Banco do Brasil segregates the trading book transactions from the others, establishing specific strategies and limits, The groups shown below, international and domestic trading, are subdivisions of the trading portfolio.

Minimum, average and maximum Value-at-Risk of the international trading

R$ thousand

Period	Minimum	Average	Maximum
January to December / 2012	2,732	24,915	90,612
January to December / 2011	852	4,688	14,431

Minimum, average and maximum Value-at-Risk of the domestic trading portfolio

R$ thousand

Period	Minimum	Average	Maximum
January to December / 2012	3	2,268	14,637
January to December/ 2011	107	4,942	15,495

(iii) Stress

The Bank uses the stress metrics arising from simulations of its exposure subject to market risks under extreme conditions, such as financial crises and economic upheavals, These tests are intended to size plausible impacts or events, but unlikely to occur, in the regulatory and economic capital requirements.

Banco do Brasil´s stress test program has the following objectives:

(i) be integrated to the risk management structure of the institution;
(ii) associate potential losses with plausible events;
(iii) be considered in the development of the risk mitigation strategies and in the contingency plans of the institution;
(iv) be performed individually by risk factor and jointly; and
(v) consider the concentration in particular risk factors of the non-linear instruments and the breaking of assumptions of the Value-at-Risk model.

For capital requirement, the market risk stress test program makes use of valuation methods based on:

(i) Retrospective tests,
(ii) Prospective tests,
(iii) Sensitivity analysis tests.

Retrospective test

The retrospective stress test method estimates the percentage of variation of the fair value, through the application of shocks compatible with specific scenarios able to reproduce historical periods of market stress or of greater losses of the institution, considering the following parameters:

(i) metrics: minimum (worst loss) and maximum (highest gain) of the historical series of daily returns of the trading portfolio;
(ii) extension of the historical series: from 01/04/2000 to the base date;
(iii) holding period: one month (21 business days); and
(iv) test periodicity: weekly.

The control, monitoring and the daily supervision of stress limits, for the trading portfolio of Banco do Brasil and for its groups and accounting records, are carried out based on the metrics of the retrospective stress test.

The results of the retrospective stress tests aim to evaluate the capacity for absorption of significant losses and to identify any measures to reduce the institution's risks, We present below the results of the retrospective stress tests of the trading portfolio according to Banco do Brasil´s market risk stress test program:

Loss estimates of the retrospective stress test

R$ thousand

Risk factors	Dec 31, 2012	
	Exposure	Stress
Interest rate	5,433,249	(1,357,428)
Foreign exchange	(38,637)	(1,003,006)
Commodity price	(4,754)	(53,477)
Equity price	3,802	(854)
Total	**5,393,660**	

Gain estimates of the retrospective stress test

R$ thousand

Risk factors	Dec 31, 2012	
	Exposure	Stress
Interest rate	5,433,249	1,476,064
Foreign currency	(38,637)	1,464,690
Commodities	(4,754)	4,719
Stocks	3,802	1,052
Total	**5,393,660**	

Loss estimates of the retrospective stress test

R$ thousand

Risk factors	Dec 31, 2011	
	Exposure	Stress
Interest rate	4,374,947	(758,403)
Foreign currency	1,734,800	(1,999,923)
Commodities	(6,206)	(71,299)
Stocks	4,262	(2,472)
Total	**6,107,803**	

Gain estimates of the retrospective stress test

R$ thousand

Risk factors	Dec 31, 2011	
	Exposure	Stress
Interest rate	4,374,947	888,016
Foreign currency	1,734,800	4,057,826
Commodities	(6,206)	11,600
Stocks	4,262	2,839
Total	**6,107,803**	

Prospective test

The prospective stress test method estimates the percentage of variation of the fair value subject to the risk factors underlying the capital requirement for coverage of market risks, through the application of shocks on the market risk factors, estimated with a basis on stress scenarios generated by the Strategy and Organization Unit (DIREO) and by the Finance Unit (DIFIN), considering the following parameters:

(i) metrics: highest losses and highest gains estimated for the returns of the trading portfolio in the period;
(ii) extension of the series: prospecting for 21 business days;
(iii) holding period: one month (21 business days); and
(iv) test periodicity: weekly.

The prospective stress tests aim to simulate adversities based on characteristics of the Institution's portfolio and of the macroeconomic environment, under severe and plausible conditions, We present below the results of the prospective stress tests of the trading portfolio according to Banco do Brasil´s market risk stress test program.

In the estimate of losses from the prospective stress test for the trading portfolio of the Bank, based on the perception of the senior management, about the interest rates behavior, foreign currencies, commodities and stocks, for a time horizon of 21 days, it is used the following assumptions: annual average interest rate of 15,33%; exchange rate (real/dollar) from R$ 1,93, a negative change of 4,70% for the Commodity Research Bureau index (CRB) for commodity prices, and negative change of 8,58% of the Bovespa index.

Loss estimates of the prospective stress test

R$ thousand

Risk factors	Dec 31, 2012	
	Exposure	**Stress**
Interest rate	5,433,249	(566,717)
Foreign currency	(38,637)	3,836
Commodities	(4,754)	31,020
Stocks	3,802	(373)
Total	**5,393,660**	

In the estimate of gains from the prospective stress test for the trading portfolio of the Bank, based on the perception of the senior management, about the interest rates behavior, foreign currencies, commodities and stocks, for a time horizon of 21 days, it is used the following assumptions: annual average interest rate of 6,32%; exchange rate (real/dollar) from R$ 3,15; a positive change of 5,54% for the Commodity Research Bureau(CRB) index for the commodities prices and a positive change of 5,58% for the Bovespa index.

Gain estimates of the prospective stress test

R$ thousand

Risk factors	Dec 31, 2012	
	Exposure	**Stress**
Interest rate	5,433,249	57,123
Foreign currency	(38,637)	38,637
Commodities	(4,754)	(7,121)
Stocks	3,802	242
Total	**5,393,660**	

In the estimate of losses from the prospective stress test for the trading portfolio of the bank, in December 31, 2011, it is used the following assumptions:

(i) For the risk factors of interest rates and foreign currencies: based on the perception of the senior management,about the interest rates behavior and foreign currencies , for a time horizon of 21 days, annual average interest rate of 18,49% and exchange rate (real/dollar) of R$ 1,80.

(ii) For the risk factors of Stocks: it was considered the assumption of a negative change of 37,17%, corresponding to the worst daily return of the historical series observed for the Bovespa Index, extrapolated for 21 days (extension of the historical series from January 1st, 2000 to December 31, 2011, according with the present methodology);

(iii) For the risk factors of Commodities: it was used the assumption of a negative change of 4,86% for the Commodity Research Bureau(CRB) index, extrapolated for 21 days days (extension of the historical series from January 1st, 2000 to December 31, 2011, according with the present methodology).

Loss estimates of the prospective stress test

R$ thousand

Risk factors	Dec 31, 2011	
	Exposure	Stress
Interest rate	4,374,947	(54,939)
Foreign currency	1,734,800	(63,023)
Commodities	(6,206)	39,717
Stocks	4,262	(2,045)
Total	**6,107,803**	

In the estimate of gains from the prospective stress test for the trading portfolio of the bank, in December 31, 2011, it is used the following assumptions:

(i) For the risk factors of interest rates and foreign currencies: based on the perception of the seniomanagement,about the interest rates behavior and foreign currencies , for a time horizon of 21 days, annual average interest rate of 10,93% and exchange rate (real/dollar) of R$ 3,20.
(ii) For the risk factors of Stocks: it was considered the assumption of a negative change of 32,96%, corresponding to the bigger daily return of the historical series observed for the Bovespa Index, extrapolated for 21 days (extension of the historical series from January 1st, 2000 to December 31, 2011, according with the present methodology);
(iii) For the risk factors of Commodities: it was used the assumption of a positive change of 2,63% for the Commodity Research Bureau(CRB) index, extrapolated for 21 days days (extension of the historical series from January 1st, 2000 to December 31, 2011, according with the present methodology).

Gain estimates of the prospective stress test

R$ thousand

Risk factors	Dec 31, 2011	
	Exposure	Stress
Interest rate	4,374,947	30,193
Foreign currency	1,734,800	1,100,994
Commodities	(6,206)	(14,138)
Stocks	4,262	(2,172)
Total	**6,107,803**	

Foreign exchange exposure

Banco do Brasil adopts the policy of managing its exchange risk so as to reduce its effects on the Bank's results.

Net foreign exchange exposure, for December 31, 2012 is a liability in the amount of US$ 1.295,9 million, and for the period of December 31, 2011, is a liability in the amount of US$ 427,1 million, reflecting the fiscal hedging strategy adopted by the Bank.

The fiscal hedge consists of a strategy authorized by the regulator, Banco Central do Brasil, where the short position in foreign currency realized with the objective of providing hedge for participation in overseas investments will be able to consider the amount necessary to afford effective protection of the aforesaid purchase position in foreign currency, inclusive of computing the tax impacts. This strategy has the main aim at reducing the volatility of the result, after the tax effects, since exchange gains on overseas investments are not subject to taxation and likewise losses do not generate deduction in the tax basis.

Foreign currencies balance

R$ thousand

Currency	Balance sheet accounts			
	Dec 31, 2012		Dec 31, 2011	
	Assets	Liabilities	Assets	Liabilities
USA Dollar	104,285,492	119,889,056	78,367,613	86,382,544
Euro	13,500,711	11,413,102	11,056,301	10,573,633
Pound Sterling	493,979	631,813	104,679	166,220
Yen	1,518,869	2,066,656	1,406,371	2,134,978
Swiss Franc	102,862	11,703	58,934	20,751
Canadian Dollar	2,892	2,093	-	-
Gold	19,883	-	18,240	-
Other currencies	10,066,621	10,938,831	7,322,561	7,638,726
Total	129,991,309	144,953,254	98,334,,699	106,916,852
Net position – balance sheet accounts		**(14,961,945)**		**(8,582,153)**

R$ thousand

Currency	Derivatives			
	Dec 31, 2012		Dec 31, 2011	
	Long position	Short position	Long position	Short position
USA Dollar	29,294,284	16,373,930	20,231,767	11,754,974
Euro	3,576,665	5,230,549	3,533,934	3,956,249
Pound Sterling	333,548	363,735	45,908	63,699
Yen	1,022,137	557,440	688,282	269,015
Swiss Franc	-	90,803	-	36,591
Canadian Dollar	-	205	-	-
Other currencies	770,988	67,301	171,264	809,344
Total	34,997,622	22,683,963	24,671,155	16,890,172
Net position - derivatives	**12,313,659**		**7,780,983**	

R$ thousand

Currency	Dec 31, 2012	Dec 31, 2011
	Net position	Net position
USA Dollar	(2,683,210)	461,863
Euro	433,725	60,354
Pound Sterling	(168,021)	(79,631)
Yen	(83,090)	(309,340)
Swiss Franc	356	1,593
Canadian Dollar	594	
Gold	19,883	18,240
Other currencies	(168,523)	(954,245)
Net position Total	**(2,648,286)**	**(801,170)**

R$ thousand

Summary	Dec 31, 2012		Dec 31, 2011	
Balance sheet accounts and derivatives	164,988,931	167,637,217	123,005,854	123,807,024
Net position total		(2,648,286)		(801,170)
Net position total – US$		**(1,295,956)**		**(427,108)**

d) Liquidity risk

Liquidity risk is the possibility that the institution is not capable of fulfilling its financial commitments to maturity, without incurring unacceptable losses. For risk management purposes, liquidity is measured in monetary values according to the composition of assets and liabilities established by the liquidity manager.

This risk takes two forms: market liquidity risk and cash flow liquidity risk. The first is the possibility of loss resulting from the incapacity to perform a transaction in a reasonable period of time and without significant loss of value. The second is associated with the possibility of a shortage of funds to honor commitments assumed on account of the mismatching between payments and receipts.

Liquidity risk management

The Bank maintains levels of liquidity that are adequate for the institution's commitments assumed in Brazil and abroad, resulting from its broad and diversified depositor base, the quality of its assets, the capillarity of its network of overseas branches and of access to the international capital market. Strict control over liquidity risk is in accordance with the market and liquidity risk policy established for the Bank, fulfilling the requirements of national banking supervision and of the other countries where the Bank operates.

Liquidity risk is managed in a consolidated manner at the Bank for each one of the liquidity, national currency and foreign currency views. For this purpose, the Bank uses the following instruments (i) short, medium and long-term liquidity forecasts; (ii) stress test; (iii) liquidity risk limits; (iv) liquidity contingency plan; and (v) potential test of liquidity contingency measures.

Liquidity risk management tools are periodically monitored and reported to the Strategic Committees of the institution.

Short, medium and long-term liquidity forecasts allow the prospective cash flow evaluation, with the objective of identifying situations that could compromise the Institution.

Stress tests are performed periodically, when the short-term liquidity projection is evaluated in alternative and stress scenarios, aiming to verify the institution's liquidity recovery capacity under adverse conditions and to provide corrective measures, if necessary.

Banco do Brasil adopts the following metrics as liquidity risk limits: (i) liquidity reserve (RL); and (ii) free funds availability indicator (DRL).

The RL is the metric used in short-term liquidity risk management, constituting the minimum level of assets of high liquidity to be maintained by the Bank, consistent with exposure to risk arising from the characteristics of its on-balance-sheet and off-balance-sheet transactions and market conditions. This methodology is used daily as a parameter for contingency situations identification and consequent activation of the liquidity contingency plan.

The DRL is used in planning and executing of the annual budget, It aims to guarantee a balance between funding and investment of resources from the commercial portfolio and to ensure the liquidity financing in local currency with stable resources. A minimum DRL limit is defined annually by the CRG and its monitoring takes place on a monthly basis.

The liquidity contingency plan establishes a set of procedures in order to identify, manage and report liquidity contingency situations, allowing the activation of liquidity contingency actions to protect the institutions payment capacity.

As an additional control mechanism, the liquidity generation capacity of the liquidity contingency measures, provided for in the contingency plan, is tested monthly through the test of potential of contingency measures, in light of the effects of different scenarios on the liquidity of the Institution and its ability to generate net resources.

Liquidity risk analysis

The liquidity risk limits are used to monitor the liquidity risk exposure level of the institution. While the liquidity reserve limit allows control of the risk resulting from the daily cash flow, the DRL monitors the medium and long-term view of the company's financial condition, ensuring the generation of stable resources for the financing of operational liquidity.

The control of these limits, that take an additional role in the management of the short, medium and long-term liquidity risk of the institution, enabled a liquidity situation in the period, avoiding the activation of the liquidity contingency plan or the implementation of emergency actions in the budget planning that address the structural liquidity adequacy.

Funding management

The composition of funding in a broad and diversified customer base constitutes an important element of the liquidity risk management of Banco do Brasil. The main funding is represented by commercial deposits, formed by demand deposits, savings deposits and voluntary time deposits, which characterize products without defined maturity with their due dates defined by internal models adopted for the market and liquidity risks management purposes.

Other commercial funding are judicial deposits, which are also characterized by stability and undefined maturity, foreign market funding intended to finance exports and imports, and other commercial funding represented by other demand funds, such as collection, payment order, payments and receptions on behalf of third parties etc.

Funding provided by the Bank’s treasury and repurchase agreements are held for short-term for short-term management of operational liquidity and in implementations of strategies for capital market funding for medium and long term.

In order to present the funding maturity profile according to the criteria of IFRS 7, the deposits without a defined maturity, demand deposits, savings deposits, time deposits with daily liquidity and judicial deposits will have their maturities allocated in the first vertex of the following tables.

Between the second half of 2011 and the second half of 2012, the funding composition profile was maintained, keeping the emphasis on the contribution of commercial deposits and judicial deposits which, despite being allocated in the range of up to one month, have a high degree of stability.

The observed variation of R$ 34 billion in the funding total amount, in the period, mainly reflects the increase of funding in voluntary time deposits and saving deposits.

Funding composition

R$ thousand

Liabilities	Dec 31, 2012						
	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	> 5 years	Total gross	Part %
Commercial deposits without defined maturity	297,966,880	-	-	-	-	297,966,880	35,2%
Commercial deposits with defined maturity	2,080,822	1,391,013	408,632	4,292,329	-	8,172,796	1,0%
Cash inflow	5,786,428	9,595,823	32,737,754	27,711,166	15,858,354	91,689,524	10,8%
Repurchase agreements	167,835,109	21,789,115	1,487,949	3,747,464	-	194,859,638	23,0%
Funds and onlendings	2,841,814	9,630,755	10,231,395	50,082,539	21,877,150	94,663,653	11,2%
Judicial deposits	86,252,349	-	-	-	-	86,252,349	10,2%
Foreign market funding	3,804,756	11,369,466	2,123,046	11,890,722	26,917,903	56,105,894	6,6%
Other commercial funding	16,092,028	2,680	832	1,235	-	16,096,774	1,9%
Total gross	**582,660,185**	**53,778,852**	**46,989,608**	**97,725,456**	**64,653,407**	**845,807,508**	**100,0%**

R$ thousand

Liabilities	Dec 31, 2011						
	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	> 5 years	Total gross	Part %
Commercial deposits without defined maturity	276,695,753	-	-	-	-	276,695,753	39,3%
Commercial deposits with defined maturity	1,972,006	1,999,461	972,948	2,389,402	187,905	7,521,722	1,1%
Cash inflow	10,539,100	4,040,512	8,560,593	20,547,153	6,600,742	50,288,100	7,1%
Repurchase agreements	137,447,684	11,627,398	1,189,941	2,129,039	13,511	152,407,573	21,6%
Funds and onlendings	6,966,297	8,456,791	9,424,584	35,413,092	25,936,339	86,197,103	12,2%
Judicial deposits	77,441,739	-	-	-	-	77,441,739	11%
Foreign market funding	1,788,250	3,873,607	4,498,292	5,087,446	29,529,815	44,777,410	6,4%
Other commercial funding	9,260,065	1,819	-	-	-	9,261,884	1,3%
Total gross	**522,110,894**	**29,999,588**	**24,646,358**	**65,656,132**	**62,268,312**	**704,591,282**	**100%**

Financial guarantee contracts

Financial guarantee contracts are credit conditional commitments issued by the Bank to guarantee performance of individual and corporate clients and other financial institutions to third parties.

The contingent nature of these liabilities is considered for the Bank's liquidity risk management in the composition of scenarios used in the liquidity stress test, carried out on a monthly basis.

The following table presents a summary of the commitment value of the financial guarantee contracts realized by the Bank, emphasizing that the weighted average maturity of the inventory ranged from 51 days in December 2011 and to 64 days in December 2012.

Financial guarantee contracts

R$ thousand

Description	Dec 31, 2012	Dec 31, 2011
Financial institutions	983,998	315,185
Natural person and corporations	11,219,430	8,817,218
Credits assignment co-obligations	10,022	18,377
Others co-obligations	2,002,505	1,988,553
Total	**14,215,955**	**11,139,333**

Derivative financial instruments

Banco do Brasil uses derivative financial instruments to manage, at the consolidated level, its positions and to meet clients' needs. The hedge strategy is in line with the market and liquidity risk policy and with the derivative financial instruments use policy approved by the Board of Directors.

The Bank has various tools and systems for the management of the derivative financial instruments and uses statistical and simulation methodologies to measure the risks of its positions, by means of Value-at-Risk, sensitivity analysis and stress test models.

Operations with financial derivatives, with special emphasis on those subject to margin calls and daily adjustments, are considered in the measurement of the liquidity risk limits adopted by the Bank and in the composition of the scenarios used in the liquidity stress tests, conducted monthly.

The contractual maturity profile of liabilities with financial derivatives is presented in Note 39.

e) Credit risk

Credit risk is defined as the possibility of losses associated with non-performance by the borrower or counterparty of their respective financial obligations under the agreed terms, with loan agreement devaluation arising from the deterioration in the borrower's risk rating, with reduced earnings or remuneration, with benefits granted in the renegotiation and with recovery costs. Comprises, among others:

- the counterparty's credit risk is the possibility of non-performance, by a particular counterparty, of obligations related to the settlement of transactions involving the trading of financial assets, including those related to the settlement of derivative financial instruments;
- the country risk: is the possibility of losses associated to the non-performance of financial obligations under the terms agreed by a borrower or counterparty established outside the country, as a result of actions taken by the government of the country where the borrower or counterparty is established, and the transfer risk, understood as the possibility of obstacles in the currency conversion of amounts received;
- Commitment risk is the possibility of disbursements to honor guarantees, co-obligations, loan commitments or other operations of similar nature; and
- Interverner risk is the possibility of losses associated to the non-performance of financial obligations under the terms agreed by the mediator or signatory of customers loans,
- Concentration risk is the possibility of credit losses arising from significant exposure to a counterparty, a risk factor or groups of counterparties related by common characteristics.

The credit risk management of the Bank is performed based on market practices and in compliance with the supervision rules and banking regulations, The purpose of credit risk management is to identify, measure, control and mitigate the exposure risk; furthermore, to contribute to the soundness and solvency's maintenance and to ensure fulfillment of interests of the shareholders,

Credit policy

The credit policy approved by the Board of Directors applies to all businesses involving credit risk and is structured in four sections: general aspects, credit risk-taking, collection and credit recovery and credit risk management, Each section contains a comprehensive set of statements, which encompass all the stages of credit risk management at Banco do Brasil.

We have listed some topics covered in Banco do Brasil's credit policy: (i) credit risk concept; (ii) segregation of duties; (iii) collegiate decisions; (iv) risk appetite; (v) risk limits; (vi) clients rating; (vii) risk-taking conditions; (viii) credit's collection and recovery guidelines; (ix) expected loss, economic and regulatory capital; (x) provision and capital levels; (xi) stress tests and sensitivity analysis; and (xii) capital planning.

Mitigation policy

In conducting any business subject to credit risk, the Bank takes a conservative approach and uses mechanisms that provide full or partial coverage of the risk incurred. In credit risk management at an aggregate level, to keep exposures within the risk levels established by Senior Management, the Bank seeks to transfer or share the credit risk.

The use of mitigation instruments is declared in the credit policy, presented in strategic decisions and formalized in the credit standards, reaching all organization levels and covering all credit process stages.

For the collateralization, the goods are submitted to technical analysis or valued by means of a value opinion, whose validity period is up to twelve months. In the case of a personal guarantee, there is an analysis of the guarantors' financial and economic situation, besides the direct and indirect responsibilities in the Bank, considering debts with third parties, especially tax, social security and labor debts.

The credit standards provide comprehensive guidance to the operational units, Among other aspects, the standards cover the classification, requirement, choice, valuation, formalization, control and reinforcement of collaterals, ensuring the adequacy and sufficiency of the mitigator during all the cycle of the operation.

Measuring systems

Credit risk is measured by indicators such as non-performing loan, portfolio quality, allowance for loan losses, concentration, expected loss and regulatory and economic capital requirements, among others.

These risk indicators can be measured for the total portfolio and/or for particular portfolio segments, and are reported by means of the management instruments.

The risk rating used by the Bank for loan operations involves the use of information provided by several corporate bases, considering for calculating the operations final risk, parameters related to the analyzed operation (nature, collaterals, default, term etc,) and to the borrower (client risk, credit limit, indebtedness level etc), as well as operations with more severe risks included in the client portfolio or business group which this client belongs, and non-performing payments observed in the operation.

The risk rating criteria of operations at Banco do Brasil are divided according to the characteristics of the operations, as follows:

(i) specific transactions: operations that have some characteristic that minimizes the credit risk, such as collaterals or specific products, are thus considered;
(ii) receivership, bankruptcy, court-supervised or out-of-court recovery client operations or similar contained in the Brazilian Civil Code: this type of situation is weighted in the operations risk rating;
(iii) debt renegotiation operations: classified considering the renegotiated operation's final risk; and
(iv) other operations: those that do not fit within the previous situations, divided on two subgroups:
    (a) clients having indebtedness equal or lower than R$ 50 thousand: collective rating according to the credit product in which the operation is contracted; and
    (b) clients having indebtedness above R$ 50 thousand: aspects related to the obligor (credit limit and total indebtedness) and aspects of the operation (nature, purpose, term and collaterals) are weighed by means of a specific mathematical formulation.

The following table presents the risk classification used by the Bank to apply the criteria for determining risk, based on data from the operation (nature, purpose, guarantee, maturity, project risk) and the client (risk, credit limit and total debt) captured directly from operational systems:

Credit risk classification

Classification	Risk level	Description
AA A B C	Low risk	Operations classified in lower ratings, considered as a low probability of default.
D E	Medium risk	Operations classified in average ratings. Typically, new client operations or with a history of restrictions, and may also be renegotiated or classified operations by delay or drag [1].
F G H	High risk	Operations classified in higher ratings, with high probability of default, that may be originated from delayed operations, subject to drag or renegotiated.

(1) Mechanism of automatic risk change of an operation caused by the existence of the operations with higher risk in the client's portfolio or group which he belongs.

The classification in the table, which varies from risk AA to H, follow the same criteria defined by the Brazilian Central Bank, which establishes that the risk rating of loans must be carried out in descending risk order, based on consistent and verifiable criteria that include aspects related to the obligor and its guarantors. According to the table, the higher the rating the higher the operation risk to the financial institution.

The quantity and nature of the operations, the diversity and complexity of the service products and the exposed amount to credit risk require its measurement be performed in a systematized way. The Bank has many corporate systems and much database infrastructure to measure credit risk in a comprehensive way.

Credit risk exposure

Maximum credit risk exposure

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Cash and bank deposits	12,690,806	10,492,143
Compulsory deposits with central banks	80,097,865	93,689,987
Loans to financial institutions	44,241,484	41,846,491
Securities purchased under resale agreements	189,515,889	139,032,201
Financial assets at fair value through income or loss	74,955,946	68,294,472
Financial assets available for sale	96,704,660	84,328,189
Financial assets held to maturity	12,713,398	14,997,329
Loans to customers	514,246,614	411,331,183
Total items recorded in the balance sheet	**1,025,166,662**	**864,011,995**
Items not recorded in the balance sheet	156,887,240	126,122,078
Total credit risk exposure	**1,182,053,902**	**990,134,073**

The assets representing cash and bank deposits and compulsory deposits with central banks do not typically exhibit material credit risk. The other exposures are as follows:

Loans to financial institutions

Loans to financial institutions refer to interbank deposits and to loan portfolios acquired with co-obligation of the assigning institution and are represented in Note 16.

These loans follow the Bank's risk analysis, being classified by internal rating. These exposures exhibit low credit risk and do not typically exhibit non-performing loans or impairment.

Repurchased agreements

Repurchased agreements are mainly formalized with the Brazilian Central Bank and others financial institutions. Securities used to back these transactions are normally federal government bonds. These transactions do not present non-performing credits and are not generally subject to impairment losses.

Financial assets at fair value through the result, available for sale and held to maturity

Financial assets recorded at fair value through the result are represented by securities held for trading, derivatives financial instruments, whose variations in their values, positive or negative, impact on the result.

Assets available for sale include government bonds, mainly those issued by the Federal Government, and private bonds. Financial instruments classified in this category are measured at fair value and the variations directly impact the Equity.

In the composition of the value of financial instruments recorded at fair value through profit or loss and available-for-sale is already considered the credit risk of the counterparty.

Assets held to maturity are composed almost exclusively by federal government and do not present significant credit risk.

Items not recorded in the balance sheet

Transactions not recorded in the balance sheet follow the same risk rating criteria of typical credit transactions, impact the client credit limit and refer to credit limits to be released and to guarantees provided.

Credits to release are limits made available to clients such as credit card and overdraft accounts or disbursement commitments that follow the fund release schedule, such as productive investment financing or real estate credit, and are contracted with clients showing low credit risk.

Collaterals are guarantee and surety operations, or other form of personal guarantee, normally conducted with clients classified as low risk, the release is only effective in the event of any default by the client from your creditor, converting the exposure into loans. Items not recorded in the balance sheet are represented in the Note 40.

Loans to customers

The loans to customers are classified in:

(i) not non-performing not subject to impairment losses;
(ii) non-performing not subject to impairment losses; and
(iii) non-performing subject to impairment losses.

Loans to customers

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Not non-performing not subject to impairment losses	473,846,949	379,129,703
Non-performing not subject to impairment losses	15,534,789	10,663,824
Subject to impairment losses	24,864,876	21,537,656
Total loans to customers	**514,246,614**	**411,331,183**
Impairment losses	(16,175,830)	(12,298,689)
Net total	**498,070,784**	**399,032,494**

The following table presents the details of exposures to credit risk on loans to customers.

Loans to customers not non-performing not subject to impairment losses

R$ thousand

Risk level	Dec 31, 2012	Dec 31, 2011
Low risk	467,375,734	372,741,340
Medium risk	6,265,869	6,137,079
High risk	205,346	251,284
Total	**473,846,949**	**379,129,703**

Loans to customers not non-performing and not subject to impairment losses are considered loan operations in the normal situation and no evidence of loss.

Loans classified as high risk are not subject to loss by impairment in function that, by these criteria, there was no evidence of impairment problems of these operations. In the first half of 2012, only 0,07% of the exposures in this category are concentrated in high-risk operations.

Exposures associated with medium and high risk are justified, mainly, by loans to customers that, despite having active loans, they present a low profile taken credit, credit history or inactive credit limits and therefore with no hiring of new loans, however with payment of installments and maintenance of existing loans.

In a prudential way, the Bank assigns risk levels more conservative to operations of these clients because of the lack of information for analysis.

Loans to customers non-performing not subject to impairment losses

R$ thousand

	Dec 31, 2012	Dec 31, 2011
1 to 60 days	14,510,606	9,752,204
61 to 90 days	545,618	582,580
Over 90 days	478,565	329,040
Total	**15,534,789**	**10,663,824**

Loans to customers non-performing and not subject to impairment losses are due loans without evidence of loss, or overcome with evidence of loss that, according to the methodology, it has not determined loss by impairment.

Operations with a maturity of more than 90 days overdue are considered without evidence of losses because was granted deadline for regularization of wages, either by payment of the parcels delayed or rescheduling of deadlines, based on criteria established by product managers. After the deadline, attended the criteria, the operations change for normal condition and not regularized operations must be compulsorily reclassified and can be calculated the impairment.

Loans to customers non-performing subject to impairment loss

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Collective assessment	23,333,551	20,530,664
Individual assessment	1,531,325	1,006,992
Total	**24,864,876**	**21,537,656**

Loans to customers subject to impairment losses are considered the operations with evidence of loss for which, according to the methodology adopted, was determined by loss impairment.

For loans to customers with material value and recoverability problems, the Bank performs individualized analysis for measurement of losses incurred. For other loans to clients the Bank performs massificated analysis.

Clients operations with significant financial difficulty are considered loans with recoverability problems, such as those with a breach of contract, for example, default or delay in payment of interest or principal, as well as whenever it will be likely that borrower will go bankrupt or start a process of financial reorganization.

The recoverability problem is treated as inherent to the client and not exclusively in relation to some of its operations. Thus, if any operation is identified in such situation, all other operations of the client are similarly classified.

In determining the relevance of the exposure and its consequent loss individualized measurement, the Bank classifies the client and not only its operations as material and not-material, based on its total indebtedness. Clients showing indebtedness whose operations need an approval by higher court, belonging to a strategic decision level, are considered material.

Upon segregation of clients showing indebtedness with recoverability problems which value is considered material, their loans are evaluated individually by the area responsible for collection and credit recovery of Banco do Brasil.

In the individual evaluation, aspects inherent to the client and specific to the operations are weighted, such as:

(i) customer operations status;
(ii) risk sharing (Banco do Brasil versus third party risks);
(iii) customer's economic and financial situation;
(iv) credit restrictions inherent to the customer, internal as well as external (group credit policy, credit operation history and records in credit bureaus); and
(v) operation-linked guarantees.

Assets received as collateral

The main collateral related to loans to customers are listed below:

(i) rural properties – properties located in rural areas (land);
(ii) urban properties – real estate located in urban areas (houses, apartments, warehouses, sheds, commercial or industrial buildings, urban lots, shops etc);
(iii) crops – harvesting of the assets being financed (harvest avocado, rice harvest, harvest beans, etc,);
(iv) furniture – goods that can be easily moved or removed because they are not fixed or attached to the ground, without any damage to its material integrity or the property where they are installed (machinery, equipment, vehicles etc);
(v) BB operations – existing financial investments in the Bank (savings, CBD, fixed income funds etc,),
(vi) personal – collaterals (including surety funds such as the FGO, FAMPE, FUNPROGER etc);

(vii) extractive agricultural products – agricultural product-extraction such as pineapple, acai, rice, coffee, cocoa, grapes etc;
(viii) industrial products – raw materials, goods or industrial products (steel coil, footwear, stainless steel plate etc);
(ix) receivables - receivables represented by credit card, check or check in custody;
(x) livestock - herd animals (cattle, pigs, sheep, goats, horses etc);
(xi) securities and rights – credit securities or collateral rights (stocks, Commercial Credit Notes (CCC), Industrial Credit Notes (CCI), Credit Notes Export (CCE), Rural Product Notes (CPR), Rural Notes, checks, duplicates etc); and
(xii) credit insurance: credit insurance (Brazilian Insurer of Export Credit – SBCE, Credit Insurer of Brasil – SECREB etc).

In loan to customers, preference is given to collateral that provide for self-liquidity on the operation.

The maximum amount considered for purposes of collateral commitment is obtained by applying a specific percentage of the good or right value, according to the following table:

Assets received as collateral

Asset	% coverage
Credit rights	
Receipt for bank deposit	100%
Certificate of bank deposit	100%
Savings deposits	100%
Fixed income investment funds	100%
Pledge Agreement – cash collateral (1)	100%
Standby letter of credit	100%
Others	80%
Guarantee funds	
Guarantee Fund for Generation of Employment and Income	100%
Guarantee Fund for Micro and Small Business	100%
Guarantee Fund for Operations	100%
Guarantee Fund for Investment	100%
Others	100%
Guarantee (2)	100%
Credit insurance	100%
Pledge agreement – securities (3)	77%
Offshore funds – BB Fund (4)	77%
Livestock (5)	70%
Pledge agreement – cash collateral	70%
Others (7)	50%

(1) In the same currency of the operation,
(2) Provided by a banking institution that has a credit limit at the Bank, with sufficient margin to support the co-obligation,
(3) Contract of deposit / transfer of customer funds,
(4) Exclusive or retail,
(5) Except in Rural Product Notes (CPR) transactions,
(6) Cash collateral celebrated in a distinct currency of the supported operations that have no foreign exchange hedge mechanism,
(7) Include properties, vehicles, machines, equipment, among others,

Collateral of credit rights represented by money market investments should be internalized within the Bank and are blocked by the institution, remaining in this status until the settlement of the transaction. The Bank may, at its discretion, upon the maturity of the money market investment, make use of it for settlement of the balances relating to the overdue installments, regardless of notice or notification to the assignor/borrower.

In addition to credit assignment or credit right assignment clauses for association of mitigation instruments, the credit instrument contains a guarantee reinforcement clause, to ensure the percentage of coverage agreed in the operation contract during the operation maturity.

The surety funds used as collateral by the Bank, mitigating credit risk operations, have the following characteristics:

(i) maximum limits of the percentage of coverage for fund using as a operations guarantee depending on the type of operation: investment or working capital;
(ii) target audience depending on the turnover or on the client risk;
(iii) existence or non-existence of the presentation of counter-guarantees;
(iv) maximum limits on the amount of resources that constitute the equity of the fund (leverage ratio); and
(v) limits for accumulated deficit, that is, the maximum rate of default allowed, or stop loss.

The guarantee funds managers monitoring the compliance of operations with the rules of the fund, prior to the concession of this collateral, and the operational management of collateral granted and of the assets of the fund, determining, if necessary, the suspension of the use of the funds guaranteeing operations, before the sum of pledged resources exceeds the leverage established for each fund.

Concentration

Credit risk management strategies guide actions at the operational level. Strategic decisions include, among other aspects, the embodying of the risk appetite of Banco do Brasil and the setting of risk and concentration limits. Concentration limits set out by the Brazilian Central Bank are also considered.

They are used to manage credit risk exposure concentration, monitoring of sectoral limits and individual and corporate group exposure. In addition, the Bank developed and implemented a credit risk concentration measurement and monitoring system in the business loan portfolio. The model is based on the Herfindahl Index, which evaluates concentration based on borrower's credit risks and considers the inter-relation between several economic sectors that comprise the business loan portfolio.

Amounts that represent exposures per economic activity and per geographic region are as follows:

Exposures per economic activity

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Banco do Brasil	**479,071,860**	**373,429,707**
Businesses	**287,449,160**	**222,539,109**
Metalworking and steel	32,020,837	26,041,921
Oil	29,526,278	25,333,982
Services	27,283,881	17,723,539
Agribusiness of vegetable origin	26,833,837	22,522,626
Building	25,447,677	16,550,855
Electricity	17,185,106	14,166,892
Automotive	16,853,309	12,920,760
Transport	12,744,245	10,027,635
Agribusiness of animal origin	12,724,054	10,919,608
Retail Trade	12,221,169	9,650,798
Textiles and garments	10,734,582	9,025,317
Electrical and electronic goods	10,249,337	8,146,601
Pulp and paper	8,818,039	6,426,162
Agricultural consumables	7,884,792	5,969,427
Wholesale trade and sundry industries	7,078,177	4,386,869
Telecommunications	7,034,302	5,472,613
Chemicals	6,659,701	5,676,796
Timber and furniture	6,340,171	5,240,928
Other activities	5,227,681	2,435,051
Leather and shoes	2,790,407	2,407,243
Beverages	1,791,578	1,493,486
Individuals	**191,622,700**	**150,890,598**
Banco Votorantim	**35,174,754**	**37,901,476**
Businesses	10,306,857	10,435,591
Individuals	24,867,897	27,465,885
Total Banco do Brasil and Banco Votorantim	**514,246,614**	**411,331,183**

Exposures per geographic region

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Banco do Brasil	**479,071,860**	**373,429,707**
Domestic market	**433,944,470**	**341,050,850**
Southeast	236,676,888	183,390,359
South	82,925,472	67,773,838
Midwest	50,793,401	40,253,973
Northeast	44,815,734	35,596,685
North	18,732,975	14,035,995
Foreign market	**45,127,390**	**32,378,857**
Banco Votorantim	**35,174,754**	**37,901,476**
Total Banco do Brasil and Banco Votorantim	**514,246,614**	**411,331,183**

Renegotiated credit transactions

Renegotiated credit transactions are those with evidence of credit recoverability problems due to significant financial difficulty of the debtor, that have been composed or renegotiated, with changes to originally agreed-upon conditions.

Balances related to renegotiated transactions are in Note 21.

Assets that the Bank acquired in the settlement of loans

R$ thousand

	Dec 31, 2012	Dec 31, 2011
Real State	292,856	260,165
Vehicles and related	77,117	53,445
Machines and equipments	7,234	8,056
Other	72	76
Total	**377,279**	**321,742**

Property and equipment obtained due to the recovery of defaulted loans are periodically offered to the market through bidding processes, most often in the form of auction, the Bank's policy is not to use its revenue or financial performance of its activity end.

f) Operational risk

Operational risk is defined as the possibility of loss due to failures, deficiencies and improper internal processes, people and systems or external events. Includes the legal risk associated with inadequacy or deficiency in executed contracts, besides sanctions due to noncompliance with legal provisions and compensation for damages to third parties arising from activities developed by the institution.

In compliance with the Brazilian regulation, CMN Resolution 3.380, the Bank approved, in the Board of Directors and Steering Commitee, the actions required to implement the operational risk management framework, which is composed by Risk Management Unit (DIRIS) and Security Management Unit (DIGES). The Internal Controls Unit (DICOI) is responsible for the 2nd layer of control that includes, among other activities, control and compliance assessment and validation of risk management models. The corporate management of operational risk is centralized at DIRIS.

To guarantee effectiveness in the operational risk management at the Bank and to guarantee the performance of duties by the units in charge, five management phases were defined.

Phases of operational risk management process

Management phase	Summary of activities
Identification	Consists of identify and classify the operational risk events which ones the Bank is exposed, indicating incidence areas, causes and potencials finance impacts associated to organization's processes, products and services.
Assessment	It is the quantification of the operational risk exposure with the objective of assess the impact in the Bank business. Consist of the qualitative assess of the identified risks, analysing their probability to hapen and their impact, determining the risk tolerance level.
Control	Consists of the register the behaviour of operational risks, limits, indicators and operational loss event, besides the implementation of mechanisms, ensuring that the limits and operational risk indicators remain within the desired levels.
Mitigation	Consists of create and implement mechanisms to modify the risk, with the objective to reduce the operational losses by removing the cause of the risk, changing the probability of occurrence or changing the risk events consequences.
Monitoring	The objective is identify the deficiences of the operational risk management process, informing the weaknesses detected to the Board of Directors. It is the feedback phase of the operational risk management process, where it is possible to detect weaknesses in the previous phases.

Operational risk policy

The operational risk policy, reviewed and approved annually by the Board of Directors, contains guidelines for the Bank's units, intended to ensure the effectiveness of the operational risk management model.

This policy permeates activities regarding operating risk management in order to identify, assess, mitigate, control, and monitor operational risks inherent to the scope of Banco do Brasil's products, services, processes and systems.

Monitoring

The monitoring of operational losses, for production of the appropriate reports and engagement of the units managing processes, systems, products or services in case of the need to propose mitigation actions, is performed through the monthly calculation of the amounts of losses according to the operational losses global limit, which includes incidents in the internal and external networks.

Aiming to make the monitoring even more efficient we adopted specific limits for the following categories of operational risk events:

(i) labor issues;
(ii) business failures (economic plans; indemnification and collection; exclusion of restrictive register; repetition of overpayment; failures in service);
(iii) external fraud and theft (external theft; external electronic fraud; losses with cards);
(iv) internal frauds.

Monitoring is conducted monthly by the Risk Management Unit, reporting to the Operational Risk Subcommittee (SRO) and to the Global Risk Committee (CRG).

If any specific limit is exceeded, it is the responsibility of the manager of the product, process or service with which it is associated to indicate the causes as well as mitigation actions for reframing the exceeded limit.

Banco Votorantim

Introduction

In 2009, Banco do Brasil established a strategic partnership with Banco Votorantim, and acquired 49,99% of voting capital and 50% of the total Banco Votorantim capital. This strategic partnership combine competitive characteristics of both institutions: Banco Votorantim's asset creation capacity and agile business model with Banco do Brasil's strength, with great network capillarity and fund raising capacity.

The partnership structure preserves the management model and improves the both institutions' capacity to take good advantage of growth opportunities. Represents advances in new businesses and strategic areas, with value creation for Banco do Brasil, Banco Votorantim and clients, which now have a more competitive, robust and agile institution available.

Ever since the partnership was approved by the Brazilian Central Bank in September 2009. Banco do Brasil and Banco Votorantim have explored joint business opportunities in several segments and achieved tangible results, as follows:

(i) Assets securitization program: through an operating agreement, Banco do Brasil regularly acquires credit asset portfolios originated by Banco Votorantim. This program generates effective benefits to both institutions, as it combine Banco Votorantim's great capacity to originate assets to Banco do Brasil's broad deposit base (funding), which strategy is to expand its consumer credit portfolio;
(ii) Vehicle financing growth: starting as of the establishment of the partnership, Banco Votorantim started to act as Banco do Brasil's arm to perform vehicle financings outside the branch's environment;
(iii) Cross-offering of investment products: Votorantim Wealth Management & Services (VWM&S) and Banco do Brasil Administração de Ativos Distribuidora de Títulos e Valores Mobiliários S.A (BB DTVM) have been jointly operating in the development and distribution of innovative and customized Receivables Investment Funds (FIDCs), Real Estate Investment Funds (FIIs), Equity Investment Funds (FIPs). Examples: FIDC Fênix (Lojas Americanas), BB Votorantim JHSF real estate funds and BB Renda Corporativa I and FIP Energia Renovável, which are distributed to clients of both institutions, Note that the purpose of BB Renda Corporativa is to make long-term real estate investments, through the acquisition and adequacy of assets in São Paulo State, to be subsequently rented to BB;
(iv) At times, Banco do Brasil uses Banco Votorantim's brokerage firm to perform proprietary position transactions, investment funds and retail transactions (via BB home broker).

The purpose of this text is to present relevant information related to the risk management process and structure adopted by Banco Votorantim.

Importantly, all numbers represent the Banco Votorantim risk related to the participation of 50% of Banco do Brasil.

Risk governance

Banco Votorantim adopts the integrated approach for risk management, as specified in the bank's website, investors' relations link: "the integrated approach to risk management includes the adoption of instruments that permit the consolidation and control on relevant risks incurred by the Bank. The purpose of this approach is to organize the decision process, defining mechanisms that establish risk appetite, acceptable risk levels that are consistent with available capital, in line with the adopted business strategy, binding this risk appetite to intended financial return sources, and continuously controlling them",

In summary, Banco Votorantim adopts the following foundations for integrated risk management practices:

(i) consolidated risk view;
(ii) harmonization of risk appetite, authorized limits and intended financial return;
(iii) functional segregation of business areas, risk control, audit reviews and operating process;
(iv) adoption of risk calculation methodologies as a result of best market practices; and
(v) senior management involvement.

Risk management activities

(i) risks and controls identification;
(ii) risks and controls assessments;
(iii) control vulnerabilities' analysis;
(iv) risk appetite assessment;
(v) implementation of answer to risks;
(vi) performance indicators definition; and
(vii) performance indicators monitoring.

Policies, rules, manuals and procedures

Banco Votorantim risk management's process counts with a set of documents that establish the main guidelines that should be followed in risk management activities. The detailed level is structured according to each document's purpose and is organized according to the following hierarchy:

(i) Corporative policies: key principles and guidelines established at the maximum hierarchy level and applied to throughout organization and that guide all other standards, procedures and products and services guides;
(ii) Rules: rules established to define the activities and the manner in which procedures are organized, deepening aspects addressed by corporate policies;
(iii) Procedures: operating rules established to describe activities and performance stages, detailing the aspects addressed by standards;
(iv) Products, services, systems and measurement modeling guides: set of documents that gather the main characteristics of products, services, systems and measurement methodology structuring.

These standards are available for the Bank's internal consultation, and are reviewed and updated at least annually, or when there are significant changes in the business purposes and strategies or when there are significant changes to the risk management approach and methodology.

Structures of risk controls

Banco Votorantim's risk management report specifies that for the performance of risk management activities, the bank has specific areas that are responsible for market, liquidity, credit and operational risk controls.

Market risk

The purpose of Banco Votorantim's market risk control is to support business management, establish processes and implement required tools to evaluate and control market risks, allowing Senior Management to measure and monitor risk tolerance levels.

Banco Votorantim's risk management report presents basic principles observed by Banco Votorantim to manage and control market risks that are in conformity with best market practices as follows:

(i) Senior Management involvement: existing committees and commissions are structured for the purpose of involving Senior Management in global risk taking supervision;
(ii) Segregation of portfolios: in order to manage and control the market risk exposures, transactions are segregated into two portfolios: trading portfolio (trading) or nontrading portfolio (banking);
(iii) Job independence: job segregation between areas responsible for operations and business strategy definition, and areas in charge of their accounting, of risk control, compliance and internal control and audit, is structured for the purpose of guaranteeing independence and autonomy for the performance of functions inherent in each job;
(iv) Definition of functions: a clear definition of processes and activities of each job involved with market risk management and control is structured to achieve organized and efficient operating management;
(v) Definition of pricing and risk calculation methodologies: for risk control, structured methodologies mandatory used by corporations and based on best market practices are adopted;
(vi) Establishment of limits: clear and objective definition of authorized risk limits based on risk measurements is structured to insert into daily activities the risk tolerance level defined by the institution; and
(vii) Monitoring of limits: definition of the monitoring and reporting processes of authorized limit usage levels.

Banco Votorantim adopts a set of objective actions to manage and control market risks, among which:

(i) Sensitivity analysis;
(ii) Value-at-Risk; and
(iii) Stress.

(i) Sensitivity analysis

Analysis method and objective

In the modeling of the sensitivity analysis of Banco Votorantim's interest rate risk exposures, the methodology adopted was the application of parallel shocks in most relevant risk factors market curves. Such a method is intended to simulate the impacts on the bank's income against potential scenarios, which consider possible fluctuations in the interest rates practiced in the market.

Method assumptions and limitations

The application of parallel shocks on the market curves assumes that uptrends or downtrends in the interest rates occur identically, both for short terms and for longer terms. As market movements do not always present such behavior, this method can result in slight deviations in the simulated values.

Scope, method application scenarios and implications on income

Two different situations derive from the method applied on the bank's portfolios:

i) for transactions classified in the trading portfolio, comprised of transactions with intention of trading, possible changes in market interest rates directly impact the bank's results; and

ii) for transactions in nontrading portfolio, appreciation or devaluation resulting from changes in market interest rates does not directly affect the bank's result, since the portfolio is comprised mainly by transactions contracted to be held to maturity - loans to customers, retail fund raising, public securities - whose accounting record is conducted based on contracted rates.

For simulation purposes, two possible scenarios were considered: basic interest rate would increase or decrease by 100 basis points (+/- 1 percentage point).

As of May 31, 2011, Banco Votorantim started to segregate trading and nontrading portfolios, which explains the high difference between exposures and sensitivities.

Sensitivity analysis results

The tables below present the results of the simulation conducted for the trading portfolio and for the set or transactions recorded in trading and nontrading portfolios.

Sensitivity analysis for trading portfolio

R$ thousand

Risk factors	Exposure	Dec 31, 2012		Dec 31, 2011	
		+100 bps	**-100 bps**	**+100 bps**	**-100 bps**
Pre fixed rate	Pre fixed interest rates	(1,340)	1,337	(22,234)	23,079
Interest rate coupons	Interest rate coupons	-	-	-	-
Price index coupons	Price index coupons	114	(111)	363	(355)
Foreign currency coupons	Foreign currency coupons	(49)	44	(9,125)	10,711
Total		**(1,275)**	**1,270**	**(30,996)**	**3,435**

Sensitivity analysis for trading and nontrading portfolio

R$ thousand

Risk factors	Exposure	Dec 31, 2012		Dec 31, 2011	
		+100 bps	**-100 bps**	**+100 bps**	**-100 bps**
Pre fixed rate	Pre fixed interest rates	(20,782)	20,869	(216,132)	224,120
Interest rate coupons	Interest rate coupons	807	(811)	5,712	(5,896)
Price index coupons	Price index coupons	(357)	362	3,042	(2,739)
Foreign currency coupons	Foreign currency coupons	(1,168)	(1,171)	(16,091)	19,033
Total		**(19,164)**	**19,249**	**(223,469)**	**234,518**

(ii) Value at risk (Value-at-Risk)

Methodology

To measure Value-at-Risk, Banco Votorantim adopts the historical simulation method and the following parameters: (i) 99% of one-tailed confidence interval; (ii) 252 retrospective scenarios of daily shock factors to the trading book; (iii) 1260 retrospective scenarios of daily shock factors to the nontrading book; and (iv) 10-day holding period.

The risk factors used to measure Value-at-Risk for exposures subject to market risks are rated in the following classes: (i) interest rates: risk of changes in the interest rates coupon practiced in the market, (Example: Prefixed, dollar coupon, IPCA (Amplified Consumer Price Index) coupon, TR (Referential Rate) coupon, long-term interest rate (TJLP) coupon); (ii) exchange rates: risk of changes in the exchange rates practiced in the market, (Example: reais *versus* dollar, dollar *versus* euro, dollar *versus* yen); (iii) stock prices: risk of changes in stock prices and indices practiced in the market, (Example: IBOV (Bovespa Index)); and (iv) prices of commodities: risk of changes in the prices of commodities in the market, (Example: fattened cattle, soy, corn).

Note that Banco Votorantim changed its Value-at-Risk methodology as of June 30, 2011. The parametric model was used before. Therefore, Value-at-Risk tables of Banco Votorantim and of the trading portfolio, from June to December 2011, are as follows:

Minimum, average and maximum Value-at-Risk

R$ thousand

Period	Minimum	Average	Maximum
January to December / 2012	191,835	246,244	296,578

Minimum, average and maximum Value-at-Risk of the international trading portfolio

R$ thousand

Period	Minimum	Average	Maximum
January to December / 2011	4,286	21,329	57,605

(iii) Stress

The purpose of Banco Votorantim stress test program is as follows:

(i) be integrated to the risk management structure of the institution;
(ii) to control exposure limits;
(iii) associate potential losses with plausible events;
(iv) be considered in the development of the risk mitigation strategies and in the contingency plans of the institution;
(v) be performed individually by risk factor and jointly; and
(vi) consider the concentration in particular risk factors of the non-linear instruments and the breaking of assumptions of the Value-at-Risk model.

Banco Votorantim's market risk stress test program uses evaluation methods based on:

(i) retrospective tests;
(ii) and prospective tests.

Retrospective test

The retrospective stress test method estimates the fair value variation of the bank's consolidated exposure, through the application of shocks in risk factors equivalent to those recorded in historical periods of market stress, considering the following parameters:

(i) Extension of the historic series to determine scenarios: from 01/2004 to the base date;
(ii) Holding period: 10-business-day accumulated returns; and
(iii) Test periodicity: daily.

The results of the retrospective stress tests aim to evaluate the capacity for absorption of significant losses and to identify any measures to reduce the institution's risks. The amounts shown in the tables represent the greatest loss and the highest gains in Consolidated Portfolio of all the scenarios in the time series used in the simulation:

Loss estimates of the retrospective stress test

R$ thousand

Risk Factors	Dec 31, 2012	
	Exposure	Stress
Interest rate	8,543,977	(757,620)
Foreign currency	(317,133)	(1,707)
Commodities	(4,729)	(161)
Stocks	14,869	(13,330)
Total	**8,236,984**	

Gain estimates of the retrospective stress test

R$ thousand

Risk Factors	Dec 31, 2012	
	Exposure	Stress
Interest rate	8,543,977	427,511
Foreign currency	(317,133)	-
Commodities	(4,729)	161
Stocks	14,869	2,331
Total	**8,236,984**	

Loss estimates of the retrospective stress test

R$ thousand

Risk Factors	Dec 31, 2011	
	Exposure	Stress
Interest rate	(12,859,689)	(43,600)
Foreign currency	173,602	(85,621)
Commodities	3,710	(231)
Stocks	19,030	(6,435)
Total	**(13,056,031)**	

Gain estimates of the retrospective stress test

R$ thousand

Risk Factors	Dec 31, 2011	
	Exposure	Stress
Interest rate	(12,859,689)	44,333
Foreign currency	173,602	-
Commodities	3,710	254
Stocks	19,030	-
Total	**(13,056,031)**	

Prospective test

The prospective stress test method estimates fair value variation of the bank's consolidated exposure, through the application of shocks in market risk factors, estimated based on stress scenarios generated by the Scenarios Subcommission, considering the following parameters:

(i) Metrics: result of the pessimistic scenario and result of the optimistic scenario;
(ii) Extension of the series: 10-business-day accumulated returns prospection;
(iii) Test periodicity: daily.

Prospective stress tests intend to simulate, on a prospective basis, adversities based on the characteristics of the institution portfolio and of the macro-economic environment, under severe and feasible conditions.

Results of the prospective stress test of the consolidated portfolio, in accordance with Banco Votorantim market risk stress test program, are as follows.

Loss estimates of the prospective stress test

R$ thousand

Risk Factors	Dec 31, 2012	
	Exposure	Stress
Interest rate	8,543,977	(373,751)
Foreign currency	(317,133)	(41,869)
Commodities	(4,729)	(161)
Stocks	14,869	(6,158)
Total	**8,236,984**	

Gain estimates of the prospective stress test

R$ thousand

Risk Factors	Dec 31, 2012	
	Exposure	Stress
Interest rate	8,543,977	312,724
Foreign currency	(317,133)	669
Commodities	(4,729)	161
Stocks	14,869	-
Total	**8,236,984**	

Loss estimates of the prospective stress test

R$ thousand

Risk Factors	Dec 31, 2011	
	Exposure	Stress
Interest rate	(12,859,689)	(39,625)
Foreign currency	173,602	(39,120)
Commodities	3,710	(231)
Stocks	19,030	(2,900)
Total	**(13,056,031)**	

Gain estimates of the prospective stress test

R$ thousand

Risk Factors	Dec 31, 2011	
	Exposure	Stress
Interest rate	(12,859,689)	33,468
Foreign currency	173,602	-
Commodities	3,710	254
Stocks	19,030	-
Total	**(13,056,031)**	

Foreign currency's balance

R$ thousand

Currency	Balance sheet accounts			
	Dec 31, 2012		Dec 31, 2011	
	Assets	Liabilities	Assets	Liabilities
USA Dollar	4,609,685	8,129,434	4,162,416	7,497,750
Euro	33,412	287,131	19,738	263,981
Swiss Franc	1,940	287,549	5,360	261,386
Yen	149	-	6,228	-
Pound Sterling	230	-		
Other currencies	2,890	-	4,397	-
Total	**4,648,306**	**8,704,114**	**4,198,139**	**8,023,117**
Net position – Balance sheet accounts		**(4,055,808)**		**(3,824,973)**

R$ thousand

Currency	Derivatives			
	Dec 31, 2012		Dec 31, 2011	
	Long position	Short position	Long position	Short position
USA Dollar	5,310,084	1,805,493	4,033,441	920,594
Euro	270,642	38,956	257,707	34,590
Swiss Franc	288,905	-	263,798	-
Yen	-	425		
Other currencies			180,141	-
Total	**5,869,631**	**1,844,874**	**4,735,087**	**955,184**
Net position – Derivatives	**4.024.757**		**3.779.903**	

R$ thousand

Currency	Dec 31, 2012	Dec 31, 2011
	Net position	Net position
USA Dollar	3,504,591	(222,487)
Euro	231,686	(21,126)
Yen	(425)	6,228
Swiss Franc	288,905	7,772
Other currencies	-	184,538
Net position Total	**4,024,757**	**(45,075)**

R$ thousand

Summary	Dec 31, 2012		Dec 31, 2011	
Balance sheet accounts and derivatives	10,517,937	10,548,988	8.933.226	8.978.301
Net position Total		(31,051)		(45,075)
Net position Total – US$		**(15,195)**		**(24,029)**

Liquidity risk

In accordance with Banco Votorantim's management report, the main tool used to measure liquidity risks is the minimum cash scenarios, built using the stress test methodology.

Basic principles

Basic principles used by Banco Votorantim to manage and control liquidity risks are as follows:

(i) Senior Management involvement: existing committees and commissions are structured for the purpose of involving Senior Management in global risk taking supervision;

(ii) Job independence: job segregation between areas responsible for operations and business strategy definition, and areas in charge of their accounting, of risk control, compliance and internal control and audit, is structured for the purpose of guaranteeing independence and autonomy for the performance of functions inherent in each job;

(iii) Definition of functions: a clear definition of processes and activities of each job involved with liquidity risk management and control is structured to achieve organized and efficient operating management;

(iv) Definition of methodologies to build scenarios: structured methodologies mandatory used by corporations and based on best market practices, intended to incorporate the dynamics of contracting new transactions and settling existing portfolios, are adopted;

(v) Establishment of limits: a clear and objective definition of authorized risk limits, based on risk measurements, is structured to insert risk tolerance levels defined by the institution into daily activities,

(vi) Monitoring of limits: definition of authorized limit usage level monitoring and reporting process;

(vii) Liquidity contingency plan: definition and periodic review of a structured plan to recovery minimum cash pre-established levels, with the assignment of people responsible, instruments and implementation deadlines;

Areas involved

Banco Votorantim's liquidity risk management functions comprise of a set of functional activities scattered along the entire business chain, from the development of products, trading and disbursement, liquidity risk modeling and control and the formalization, accounting and settlement of transactions, as well as the monitoring of used processes and controls' effectiveness.

Measures and risk limits for management and control

Banco Votorantim adopts the following set of objective measures to manage and control liquidity risks:

(i) Minimum cash.
(ii) Maturity scenarios.
(iii) Budget scenarios.
(iv) Stress scenarios.
(v) Sensitivity analysis.
(vi) Fund raising concentration profile.

Risk measurements are used to establish limits and risk taking. These limits include the definition of maximum authorized values to each monitored future scenario, through the definition of 'minimum cash' levels, and the definition of degrees along the time.

Values defined in liquidity limits and in the contingency plan are periodically reviewed and updated, as a result of a significant change in market conditions or in portfolios dynamics and composition.

Funding composition

R$ thousand

Liabilities	Dec 31, 2012					
	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	> 5 years	Total gross
Demand deposits	140,746	-	-	-	-	**140,746**
Interbank deposits	474,214	22,498	308,758	3,723	369,213	**1,178,406**
Time deposits	1,553,774	3,798,771	909,293	49,023	2,211	**6,313,072**
Own portfolio	8,659,521	6,487,164	1,769,857	48,013	55,658	**17,020,213**
Third parties portfolio	3,276,103	592,846	-	-	-	**3,868,949**
Freely-trade portfolio	136,193	110,446	-	-	-	**246,639**
Fixed income strategy	51,993	465,112	-	-	-	**517,105**
Funds from acceptance and issuance of securities	1,519,077	2,302,021	4,936,910	2,574,726	20,460	**11,353,194**
Borrowing and onlendings	875,829	2,720,176	890,820	300,285	330,855	**5,117,965**
Subordinated debt	108,245	-	973,041	1,054,226	1,360,094	**3,495,606**
Total gross	**16,795,695**	**16,499,034**	**9,788,679**	**4,029,996**	**2,138,491**	**49,251,895**

R$ thousand

Liabilities	Dec 31, 2011					
	Up to 1 month	1 to 6 months	6 to 12 months	1 to 5 years	> 5 years	Total gross
Demand deposits	215,880	-	-	-	-	215,880
Interbank deposits	316,109	187,155	308,803	306,878	309,158	1,428,103
Time deposits	650,733	3,832,265	4,305,882	2,372,000	7,459	11,168,339
Own portfolio	1,756,174	4,896,109	4,710,672	2,141,663	51,018	13,555,636
Third parties portfolio	574,882	2,318,039	270,448	-	-	3,163,369
Freely-trade portfolio	-	-	-	4,233	-	4,233
Fixed income strategy	1,119	548,134	399,485	15,646	-	964,384
Funds from acceptance and issuance of securities	26,362	95,937	1,538,799	6,236,032	1,036,194	8,933,324
Borrowing and onlendings	328,045	1,312,379	1,023,964	2,725,987	348,807	5,739,182
Subordinated debt	-	-	568,290	1,149,395	1,559,450	3,277,135
Total gross	**3,869,304**	**13,190,018**	**13,126,343**	**14,951,834**	**3,312,086**	**48,449,585**

44 – Related-party transactions

The costs of salaries and other benefits granted to key management personnel of Banco do Brasil (Board of Officers, Executive Directors, Audit Committee and Fiscal Council).

R$ thousand

	2012	2011
Short-term benefits	**37,157**	**28,126**
Salary	**22,953**	**19,107**
Executive Board	20,321	16,940
Audit Committee	2,057	1,603
Board of Directors	284	302
Fiscal Council	291	262
Profit sharing	8,393	6,863
Other	5,811	2,156
Benefits for termination of work agreement	9,109	**3,501**
Total	**46,266**	**31,627**

The Bank does not offer post-employment benefits to its key management personnel, except for those who are part of the staff of the Bank, and who participate in the Pension Plan for Employees of Banco do Brasil (Previ).

The Bank does not grant loans to its officers, members of its Board of Officers, Audit Committee and Fiscal Council because this practice is prohibited for all the financial institutions regulated by the Brazilian Central Bank.

All intercompany transactions among the Bank's consolidated companies are excluded from these consolidated financial statements. With respect to the majority shareholder, transactions with the Brazilian National Treasury Department and with the agencies of the direct administration of the Federal government that maintain banking operations with the Bank, are included.

The Bank has banking transactions with related parties, such as interest bearing and non-interest bearing deposits, loans, and sale and repurchase transactions. There are also service provision and guarantee agreements. These transactions are conducted under normal market conditions, under the terms and conditions for comparable transactions with unrelated parties, including interest rates and collateral. These transactions do not involve abnormal payment risks. On 09.26.2012, the Bank signed a loan agreement with the Federal Government in the amount of R$ 8.1 billion whose terms and conditions are described in note 32.e.

The funds invested in government securities and in federal funds and programs from onlendings of the Official Institutions are listed note 32.

The Bank is the sponsor of Fundação Banco do Brasil (FBB) whose purpose is the promotion, support, advancement and sponsorship of educational, cultural, social, philanthropic, and recreational/sporting activities, as well as the promotion of research activities of a technological and scientific nature, and rural and urban community assistance services. In 2012, the Bank has made contributions to FBB in the amount of R$ 38,289 thousand (R$ 42,527 thousand in 2011).

Summary of related-party transactions

R$ thousand

	Dec 31, 2012						
	Controlling stockholder (1)	Subsidiaries (2)	Joint control (3)	Associated companies (4)	Key management personnel (5)	Other related parties (6)	Total
Assets							
Loans to financial institutions	-	33,617,623	-	-	-	-	33,617,623
Financial assets available for sale	-	43,741	170,460	-	-	-	214,201
Loans to customers	651,090	37,130	7,029	38	-	2,024,255	2,719,542
Other assets	-	334,054	1,038,321	411	-	-	1,372,786
Total	651,090	34,032,548	1,215,810	449	-	2,024,255	37,924,152
Liabilities							
Deposits of clients	836,011	3,792,807	1,176,911	1,764	4,485	6,985,661	12,797,639
Obligations related to committed	-	5,309,356	-	-	-	6,570,501	11,879,857
Long-term liabilities	633,638	25,320,236	-	-	-	59,665,342	85,619,216
Other liabilities	8,214,555	987,295	7,902	-	-	14,934	9,224,686
Total	**9,684,204**	**35,409,694**	**1,184,813**	**1,764**	**4,485**	**73,236,438**	**119,521,398**
			2012				
Consolidated statement of income							
Income from interest and rendering	82,514	2,416,549	101,243	1,086	-	316,527	2,917,919
Borrowing expenses	(69,462)	(2,112,547)	(130,993)	(4,923)	(740)	(3,144,660)	(5,463,325)
Net total	**13,052**	**304,002**	**(29,750)**	**(3,837)**	**(740)**	**(2,828,133)**	**(2,545,406)**
Guarantees and other recourses (7)	**-**	**907,966**	**6,800,000**	**-**	**-**	**-**	**7,707,966**

(1) Controller – comprise the Brazilian National Treasury Department, representing the Federal Union, and the agencies of the direct administration of the Federal Government.

(2) Subsidiaries – comprise the companies listed in Note 5, identified in reference 1.

(3) Joint control – comprise the companies listed in Note 5, identified in reference 2.

(4) Associated companies – comprise the companies listed in Note 24.

(5) Key Management Personnel – Board of Directors, Executive Board, Audit Committee and Fiscal Council.

(6) Includes private and public companies controlled by the Federal Government, entities linked to employees (Caixa de Previdência dos Funcionários do Banco do Brasil – PREVI, Fundação Codesc de Seguridade Social – Fusesc, Caixa de Assistência dos Funcionários do Banco do Brasil – Cassi) and Fundação Banco do Brasil – FBB.

(7) Includes Opening Contract Interbank Revolving Credit Line to release with Banco Votorantim, equivalent to the value of net assets of that institution less the figures used in the transactions with the Bank.

R$ thousand

	Dec 31, 2011						
	Controlling stockholder (1)	Subsidiaries (2)	Joint control (3)	Associated companies (4)	Key management personnel (5)	Other related parties (6)	Total
Assets							
Loans to financial institutions	-	20,590,919	18,434	-	-	-	20,609,353
Financial assets available for sale	-	61,940	94,313	-	-	-	156,253
Loans to customers	836,224	49,612	7,861	-	-	523,750	1,417,447
Other assets	-	181,572	-	-	-	-	181,572
Total	**836,224**	**20,884,043**	**120,608**	**-**	**-**	**523,750**	**22,364,625**
Liabilities							
Deposits of clients	717,309	5,337,322	424,597	255,241	6,542	6,029,402	12,770,413
Obligations related to committed operations	-	1,680,647	830,169	-	-	1,113,044	3,623,860
Long-term liabilities	1,643,963	14,326,735	-	-	-	43,735,159	59,705,857
Other liabilities	-	1,251,984	70,248	31	-	1,125,124	2,447,387
Total	**2,361,272**	**22,596,688**	**1,325,014**	**255,272**	**6,542**	**52,002,729**	**78,547,517**
Consolidated statement of income			**2011**				
Income from interest and rendering	113,931	1,982,470	47,264	132,130	-	423,145	2,698,940
Borrowing expenses	(97,341)	(1,192,412)	(50,671)	(3,306)	(1,014)	(2,986,825)	(4,331,569)
Net total	**16,590**	**790,058**	**(3,407)**	**128,824**	**(1,014)**	**(2,563,680)**	**(1,632,629)**
Guarantees and other recourses (7)	**-**	**629,116**	**7,474,911**	**-**	**-**	**-**	**8,104,027**

(1) Controller – comprise the Brazilian National Treasury Department, representing the Federal Union, and the agencies of the direct administration of the Federal Government.

(2) Subsidiaries – comprise the companies listed in Note 5, identified in reference 1.

(3) Joint control – comprise the companies listed in Note 5, identified in reference 2.

(4) Associated companies – comprise the companies listed in Note 24.

(5) Key Management Personnel – Board of Directors, Executive Board, Audit Committee and Fiscal Council.

(6) Includes private and public companies controlled by the Federal Government, entities linked to employees (Caixa de Previdência dos Funcionários do Banco do Brasil – PREVI, Fundação Codesc de Seguridade Social – Fusesc, Caixa de Assistência dos Funcionários do Banco do Brasil – Cassi) and Fundação Banco do Brasil – FBB.

(7) Includes Opening Contract Interbank Revolving Credit Line to release with Banco Votorantim, equivalent to the value of net assets of that institution less the figures used in the transactions with the Bank.

45 – Current and non-current assets and liabilities

R$ thousand

	Dec 31, 2012		
	Up to 1 year	**After 1 year**	**Total**
Assets			
Cash and bank deposits	12,690,806	-	12,690,806
Compulsory deposits with central banks	80,097,865	-	80,097,865
Loans to financial institutions	30,788,167	13,453,317	44,241,484
Securities purchased under resale agreements	189,227,191	288,698	189,515,889
Financial assets at fair value through profit or loss	23.573.623	51.382.323	74.955.946
Debt and equity instruments	23,022,378	50,518,988	73,541,366
Derivatives	551,245	863,335	1,414,580
Financial assets available for sale	21,136,699	75,567,961	96,704,660
Financial assets held to maturity	4,375,992	8,337,406	12,713,398
Loans to customers net of allowance	231,563,320	266,507,464	498,070,784
Non-current assets held for sale	143,228	65,212	208,440
Investments in associates	-	163,723	163,723
Property and equipment	-	7,299,814	7,299,814
Intangible assets	2.861.394	14.593.106	17.454.500
Goodwill	-	3,441,877	3,441,877
Other	2,861,394	11,151,229	14,012,623
Tax assets	9.730.757	23.344.032	33.074.789
Current	9,730,757	136,775	9,867,532
Deferred	-	23,207,257	23,207,257
Other assets	42,693,435	26,121,942	68,815,377
Total	**648,882,477**	**487,124,998**	**1,136,007,475**
Liabilities			
Deposits of clients	338,777,726	116,737,473	455,515,199
Amount payable to financial institutions	13,702,194	3,087,629	16,789,823
Financial liabilities at fair value through profit or loss	1.598.193	2.228.550	3.826.743
Debt instruments	272,670	114,591	387,261
Derivatives	1,325,523	2,113,959	3,439,482
Securities sold under repurchase agreements	214,648,786	11,138,085	225,786,871
Short-term liabilities	10,257,076	700,742	10,957,818
Long-term liabilities	49,966,616	148,551,276	198,517,892
Provisions for labor, fiscal and civil claims	8,702,776	136,209	8,838,985
Insurance contracts and private pension plans	10,789,446	45,053,852	55,843,298
Tax liabilities	5.789.853	6.896.507	12.686.360
Current	5,789,853	6,469	5,796,322
Deferred	-	6,890,038	6,890,038
Other liabilities	40,350,189	36,996,068	77,346,257
Stockholders' equity	**-**	**69,898,229**	**69,898,229**
Total	**694,582,855**	**441,424,620**	**1,136,007,475**

R$ thousand

	Dec 31, 2011		
	Up to 1 year	After 1 year	Total
Assets			
Cash and bank deposits	10,492,143	-	10,492,143
Compulsory deposits with central banks	93,689,987	-	93,689,987
Loans to financial institutions	19,748,681	22,097,810	41,846,491
Securities purchased under resale agreements	139,013,120	19,081	139,032,201
Financial assets at fair value through profit or loss	23.565.450	44.729.022	68.294.472
Debt and equity instruments	22,498,366	44,399,406	66,897,772
Derivatives	1,067,084	329,616	1,396,700
Financial assets available for sale	17,692,942	66,635,247	84,328,189
Financial assets held to maturity	4,105,814	10,891,515	14,997,329
Loans to customers net of allowance	185,454,687	213,577,807	399,032,494
Non-current assets held for sale	56,328	58,060	114,388
Investments in associates	-	514,206	514,206
Property and equipment	-	6,194,386	6,194,386
Intangible assets	3.399.398	14.596.505	17.995.903
Goodwill	-	2,797,993	2,797,993
Other	3,399,398	11,798,512	15,197,910
Tax assets	8.253.378	20.465.193	28.718.571
Current	8,253,378	46,870	8,300,248
Deferred	-	20,418,323	20,418,323
Other assets	39,203,343	22,368,965	61,572,308
Total	**544,675,271**	**422,147,797**	**966,823,068**
Liabilities			
Deposits of clients	277,607,122	151,570,141	429,177,263
Amount payable to financial institutions	11,992,885	2,632,465	14,625,350
Financial liabilities at fair value through profit or loss	3.442.079	530.776	3.972.855
Debt instruments	352,199	--	352,199
Derivatives	3,089,880	530,776	3,620,656
Securities sold under repurchase agreements	184,967,739	10,237,140	195,204,879
Short-term liabilities	10,383,708	2,604,900	12,988,608
Long-term liabilities	29,406,654	92,640,736	122,047,390
Provisions for labor, fiscal and civil claims	6,508,027	472,181	6,980,208
Insurance contracts and private pension plans	9,004,904	32,638,557	41,643,461
Tax liabilities	4.348.307	6.688.903	11.037.210
Current	4,348,307	23,125	4,371,432
Deferred	-	6,665,778	6,665,778
Other liabilities	52,591,759	13,284,861	65,876,620
Stockholders' equity	**-**	**63,269,224**	**63,269,224**
Total	**590,253,184**	**376,569,884**	**966,823,068**

46 - Transfers of financial assets

In the course of its activities, the Bank enters into transactions that result in the transfer of financial assets, mainly represented by debt instruments, equity instruments and loans to customers. In applying the accounting for transfers of financial assets, the Bank evaluates the level of continuing involvement with transferred assets to determine if it continues its recognition in its entirety on the extent of its continuing involvement or is derecognized the assets transferred financial .

The transactions of transfers of financial assets held by the Bank are represented mainly by the sale of securities under repurchase agreements and the transfer of loan portfolios to clients with substantial retention of risks and benefits whose liabilities are recorded for obligations associated with repurchase agreements and other obligations respectively.

Financial assets transferred and still recognized in the balance and their associated liabilities at fair value

R$ thousand

	Dec 31, 2012		
	Financial Assets Transferred	Associated Liabilities	Net Position
Financial assets related to repurchase agreements	**50,362,507**	**50,064,318**	**298,188**
Financial assets at fair value through profit or loss	6,434,350	6,396,253	38,097
Financial assets available for sale	40,465,146	40,225,558	239,588
Financial assets held to maturity	3,463,011	3,442,507	20,504
Cession of loans	**89,413**	**221,167**	**-131,755**

Sale with repurchase agreement

Sale with repurchase agreement are transactions in which the conglomerate sells a security, in its majority public issue, and simultaneously agrees to buy that same security with fixed price at a future date. The Conglomerate continues to recognize the title in its entirety on the balance sheet because the risks and benefits of securities were substantially retained, other words, any change in fair value and the income that the title offers are of entire responsibility of the Conglomerate.

Credit assignment with substantial retention of risks and benefits

The Conglomerate transfers the right to receive future cash flows of financial assets classified as loans and receivables to the transferee by means of receipt of an amount in cash, calculated on the date of transfer. However, the conglomerate continues to recognize on its balance sheet, the asset balances in financial rubrics detached because the risks and benefits of securities were substantially retained, other words, any event of default occurred in the transferred receivables is the responsibility of the Conglomerate.

47 – Subsequent events

Fund raising

In January/2013, the Banco do Brasil has issued on Country Subordinated Financial Letters, over the amount of R$ 5.2 billion and foreign funding as hybrid instrument of capital and debt in the amount of US$ 2 billion.

If this amount is approved by the Brazilian Central Bank to compose Banco's capital, Banco do Brasil's BIS ratio will be increased by around 137 bps (1.37 percentage points), based on figures published on September 2012.

BB Seguridade

In February/2013, the Extraordinary Shareholders Meeting approved:

a) the initial Public Offering of the wholly owned subsidiary, BB Seguridade Participações S.A. and its application to be a registered public company to the Brazilian Securities Commission;

b) the sale of shares issued by BB Seguridade with the amount and price per share to be define by the Board of Directors in due time in a Primary Public Offering and/or Secondary in accordance to the minute of the referred Meeting;

c) the capital increase of BB Seguridade, up to 10% of total issued shares, assuming a Primary Offering, pursuant do decision to be taken in due time by the Board of Directors;

d) the delegation of powers to the Board of Directors to execute a Primary and/or Secondary Offering, as well as aspects and procedures necessary for its implementation.

This notice should not be considered an Offering, which will depend on favorable market conditions.

MEMBERS OF THE MANAGEMENT BODIES

PRESIDENT
Aldemir Bendine

VICE-PRESIDENTS
Alexandre Corrêa Abreu
César Augusto Rabello Borges
Geraldo Afonso Dezena da Silva
Ivan de Souza Monteiro
Osmar Fernandes Dias
Paulo Roberto Lopes Ricci
Paulo Rogério Caffarelli
Robson Rocha
Walter Malieni Junior

DIRECTORS
Adilson do Nascimento Anisio
Admilson Monteiro Garcia
Adriano Meira Ricci
Antonio Mauricio Maurano
Antonio Pedro da Silva Machado
Carlos Alberto Araujo Netto
Carlos Eduardo Leal Neri
Clenio Severio Teribele
Gueitiro Matsuo Genso
Hayton Jurema da Rocha
Hideraldo Dwight Leitão
Ives Cézar Fülber
Janio Carlos Endo Macedo
José Carlos Reis da Silva
José Mauricio Pereira Coelho
Luiz Henrique Guimarães de Freitas
Marcelo Augusto Dutra Labuto
Márcio Hamilton Ferreira
Marco Antonio Ascoli Mastroeni
Marco Antonio da Silva Barros
Marcos Ricardo Lot
Nilson Martiniano Moreira
Raul Francisco Moreira
Sandro José Franco
Sandro Kohler Marcondes

ACCOUNTING DEPT.
Eduardo Cesar Pasa
Contador Geral
Contador CRC-DF 017601/O-5
CPF 541.035.920-87

Daniel André Stieler
Contador CRC-DF 013931/O-2
CPF 391.145.110-53

BOARD OF DIRECTORS
Nelson Henrique Barbosa Filho (President)
Aldemir Bendine
Adriana Queiroz de Carvalho
Bernardo Gouthier Macedo
Henrique Jäger
Sérgio Eduardo Arbulu Mendonça

FISCAL COUNCIL
Paulo José dos Reis Souza (President)
Anelize Lenzi Ruas de Almeida
Clóvis Ailton Madeira
Marcos Machado Guimarães
Pedro Carvalho de Mello

AUDIT COMMITTEE
Egídio Otmar Ames
Antônio Carlos Correia
Henrique Jäger