BANK BRADESCO
Form 6-K
April 01, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of March, 2014
Commission File Number 1-15250

BANCO BRADESCO S.A.
(Exact name of registrant as specified in its charter)

BANK BRADESCO
(Translation of Registrant's name into English)

Cidade de Deus, s/n, Vila Yara
06029-900 - Osasco - SP
Federative Republic of Brazil
(Address of principal executive office)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.
Form 20-F ___X___ Form 40-F _______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes _______ No ___X____

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Summary

Notes to the Consolidated Financial Statements

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Independent Auditors' Report

INDEPENDENT AUDITORS` REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors and Shareholders

Banco Bradesco S.A.

Osasco – SP

We have audited the accompanying consolidated financial statements of Banco Bradesco S.A. ("Bradesco"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies 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 as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of the consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity'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 entity'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Banco Bradesco S.A., as at December 31, 2013, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

As discussed in Note 2.a.iii to the consolidated financial statements, Bradesco adopted IFRS 11 - Joint Arrangements effective January 1, 2013. Bradesco applied this change in accounting policy retrospectively, and accordingly restated the comparative information of the consolidated financial statements as of and for the year ended December 31, 2012, and the consolidated statement of financial position as of January 1, 2012. Our opinion does not contain any qualification related to this emphasis.

Osasco, March 27, 2014

Original report in Portuguese signed by

KPMG Auditores Independentes

CRC 2SP014428/O-6

Cláudio Rogélio Sertório

Accountant CRC 1SP212059/O-0

Consolidated Financial Statements prepared in accordance with International Financial ReportingStandards (IFRS)

Audit Comittee's Report

Bradesco Financial Conglomerate Audit Committee´s Report on financial statements prepared in accordance with International Financial Reporting Standards (IFRS)

In addition to the Audit Committee's Report related to the consolidated financial statements of Banco Bradesco S.A. for the year ended December 31, 2013, issued on January 29, 2014, we have also analyzed the financial statements prepared in accordance with International Financial Reporting Standards.

As mentioned in the report referred to above, our analysis has taken into consideration the work carried out by independent auditors and the evaluation of internal controls maintained by the various financial areas of Bradesco financial conglomerate, mainly Internal Audit, Risk Management and Compliance areas.

Management has the responsibility of defining and implementing accounting and management information systems that produce the consolidated financial statements of Bradesco and its subsidiaries, in compliance with Brazilian and international accounting standards.

Management is also responsible for processes, policies and procedures for internal controls that ensure the safeguarding of assets, timely recognition of liabilities and risk management for Bradesco Organization transactions.

Independent Auditors are responsible for auditing the financial statements and for issuing an auditing report on their compliance with applicable accounting principles.

The responsibility of internal auditors is to assess the quality of Bradesco Organization's internal control systems and the regularity of policies and procedures determined by Management, including those used to prepare accounting and financial reports.

The Audit Committee is responsible for evaluating the quality and effectiveness of the internal and independent auditors' work, the effectiveness and adequacy of the Bradesco Organization's internal control systems, and also for analyzing financial statements in order to issue, when applicable, pertinent recommendations.

Based on the review and discussions mentioned above, the Audit Committee recommends that the Board of Directors approves the audited financial statements for the year ended December 31, 2013, prepared in accordance with International Financial Reporting Standards.

Cidade de Deus, Osasco, SP, March 27, 2014

CARLOS ALBERTO RODRIGUES GUILHERME

(Coordinator)

ROMULO NAGIB LASMAR

OSVALDO WATANABE

PAULO ROBERTO SIMÕES DA CUNHA

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Consolidated Statement of Income

				R$ thousand
		Years ended December 31		
	Note	**2013**	**2012 (Restated)**	**2011 (Restated)**
Interest and similar income		90,682,625	83,031,854	82,152,096
Interest and similar expenses		(41,382,142)	(39,646,131)	(46,763,775)
Net interest income	6	**49,300,483**	**43,385,723**	**35,388,321**
Fee and commission income		14,535,723	12,757,131	10,932,237
Fee and commission expenses		(36,041)	(36,391)	(33,978)
Net fee and commission income	7	**14,499,682**	**12,720,740**	**10,898,259**
Net gains/(losses) on financial instruments classified as held for trading	8	(5,790,089)	2,110,112	(608,271)
Net gains/(losses) on financial instruments classified as available for sale	9	(6,100,782)	1,895,974	365,302
Net gains/(losses) of foreign currency transactions	10	(1,093,597)	(1,087,595)	2,625,816
Income from insurance and pension plans	11	6,933,680	1,413,016	3,076,175
Operating income		**(6,050,788)**	**4,331,507**	**5,459,022**
Impairment of loans and advances	12	(9,623,870)	(11,451,383)	(8,239,358)
Personnel expenses	13	(12,354,418)	(11,559,002)	(11,094,794)
Other administrative expenses	14	(12,151,537)	(11,803,989)	(11,380,270)
Depreciation and amortization	15	(2,740,830)	(2,488,182)	(2,117,666)
Other operating income/(expenses)	16	(7,622,240)	(8,674,178)	(5,106,092)
Operating expense		**(44,492,895)**	**(45,976,734)**	**(37,938,180)**
Income before income taxes and equity in the earnings of associates		**13,256,482**	**14,461,236**	**13,807,422**
Equity in the earnings of associates and joint ventures	27	1,062,687	980,212	803,820
Income before income taxes		**14,319,169**	**15,441,448**	**14,611,242**
Income tax and social contribution	17	(1,833,031)	(4,089,754)	(3,521,800)
Net income for the year		**12,486,138**	**11,351,694**	**11,089,442**
Attributable to shareholders:				
Controlling shareholders		12,395,920	11,291,570	10,958,054
Non-controlling interest		90,218	60,124	131,388

Basic and diluted income per share based on the weighted average number of shares attributable to shareholders (expressed in R$ per share):

– Earnings per ordinary share	18	2.81	2.56	2.49
– Earnings per preferred share	18	3.09	2.82	2.74

The Notes are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements prepared in accordance with International Financial ReportingStandards (IFRS)

Consolidated Statement of Comprehensive Income

			R$ thousand
	Years ended December 31		
	2013	**2012 (Restated)**	**2011 (Restated)**
Net income for the year	**12,486,138**	**11,351,694**	**11,089,442**
Unrealized gains/(losses) on financial assets available for sale	(12,544,423)	7,679,798	(763,425)
Exchange differences on translations of foreign operations	50,839	46,196	389
Tax effect	4,993,961	(3,080,317)	294,823
Total adjustments not included in the net income	**(7,499,623)**	**4,645,677**	**(468,213)**
Total comprehensive income for the year	**4,986,515**	**15,997,371**	**10,621,229**
Attributable to shareholders:			
Controlling shareholders	4,896,297	15,937,247	10,489,841
Non-controlling interest	90,218	60,124	131,388

The Notes are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Consolidated Statement of Financial Position

				R$ thousand
		December 31		January 01,
	Note	2013	2012 (Restated)	2012 (Restated)
Assets				
Cash and balances with banks	19	67,450,363	59,901,564	93,722,190
Financial assets held for trading	20a	96,092,523	111,838,502	96,597,075
Financial assets available for sale	21	67,838,411	81,522,130	45,207,634
Investments held to maturity	22	23,069,026	3,715,673	4,110,987
Assets pledged as collateral	23	117,740,225	106,133,299	97,122,080
Loans and advances to banks	24	78,719,723	92,459,347	72,660,596
Loans and advances to customers, net of impairment	25	304,121,334	269,021,320	245,251,879
Non-current assets held for sale	26	832,546	532,973	445,328
Investments in associated companies and joint ventures	27	3,392,847	3,121,386	2,724,721
Property and equipment, net of accumulated depreciation	28	4,501,967	4,524,827	4,258,456
Intangible assets and goodwill, net of accumulated amortization	29	8,220,739	7,617,873	7,046,256
Taxes to be offset	17g	5,293,116	5,294,566	4,503,040
Deferred income tax assets	17c	25,661,079	17,913,529	17,051,947
Other assets	30	35,367,715	35,943,635	30,264,400
Total assets		**838,301,614**	**799,540,624**	**720,966,589**
Liabilities				
Deposits from banks	31	243,100,373	220,943,354	204,351,800
Deposits from customers	32	216,218,057	210,774,263	216,620,050
Financial liabilities held for trading	20b	1,826,382	4,049,982	747,210
Funds from securities issued	33	57,883,068	51,552,093	41,630,969
Subordinated debt	34	35,885,003	34,851,714	26,910,091
Insurance technical provisions and pension plans	35	130,329,023	118,768,720	99,112,321
Other provisions	37	13,752,577	21,021,109	17,894,158
Current income tax liabilities		3,082,976	3,288,688	2,694,395
Deferred income tax liabilities	17c	799,824	3,091,667	2,246,508
Other liabilities	38	63,321,405	59,852,644	49,376,993
Total liabilities		**766,198,688**	**728,194,234**	**661,584,495**
Equity	39			
Share capital		38,100,000	30,100,000	30,100,000

Treasury shares	(269,093)	(197,301)	(183,109)
Capital reserves	35,973	35,973	35,973
Profit reserves	34,122,503	34,189,383	26,732,531
Additional paid-in capital	70,496	70,496	70,496
Other comprehensive income	(1,102,887)	6,396,736	1,751,059
Retained earnings	927,314	542,422	632,096
Equity attributable to controlling shareholders	**71,884,306**	**71,137,709**	**59,139,046**
Non-controlling interest	**218,620**	**208,681**	**243,048**
Total equity	**72,102,926**	**71,346,390**	**59,382,094**
Total liabilities and equity	**838,301,614**	**799,540,624**	**720,966,589**

The Notes are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements prepared in accordance with International Financial ReportingStandards (IFRS)

Consolidated Statement of Changes in Equity

				Revenue reserves					
	Share capital	**Treasury shares**	**Capital reserves**	**Legal**	**Estatutory**	**Additional paid-in capital**	**Other comprehensive income (1)**	**Retained earnings**	**att to c sha**
Balance on December 31, 2010 (Restated)	**28,500,000**	**(10,049)**	**87,146**	**2,755,385**	**16,726,601**	**70,496**	**2,219,272**	**702,383**	
	-							10,958,054	
	-	-	-	-	-	-	(468,447)	-	
	-	-	-	-	-	-	234	-	
	-	-	-	-	-		-	-	
Purchase of treasury shares	-	(173,060)	-	-	-	-	-	-	
Increase of non-controlling shareholders' interest	-	-	-	-	-	-	-	-	
	-	-	11,441		-	-	-	-	
	100,000	-	(62,614)	(37,386)	-	-	-	-	
		-	-	551,413	6,736,518	-	-	(7,287,931)	
	1,500,000	-	-	-	-	-	-	-	
	-	-	-	-	-	-	-	(3,740,410)	
(Restated)	**30,100,000**	**(183,109)**	**35,973**	**3,269,412**	**23,463,119**	**70,496**	**1,751,059**	**632,096**	

	-	-	-	-	-	-	-	11,291,570
	-	-	-	-	-	-	4,617,960	-
	-	-	-	-	-	-	27,717	-
	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Purchase of treasury shares	-	(14,192)	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
	-	-	-	-	(29,394)			
	-	-	-	569,062	6,917,184	-	-	(7,486,246)
	-	-	-	-	-	-	-	(3,894,998)
(Restated)	**30,100,000**	**(197,301)**	**35,973**	**3,838,474**	**30,350,909**	**70,496**	**6,396,736**	**542,422**

The Notes are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Consolidated Statement of Changes in Equity (continued)

				Revenue reserves					
	Share capital	**Treasury shares**	**Capital reserves**	**Legal**	**Statutory**	**Additional paid-in capital**	**Other comprehensive income (1)**	**Retained earnings**	**att to c sha**
(Restated)	**30,100,000**	**(197,301)**	**35,973**	**3,838,474**	**30,350,909**	**70,496**	**6,396,736**	**542,422**	**7**
	-	-	-	-	-	-	-	12,395,920	1
	-	-	-	-	-	-	(7,530,127)	-	(
	-	-	-	-	-	-	30,504	-	
	-	-	-	-	-	-	-	-	
Purchase of treasury shares	-	(71,792)	-	-	-	-	-	-	
Decrease of non- controlling hareholders' interest	-	-	-	-	-	-	-	-	
Premium on share subscription (4)	8,000,000	-	-	-	(8,000,000)	-	-	-	
	-	-	-	600,551	7,332,569	-	-	(7,933,120)	
and dividends	-	-	-	-	-	-	-	(4,077,908)	(
	38,100,000	**(269,093)**	**35,973**	**4,439,025**	**29,683,478**	**70,496**	**(1,102,887)**	**927,314**	**7**

(1) In 2013, consists mainly of unrealized gains/losses from investment securities, classified as available for sale (Notes 21 and 23), of which the cumulative tax effects amount to R$ (728,952) thousand (2012 -

R$ 4,265,009 thousand);

(2) On December 17, 2010, the Special Shareholders' Meeting approved an increase in Share Capital, in the amount of R$ 1,500,000 thousand, raising it from R$ 28,500,000 thousand to R$ 30,000,000 thousand, with the issuance of 62,344,140 new, nominative, book entry shares, with no par value, being 31,172,072 ordinary shares and 31,172,068 preferred shares, based on the private subscription by shareholders during the period from December 29, 2010 to January 31, 2011 in proportion to the shares each one held on the date of the Meeting, to be paid up in cash on February 18, 2011. The excess used to increase share capital amounting to R$ 11,441 thousand calculated as the difference between the issue price and the share sale price, was recognized in the "Capital Reserve" account;

(3) The Annual General Meeting held on March 10, 2011 decided to increase share capital by R$ 100,000 thousand, from R$ 30,000,000 thousand to R$ 30,100,000 thousand, without issuing shares, by using part of the "Capital Reserve" and "Profit Reserve - Legal Reserve" accounts;

(4) On March 11, 2013, the Special Shareholders' Meeting approved an increase in Share Capital, in the amount of R$ 8,000,000 thousand, increasing it from R$ 30,100,000 thousand to R$ 38,100,000 thousand, through the issue of 382,479,458 new no-par registered, book-entry shares, of which 191,239,739 are common shares and 191,239,719 are preferred shares, given free of charge to shareholders as bonus, at the proportion of one (1) new share for every ten (10) shares of the same type they hold, benefiting Bradesco's shareholders of record as at March 25, 2013; and

(5) On December 31, 2013 includes R$6,117,649 thousand (R$3,670,589 thousand, net of taxes), representing the realization of loss related to the sale and acquisition of available-for-sale securities totaling R$41,945,300 thousand, allowing that the new acquisition cost is aligned with the current fair value. Additionally, a total of R$ 19,121,109 thousand was reclassified from "Available for Sale Securities" to "Held-to-Maturity Securities," given that the Insurance Group made the reclassification because of the change in Management's intention. The mark-to-market accounting of these securities, totaling R$479,358 thousand, was maintained under Shareholders' Equity and will be recognized in income statement for the remaining term of securities.

The Notes are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Consolidated Statement of Cash Flows

			R$ thousand
	Years ended December 31		
	2013	**2012 (Restated)**	**2011 (Restated)**
Operating activities			
Income before income taxes	**14,319,169**	**15,441,448**	**14,611,242**
Adjustments to reconcile income before income tax to net cash flow from operating activities:			
Impairment of loans and advances	9,623,870	11,451,383	8,239,358
Changes in the insurance technical provisions and pension plans	20,001,807	23,326,101	18,212,405
Net (gains)/losses from disposals on assets available for sale	5,698,697	(2,895,780)	(238,606)
Expenses with other provisions	1,132,596	4,246,589	5,610,702
Deferred selling expenses (insurance)	(332,056)	(128,005)	(97,748)
Impairment of assets	459,193	1,697,474	5,126
Depreciation	1,018,239	1,035,235	989,161
Amortization of intangible assets	1,722,591	1,452,947	1,128,505
Equity in the earnings of associates	(1,062,687)	(980,212)	(803,820)
Losses on disposal of non-current assets held for sale	195,605	203,885	237,727
Net losses from disposal of property and equipment	24,795	5,157	8,596
Amortization of goodwill	12,273	44,962	-
(Gain) on disposal of investments in associated companies	-	(793,360)	-
Changes in assets and liabilities:			
(Increase)/decrease in compulsory deposits in the Central Bank	(7,428,592)	23,202,973	(5,958,918)
(Increase)/decrease in loans and advances to banks	87,999,493	(53,564,414)	(25,601,906)
(Increase) in loans and advances to customers	(95,688,070)	(78,824,136)	(89,928,450)
(Increase)/decrease in financial assets held for trading	7,619,533	23,176,091	(75,107,915)
(Increase) in other assets	(11,777,883)	(6,120,400)	(3,783,028)
Increase in deposits from banks	40,157,365	30,511,120	50,632,056
Increase in deposits from customers	16,961,511	7,087,016	39,273,052
Increase/(decrease) in financial liabilities held for trading	(2,223,600)	3,302,772	14,243
Decrease in insurance technical provisions and pension plans	(8,441,504)	(3,669,702)	(2,593,130)
Decrease in other provisions	(8,401,128)	(1,119,638)	(1,040,684)
Increase in other liabilities	13,181,535	20,716,267	7,565,203
Interest received	51,660,545	66,904,924	64,161,337
Interest paid	(29,518,063)	(26,852,369)	(33,332,306)
Income tax and social contribution paid	(6,192,982)	(6,220,112)	(5,377,893)

Other changes in taxes	(889,743)	(1,163,615)	(4,062,886)
Net cash provided by/(used in) operating activities	**99,832,509**	**51,474,601**	**(37,238,577)**
Investing activities			
Acquisitions of subsidiaries, net of cash and cash equivalents paid	-	(2,552)	(214,676)
Acquisitions of financial assets available for sale	(97,805,696)	(163,462,843)	(19,055,607)
Proceeds from sale of financial assets available for sale	71,371,855	115,237,164	32,793,444
Redemption of investments held to maturity	303,307	699,982	105,722
Disposal of non-current assets held for sale	658,039	266,123	228,958
Acquisitions in investments in associated companies	-	(97,454)	(146,967)
Disposal of investments in associated companies	-	918,819	-
Dividends received from investments in associated companies	767,765	510,580	597,697
Acquisition of property and equipment	(1,332,570)	(1,673,837)	(1,698,704)
Disposal of property and equipment	303,996	367,074	110,653
Acquisition of intangible assets	(2,362,977)	(2,552,000)	(3,176,645)
Dividends received	189,865	117,684	126,696
Interest received	4,719,738	4,920,612	7,190,077
Net cash provided by/(used in) investing activities	**(23,186,678)**	**(44,750,648)**	**16,860,648**

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Consolidated Statement of Cash Flows (continued)

			R$ thousand
	Years ended December 31		
	2013	**2012 (Restated)**	**2011 (Restated)**
Financing activities			
Funds from securities issued	43,567,205	24,448,024	28,212,490
Payment of funds from securities issued	(38,524,851)	(19,956,590)	(5,679,892)
Issuance of subordinated debts	713,760	12,997,694	9,505,799
Payment of subordinated debts	(1,762,491)	(4,493,518)	(6,542,624)
Acquisition of treasury shares	(71,792)	(14,192)	(173,060)
Premium on share subscription	-	-	11,441
Capital increase in cash	-	-	1,500,000
Capital transaction	-	(29,394)	-
(Decrease) of non-controlling interest	(10,870)	(1,499)	42,483
Interest paid	(5,923,242)	(5,261,001)	(2,342,856)
Interest on equity and dividends paid	(4,362,781)	(3,839,385)	(3,568,337)
Net cash provided by/(used in) financing activities	**(6,375,062)**	**3,850,139**	**20,965,444**
Increase in cash and cash equivalents	**70,270,769**	**10,574,092**	**587,515**
Cash and cash equivalents			
At the beginning of the year	47,427,218	36,853,126	36,265,611
At the end of the year	117,697,987	47,427,218	36,853,126
Increase in cash and cash equivalents	**70,270,769**	**10,574,092**	**587,515**
Non-cash transactions			
Credit operations transferred to non-current assets	1,356,644	836,930	758,757
Dividends and interest on equity declared but not yet paid	1,504,216	2,396,306	2,519,378
Unrealized (gains)/losses on securities available for sale	7,530,127	(4,617,960)	468,447

The Notes are an integral part of the Consolidated Financial Statements.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

1) General information

Banco Bradesco S.A. and subsidiaries (“Bradesco”, the “Bank”, the “Company” or the “Organization”) is a publicly-traded company established according to the laws of the Federative Republic of Brazil with headquarters in the city of Osasco, state of São Paulo, Brazil.

Bradesco is a bank that provides multiple services within two segments: banking and insurance. The Bank complies with Brazilian banking regulations and operates throughout all of Brazil. The banking segment includes a number of areas within the banking sector, serving individual and corporate customers in the following operations: investment banking, national and international banking operations, asset management operations and consortium administration. The insurance segment covers auto, health, life, accident and property insurance and pension plans as well as capitalization bonds.

The retail banking products include demand deposits, savings deposits, time deposits, mutual funds, foreign exchange services and a range of credit operations, including overdrafts, credit cards and loans with repayments in installments. The services provided to corporate entities include fund management and treasury services, foreign exchange operations, corporate finance and investment banking services, hedge and finance operations including working capital financing, leasing and loans with repayments in installments. These services are provided, mainly, in domestic markets, but also include international services on a smaller scale.

The Organization was originally listed on the São Paulo Stock Exchange (“BM&FBovespa”) and then subsequently on the New York Stock Exchange (“NYSE”).

The consolidated financial statements were approved by the Board of Directors on March 27, 2014.

2) Significant accounting practices

These consolidated financial statements of the Organization were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). The consolidated financial statements include the consolidated statement of financial position, consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows as well as the notes to the consolidated financial statements.

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position: financial assets available for sale measured at fair value, assets and liabilities held for trading measured at fair value, and financial instruments at fair value through profit or loss that are measured at fair value and the liability for defined benefit obligations is recognized as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognized actuarial gains, less unrecognized past service cost and unrecognized actuarial losses.

The Organization has classified its expenses according to their nature.

The consolidated statement of cash flows shows the changes in cash and cash equivalents during the year arising from operating, investing and financing activities. Cash and cash equivalents include highly liquid investments. Note 19 details the accounts of the consolidated statement of financial position comprising cash and cash equivalents. The consolidated statement of cash flows is prepared using the indirect method. Accordingly, the income before taxes and the participation of non-controlling interests were adjusted by non-cash items such as gains or losses, on provisions, depreciation, amortization and losses due to impairment of loans and advances. The interests received and paid are classified as operating cash flows.

Notes to the Consolidated Financial Statements

The preparation of the consolidated financial statements requires the adoption of estimates and assumptions which affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the profit and loss amounts for the year. The consolidated financial statements also reflect various estimates and assumptions, including, but not limited to, adjustments to the provision for impairment losses of loans and advances, estimates of the fair value of financial instruments, depreciation and amortization, impairment of losses in assets, the useful life of intangible assets, evaluation of the realization of tax assets, assumptions for the calculation of technical provisions for insurance, supplemental pension plans and capitalization bonds, provisions for contingencies and provisions for potential losses arising from fiscal and tax uncertainties. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The accounting policies listed below were used in all the periods presented and by all the companies of the Organization.

a) Consolidation

The consolidated financial statements include the financial statements of Bradesco and those of its direct and indirect subsidiaries, including exclusive mutual funds and special purpose entities.

The main subsidiaries included in the consolidated financial statements are as follows:

	Activity	Country of nature	Shareholding interest (%) December 31 2013	2012
Alvorada Cartões, Crédito Financiamento e Investimento S.A.	Banking	Brazil	100.00	100.00
Banco Alvorada S.A. (1)	Banking	Brazil	99.99	99.95
Banco Bradesco Financiamentos S.A.	Banking	Brazil	100.00	100.00
Banco Bankpar S.A	Banking	Brazil	100.00	100.00
Banco Boavista Interatlântico S.A.	Banking	Brazil	100.00	100.00
Banco Bradesco Argentina S.A.	Banking	Argentina	99.99	99.99
Banco Bradesco BERJ S.A. (2)	Banking	Brazil	100.00	100.00
Banco Bradescard S.A.	Cards	Brazil	100.00	100.00
Banco Bradesco BBI S.A.	Investment Bank	Brazil	98.35	98.35
Banco Bradesco Cartões S.A.	Cards	Brazil	100.00	100.00
Bradesco Administradora de Consórcios Ltda.	Consortium Management	Brazil	100.00	100.00
Bradseg Participações S.A.	Holding	Brazil	100.00	100.00
Bradesco Auto/RE Cia. de Seguros	Insurance	Brazil	100.00	100.00
Bradesco Capitalização S.A.	Capitalization	Brazil	100.00	100.00
Odontoprev S.A. (3)	Dental Health	Brazil	43.50	43.50
Bradesco Leasing S.A. Arrendamento Mercantil	Leasing	Brazil	100.00	100.00
Ágora Corretora de Títulos e Valores Mobiliários S.A.	Broker	Brazil	100.00	100.00
Bradesco S.A. Corretora de Títulos e Valores Mobiliários	Broker	Brazil	100.00	100.00
Bradesco Saúde S.A.	Insurance/Health	Brazil	100.00	100.00
Bradesco Seguros S.A.	Insurance	Brazil	100.00	100.00
Bradesco Vida e Previdência S.A.	Pension plan/Insurer	Brazil	100.00	100.00
Bradesplan Participações Ltda.	Holding	Brazil	100.00	100.00
BRAM – Bradesco Asset Management S.A. DTVM	Asset Management	Brazil	100.00	100.00
Tempo Serviços Ltda.	Service Provider	Brazil	100.00	100.00
União de Participações Ltda.	Holding	Brazil	100.00	100.00

(1) Increase in equity interest through share acquisition in February 2013;

(2) Formerly Banco BERJ S.A.; and

a) Consolidation

(3) Consolidated based on control obtained through its shareholders agreement.

Bradesco

a) Consolidation

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

i. **Subsidiaries**

Subsidiaries are all of the companies over which the Organization, has the control. The Organization has the control over an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The subsidiaries are fully consolidated from the date at which the Organization obtains control until the date when control ceases. The Organization adopted IFRS 10 in replacement of IAS 27 and SIC 12.

For acquisitions meeting the definition of a business, the purchase method of accounting is used. The cost of an acquisition is measured as the fair value of the consideration given, including assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the consideration given over the fair value of the Organization’s share of the identifiable net assets and non-controlling interest acquired is recorded as goodwill. Any goodwill arising from business combinations is tested for impairment at least once a year and whenever events or changes in circumstances may indicate the need for impairment write-down. If the cost of acquisition is less than the fair value of the Organization’s share of the net assets acquired, the difference is recognized directly in the consolidated statement of income.

For acquisitions not meeting the definition of a business, the Organization allocates the cost between the individual identifiable assets and liabilities. The cost of acquired assets and liabilities is determined by (a) recognizing financial assets and liabilities at their fair value at the acquisition date; and (b) allocating the remaining balance of the cost of purchasing assets and assuming liabilities to individual assets and liabilities, other than financial instruments, based on their relative fair values at the acquisition date.

ii. **Associated companies**

Companies are classified as associated companies if the Organization has significant influence, but not control, over the operating and financial management policy decisions. Normally significant influence is presumed when the Organization holds in excess of 20%, but no more than 50%, of the voting rights. Even if less than 20% of the voting rights are held, the Organization could still have significant influence through its participation in the management of the investee or on its Board of Directors, providing it has executive power; i.e. voting power.

Investments in associated companies are recorded in the Organization's consolidated financial statements using the equity method and are initially recognized at cost. The investments in associates include goodwill (net of any impairment losses) identified at the time of acquisition.

iii. **Joint ventures**

The Organization has contractual agreements in which two or more parties undertake activities subject to joint control. Joint control is the contractual sharing of control over an activity and it exists only if strategic, financial and operating decisions are made on a unanimous basis by the parties. Investments in joint ventures are recorded in the consolidated financial statements of the Organization using the equity method.

Until December 31, 2012 the Organization consolidated proportionally their participation in jointly controlled entities (joint venture), in accordance with IAS 31. Effective January 1, 2013 the Organization adopted IFRS 11 – “Joint Arrangements”, thus changing the accounting policy of participation in joint ventures to the equity method.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

The effects of IFRS 11 adoption have not generated significant impacts to the Organization's financial statements. Following are presented the aggregated amounts of our investments, previously proportionally consolidated and now accounted for by the equity method.

R$ thousand

Consolidated Satement of Financial Position - 2012	**Previous disclosure**	**Efects of IFRS 11 adoption**	**Restated balance**
Loans and advances to banks	92,821,233	(361,886)	92,459,347
Loans and advances to customers	269,652,428	(631,108)	269,021,320
Investments in associated companies and joint ventures	2,754,998	366,388	3,121,386
Other assets	435,958,040	(1,019,469)	434,938,571
Total assets	**801,186,699**	**(1,646,075)**	**799,540,624**
Deposits from banks	220,826,288	117,066	220,943,354
Other liabilities	509,014,021	(1,763,141)	507,250,880
Total liabilities	**729,840,309**	**(1,646,075)**	**728,194,234**
Total equity	**71,346,390**	**-**	**71,346,390**
Total liabilities and equity	**801,186,699**	**(1,646,075)**	**799,540,624**

R$ thousand

Consolidated Satement of Income - 2012	**Previous disclosure**	**Efects of IFRS 11 adoption**	**Restated balance**
Net interest income	**43,492,965**	**(107,242)**	**43,385,723**
Net fee and commission income	**12,804,795**	**(84,055)**	**12,720,740**
Operating income	**4,467,718**	**(136,211)**	**4,331,507**
Operating expense	**(46,133,908)**	**157,174**	**(45,976,734)**
Income before income taxes and equity in the earnings of associates	**14,631,570**	**(170,334)**	**14,461,236**
Income before income taxes	**15,502,232**	**(60,784)**	**15,441,448**
Net income for the year	**11,351,694**	**-**	**11,351,694**
Controlling shareholders	11,291,570	-	11,291,570
Non-controlling interest	60,124	-	60,124

a) Consolidation

Total liabilities and equity	**801,186,699**	**(1,646,075)**	**799,540,624**
Investments in associated companies and joint ventures	**2,754,998**	**366,388**	**3,121,386**
Total liabilities	**729,840,309**	**(1,646,075)**	**728,194,234**

			R$ thousand
Consolidated Satement of Cash Flows - 2012	**Previous disclosure**	**Efects of IFRS 11 adoption**	**Restated balance**
Net cash provided by operating activities	51,612,398	(137,797)	51,474,601
Net cash (used in) investing activities	(44,797,252)	46,604	(44,750,648)
Net cash provided by financing activities	3,850,139	-	3,850,139
Increase in cash and cash equivalents	**10,665,285**	**(91,193)**	**10,574,092**

See Note 27 for summarized financial information about jointly controlled entities.

iv. **Transactions with and interest of non-controlling shareholders**

The Organization applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Bank. For purchases of equity from non-controlling interests, the difference between any consideration paid and the share of the carrying value of net assets of the subsidiary acquired is recorded in equity. Gains or losses on sales to non-controlling shareholders are also recorded in equity.

Profits or losses attributable to non-controlling interests are presented in the consolidated statements of income under this title.

v. **Balances and transactions eliminated in the consolidation**

Intra-group transactions and balances (except for foreign currency transaction gains and losses) are eliminated in the consolidation process, including any unrealized profits or losses resulting from operations between the companies except when unrealized losses indicate an impairment of the asset transferred which should be recognized in the consolidated financial statements. Consistent accounting policies as well as similar valuation methods for similar transactions, events and circumstances are used throughout the Organization for the purposes of consolidation.

b) Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of each of the Organization's entities are measured using the currency of the primary economic environment in which each entity operates (the functional currency). The consolidated financial statements are presented in Brazilian Reais (R$), which is the Organization's presentation currency. The domestic and foreign subsidiaries adopted the Real as their functional currency, except the subsidiary in Mexico, which adopted the Mexican Peso as its functional currency.

ii. Transactions and balances

Foreign currency transactions, which are denominated or settled in a foreign currency, are translated into the functional currency using the exchange rates prevailing on the dates of the transactions.

Monetary items denominated in foreign currency are translated at the closing exchange rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate on the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates on the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at each period exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income – "Net gains/(losses) of foreign currency transactions".

In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortized cost are recognized in the consolidated statement of income, and other changes in the carrying amount, except impairment, are recognized in equity.

a) Consolidation

Notes to the Consolidated Financial Statements

iii. Foreign operations

The results and financial position of all foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the reporting date;

- Income and expenses for each consolidated statement of income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rate prevailing on the transaction dates, in which case income and expenses are translated at the rates in effect on the dates of the transactions); and

- All resulting exchange differences are recognized in other comprehensive income.

Exchange differences arising from the above process are reported in equity as “Foreign currency translation adjustment”.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to ‘Other comprehensive income’. If the operation is a non-wholly owned subsidiary, then the relevant proportionate share of the transaction difference is allocated to the non-controlling interest. When a foreign operation is partially sold or disposed, such exchange differences, which were recognized in equity, are recognized in the consolidated statement of income as part of the gain or loss on sale.

a) Consolidation

c) Cash and cash equivalents

Cash and cash equivalents include: cash, bank deposits, unrestricted balances held with the Central Bank of Brazil and other highly liquid short–term investments, with original maturities of three months or less and are subject to insignificant risk of changes in fair value, used by the Organization to manage its short-term commitments. See Note 19 (b) – "Cash and cash equivalents".

Cash and cash equivalents are held at amortized cost in the statement of financial position.

d) Sale and repurchase agreements

Securities sold subject to repurchase agreements are reclassified in the consolidated financial statements as “Assets pledged as collateral” when the purchaser has the right to sell or repledge the asset. The counterparty liability is included in “Deposits from Banks - Funding in the open market”. Securities purchased under agreements to resell are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest in the consolidated statement of income and recognized over the life of the agreements using the effective interest rate method.

d) Sale and repurchase agreements

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

e) Financial assets and liabilities

i. **Financial assets**

The Organization classifies financial assets in the following categories: measured at fair value through profit or loss, available for sale, held to maturity and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets upon initial recognition.

- **Measured at fair value through profit or loss**

Financial assets are initially recorded at fair value with subsequent changes to the fair value recognized immediately in profit or loss. These assets can be subdivided into two distinct classifications at the time of initial recognition: financial assets designated at fair value through profit or loss and financial assets held for trading.

- ***Financial assets designated at fair value through profit or loss***

The Organization does not have any financial assets designated at fair value through profit or loss.

- ***Financial assets held for trading***

A financial asset is classified as held for trading if it is acquired by Management for the purpose of selling it in the short term or if it is part of a portfolio of identified financial instruments that are managed together for short-term profit or taking a position. Derivative financial instruments are also categorized as held for trading, unless they are designated as hedging instruments.

Financial assets held for trading are initially recognized in the consolidated statement of financial position at fair value and the transaction costs are recorded directly in the consolidated statement of income.

Realized and unrealized gains and losses arising from changes in fair value are recognized directly in the consolidated statement of income under “Net gains and losses from financial instruments held for trading.” Interest income and expense and foreign exchange differences on financial assets held for trading are included in “Net interest income”.

- **Financial assets available for sale**

Financial assets available-for-sale are non-derivative financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Financial assets available-for-sale are initially recognized at fair value, which is the cash consideration including any transaction costs and measured, subsequently, at fair value with gains and losses being recognized in the consolidated statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognized. If a financial asset available-for-sale is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the consolidated statement of income.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

Interest is recognized in the consolidated statement of income using the effective interest method. Dividends on available-for-sale equity instruments are recognized in the consolidated statement of income in 'Dividend income' when the Organization's right to receive payment is established. Exchange gains and losses on investments in debt securities classified as available for sale are recognized in the consolidated statement of income, except when they relate to foreign subsidiaries with a functional currency different from that of the Organization.

- **Investments held to maturity**

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed term maturities, which the Organization has the positive intention and ability to hold to maturity, and are not designated to be at fair value through profit or loss or available for sale and do not meet the definition of loans and receivables.

Investments held to maturity are recognized initially at fair value including direct and incremental costs, and are subsequently recorded at amortized cost, using the effective interest rate method.

Interest on investments held-to-maturity is included in the consolidated statement of income and reported as 'Interest and similar income'. In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the investment and is recognized in the consolidated statement of income.

- **Loans and receivables**

Loans and receivables are non-derivative financial assets having fixed or determinable payments that are not quoted in an active market and that the Organization has no intention of selling, neither immediately or in the short term.

d) Sale and repurchase agreements

Loans and receivables are initially measured at their fair value plus direct transaction costs and are subsequently valued at amortized cost using the effective interest rate method.

Loans and receivables are reported in the consolidated statement of financial position as loans and advances to banks or customers. Interest on loans is included in the consolidated statement of income and is reported as “Interest and similar income”. In the case of impairment, the impairment loss is reported as a deduction in carrying amount of loans and advances, and is recognized in the consolidated statement of income as impairment of loans and advances.

ii. **Financial liabilities**

The Organization classifies its financial liabilities under the following categories: measured at fair value through profit and loss and amortized cost.

- **Measured at fair value through profit and loss**

These financial liabilities are recorded and measured at fair value and the respective changes in fair value are immediately recognized in the income statement. These liabilities can be subdivided into two different classifications upon initial recognition: financial liabilities designated at fair value through profit and loss and financial liabilities held for trading.

d) Sale and repurchase agreements

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

- ***Financial liabilities designated at fair value through profit and loss***

The Organization does not have any financial liability classified at fair value through profit and loss in income.

- ***Financial liabilities held for trading***

Financial liabilities for trading recognized by the Organization correspond to derivative financial instruments unless they are designated for hedging purposes.

Liabilities held for trading are initially recognized at fair value in the consolidated statement of financial position and their costs of transactions are recorded directly in the consolidated statement of income for the period. All realized and unrealized changes in fair value are recognized in the consolidated statement of income in “Net gains and losses from financial instruments held for trading.” Interest expense and foreign exchange differences on financial liabilities held for trading are included in “net interest income”.

• **Financial liabilities at amortized cost**

These are financial liabilities that are not classified to be at fair value through profit or loss, initially, are recognized at fair value and, subsequently, are measured at amortized cost. They include deposits from banks and customers, securities issued and subordinated debt securities, among others.

iii. **Derivative financial instruments and hedge transactions**

d) Sale and repurchase agreements

Derivatives are initially recognized at fair value on the date the derivatives' contract is signed and are, subsequently, re-measured at their fair values with the changes recognized in the income statement under "Net gains and losses from financial instruments for trading." The calculation of fair value considers the credit risk of the counterparties.

Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example for swaps and foreign currency transactions), such as discounted cash-flow models and options-pricing models, as appropriate.

The Organization has not designated any transactions as hedges for accounting purposes.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not recorded at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognized in the consolidated statement of income.

iv. **Recognition**

Initially, the Organization recognizes loans and advances, deposits, securities issued and subordinated debts at the date on which they are originated. All other financial assets and liabilities are recorded on the trade date, in accordance with the contractual provisions of the instrument.

d) Sale and repurchase agreements

v. **Derecognition**

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and, substantially, all the risks and rewards of ownership of the assets are also transferred. Financial liabilities are derecognized when they have been discharged paid, redeemed, cancelled or expired.

vi. **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when, the Organization has the intention and the legal enforceable right to offset the recognized amounts on a net basis or realize the asset and settle the liability simultaneously.

vii. **Determination of fair value**

The determination of the fair values for the majority of financial assets and liabilities is based on the market price or quotes of security dealers for financial instruments traded in an active market. The fair value for other instruments is determined using valuation techniques. The valuation techniques include the techniques to calculate the net current value, discounted cash flow method, comparison with other instruments similar to those for which there are observable market prices and valuation models. The Organization uses reputable valuation models to determine the fair value of financial instruments that consider observable market data.

For more complex instruments, the Organization uses proprietary models that are usually developed based on standard valuation models. Some of the information included in the models may not be observable in the market and are derived from market prices or rates or may be estimated on the basis of assumptions.

d) Sale and repurchase agreements

The value produced by a model or by a valuation technique is adjusted to reflect various factors, since the valuation techniques do not necessarily reflect all of the factors that market participants take into account during a transaction.

The valuations are adjusted to consider the risks of the models, differences between the buy and sell price, credit and liquidity risks, as well as other factors. Management believes that such valuation adjustments are necessary and appropriate for the correct evaluation of the fair value of the financial instruments recorded in the consolidated statement of financial position.

viii. **Impairment of financial assets**

(a) Financial assets recognized as amortized cost

On each reporting date, the Organization assesses whether there is objective evidence that financial assets are impaired. The financial assets are impaired and impairment losses are recognized only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the Organization uses to determine that there is objective evidence of an impairment include:

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers; and

(ii) national or local economic conditions that correlate with defaults in the assets.

The Organization takes into consideration evidence of impairment loss for both individually significant assets and groups of assets. All significant financial assets are evaluated to detect specific losses.

All significant assets that an assessment indicates have not been specifically impaired are valued as a group to detect any impairment loss that may have occurred, although not yet identified. The financial assets which are not individually significant are valued as a group to detect any collective impairment loss (recorded at the amortized cost) based on similar risk features. Assets that are individually assessed for impairment and for which an impairment loss is recognized are not included in a collective assessment of impairment.

d) Sale and repurchase agreements

The amount of loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through provisions and the amount of the loss is recognized in the consolidated statement of income.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit-risk characteristics (that is, on the basis of the Organization's rating process that considers asset type, market segment, geographical location, collateral type, past-due status and other related factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit-risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

The methodology and assumptions used for estimating future cash flows are reviewed regularly to mitigate any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognized using the effective rate of interest which was used to discount the future cash flows for the purpose of measuring the impairment loss.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary collection procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of income.

(b) Financial assets classified as available for sale

The Organization assesses, at each reporting date, whether there is objective evidence that a financial asset or group of financial assets is impaired. For debt securities the Organization adopts the assessment described in item (a) above. If, in a subsequent period, the fair value increases, for debt instrument classified as available for sale, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the consolidated statement of income.

In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for- sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income. Increases in the fair value of equity instruments after impairment are directly recognized in equity – other comprehensive income.

d) Sale and repurchase agreements

f) Non-current assets held for sale

Under certain circumstances, property is repossessed following foreclosure of loans that are in default. Repossessed properties are measured at the lower of their carrying amount and fair value less the costs to sell and are included within "Non-current assets held for sale."

g) Reinsurance contracts

Reinsurance contracts are made in the normal course of operations with the purpose of limiting potential losses, by spreading risks. Liabilities related to reinsurance operations are presented gross of their respective recoveries, which are booked in the Asset since the existing contract does not preclude the Organization's obligations with the insured parties.

As required by the regulators, reinsurance companies with headquarters abroad must have a minimum rating from a risk classification agency, to reinsure risks which are for the most part transferred to local reinsurers. Therefore, management believes that the risks of impairment are reduced. If there are indications that the amounts recorded will not be realized by its carrying amount, these assets will be adjusted for impairment.

h) Deferred acquisition costs

These comprise deferred acquisition costs including commissions and brokers' fees related to the sale of insurance policies. Deferred commissions are recognized in the consolidated statement of income over the life of the respective policies and pension plans contracts and expenses with insurance agency operations relating to the sale of health plans appropriated in the twenty-four month period.

The deferred acquisition costs relating to the exclusivity contract with retailers for the sale of extended warranty insurance is allocated to income over the term of the respective agreement, in proportion to earned premium.

i) Property and equipment

i. **Recognition and valuation**

Property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses, if any.

The cost includes expenses directly attributable to the acquisition of an asset.

The cost of assets internally produced includes the cost of materials and direct labor, as well as any other costs that can be directly allocated and that are necessary for them to function. Software acquired for the operation of the related equipment is recorded as part of the equipment.

When different parts of an item have different useful lives, and separately control is practicable, they are recorded as separate items (main components) comprising the property and equipment.

Useful lives and residual values are reassessed at each reporting date and adjusted, if appropriate.

Gains and losses from the sale of property and equipment are determined by comparing proceeds received with the carrying amount of the asset and are recorded in the consolidated income statement under the heading “Other operating income/ (expenses).”

ii. **Subsequent costs**

Expenditure on maintenance and repairs of a property and equipment item is recognized as an asset when it is probable that future economic benefits associated with the items will flow to the Organization for more than one year and the cost can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance costs are charged to the consolidated statement of income during the reporting period in which they are incurred.

iii. **Depreciation**

Depreciation is recognized in the consolidated statement of income using the straight-line basis and taking into consideration the estimated useful economic life of the assets. The depreciable amount is the gross-carrying amount, less the estimated residual value at the end of the useful economic life. Land is not depreciated. Useful lives and residual values are reassessed at each reporting date and adjusted, if appropriate.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

j) Intangible assets

Intangible assets comprise separately identifiable non-monetary items, without physical substance due to business combinations, computer software licenses and other intangible assets. Intangible assets are recognized at cost. The cost of an intangible asset, acquired in a business combination, is its fair value at the date of acquisition. Intangible assets with a definite useful life are amortized over their estimated useful economic life, not exceeding 20 years. Intangible assets with an indefinite useful life are not amortized.

Generally, the identified intangible assets of the Organization have a definite useful life. At each reporting date, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analyzed to assess whether their carrying amount is fully recoverable. An impairment loss is recognized if the carrying amount exceeds the recoverable amount.

i. **Goodwill**

Goodwill (or bargain purchase gain) arises on the acquisition of subsidiaries and joint ventures.

Goodwill reflects the excess of the cost of acquisition in relation to the Organization’s share of the fair value of net identifiable assets or liabilities of an acquired subsidiary or joint venture on the date of acquisition. Goodwill originated from the acquisition of subsidiaries is recognized as “Intangible Assets”, and the goodwill from acquisition of associated companies is included in the carrying amount of the investment. See Note 2(a)(ii). When the difference between the cost of acquisition and the Organization’s share of the fair value of net identifiable assets or liabilities is negative (bargain purchase gain), it is immediately recognized in the consolidated statement of income as a gain on the acquisition date.

Goodwill is allocated to Cash-Generating Units (CGUs) or groups of cash-generating units for the purpose of impairment testing. Allocation is made to the CGUs or groups of CGUs expected to benefit from the business combination from which the goodwill originated.

Goodwill is tested annually, as well as whenever a trigger event has been observed, for impairment by comparing the recoverable amount of a CGU with the carrying value of its net assets, and is carried at cost less impairment losses. Impairment losses on goodwill are not reversed. Gains and losses realized in the sale of an entity include consideration of the carrying amount of goodwill relating to the entity sold.

ii. **Software**

Software acquired by the Organization is recorded at cost, less accumulated amortization and accumulated impairment losses, if any.

Internal software-development expenses are recognized as assets when the Organization can demonstrate its intention and ability to complete the development, and use the software in order to generate future economic benefits. The capitalized costs of internally developed software include all costs directly attributable to development and are amortized over their useful lives. Internally developed software is recorded at its capitalized cost less amortization and impairment losses.

d) Sale and repurchase agreements

Subsequent software expenses are capitalized only when they increase the future economic benefits incorporated in the specific asset to which it relates. All other expenses are recorded as expenses as incurred.

Amortization is recognized in the consolidated statement of income using the straight-line method during the estimated useful life of the software, beginning on the date that it becomes available for use. The estimated useful life of software is from two to five years. Useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

iii. **Other intangible assets**

Other intangible assets refer basically to the customer portfolio and acquisition of banking service rights. They are recorded at cost less amortization and impairment losses, if any, and are amortized over the period during which the asset is expected to contribute, directly or indirectly, to the future cash flow.

These intangible assets are reviewed annually, or whenever events or changes in circumstances occur which could indicate that the carrying amount of the assets cannot be recovered. If necessary, the write-off or impairment is immediately recognized in the consolidated statement of income.

k) Leasing

The Organization has both operating and finance leases and operates as a lessee and a lessor.

Leases in which a significant part for the risks and benefits of the asset is borne by the lessor are classified as operating leases. For leases in which a significant part of the risks and benefits of the asset is borne by the lessee, the leases are classified as financial leasing.

Leases in terms of which the Organization assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset as measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

As a lessee, the Organization classifies its leasing operations mainly as operating leases, and the monthly payments are recognized in the financial statements using the straight-line method over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

When an operating lease is terminated before the contract expires, any payment that may be made to the lessor in the form of a penalty is recognized as an expense for the period.

As a lessor, the Organization has substantial finance lease contracts, both in value and total number of contracts.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

d) Sale and repurchase agreements

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

i. ***Finance Leases***

Finance leasing assets in the consolidated statement of financial position are initially recognized in the "loans and advances" account at an amount equal to the net investment in the lease.

The initial direct costs generally incurred by the Organization are included in the initial measurement of the leasing receivable, decreasing the amount of income recognized over the lease term. These initial costs include amounts for commissions, legal fees and internal costs. The costs incurred in relation to the negotiation, structuring and sales of leases are excluded from the definition of initial direct costs and therefore are recognized as expenses when the profit from the sale of the lease is recognized, which is recognized at the beginning of the lease term.

Recognition of financial revenue reflects the constant rate of return on the net investment made by the Organization.

The estimated non-guaranteed residual values used in the calculation of the gross investment of the lessor in the lease are reviewed at least annually. If there is a decrease in the estimated non-guaranteed residual value, the income allocated over the period of the lease is also reviewed periodically and any decrease in relation to the accumulated values is immediately recognized in the consolidated statement of income.

ii. ***Operating leases***

The assets leased under operating leases, where the Organization acts as lessor, are recognized in the consolidated statement of financial position as property and equipment according to the nature of the item leased.

The initial direct costs incurred by the Organization are added to the carrying amount of the leased asset and are recognized as expenses over the period of the lease and on the same basis as the income recognition.

d) Sale and repurchase agreements

Revenue from leasing is recognized using the straight-line method over the term of the lease, even if the payments are not made on the same basis. Costs, including depreciation, incurred to produce the income are recognized as expenses.

The depreciation policy for leased assets is the same as the depreciation policy used by the Organization for similar assets.

l) Impairment of non-financial assets (except for deferred tax assets)

Assets that have an indefinite useful life such as goodwill are not subject to amortization and are tested annually at the same date to verify the existence of impairment.

Assets, which are subject to amortization, are reviewed to verify impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized based on the excess of the assets or its cash generating unit (CGU) carrying amount over its estimated recoverable amount. The recoverable amount of an asset or CGU is the greater of an asset's fair value, less costs to sell, and its value in use.

d) Sale and repurchase agreements

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

For the purpose of impairment testing, the assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Subject to an operating segment ceiling test, for the purpose of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment testing is performed reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGU's that are expected to benefit from the synergies of the combination.

The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. When assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the current market conditions of the time value of money and the specific risks of the asset or CGU.

The Organization's corporate assets do not generate separate cash inflows and are utilized by more than one CGU. Corporate assets are allocated to CGU's on a reasonable and consistent basis and tested for impairment as part of the testing of the CGU to which the corporate asset is allocated.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated first to reduce the carrying amount of any goodwill allocated to the CGU (group of CGU's) and then to reduce the carrying amount of the other assets in the CGU (group of CGU's) on a pro rata basis.

An impairment of goodwill cannot be reversed. With regard to other assets, an impairment loss recognized in previous periods is reassessed at each reporting date for any indications that the impairment has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is only reversed to the extent that the carrying amount of the asset does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment had been recognized.

d) Sale and repurchase agreements

m) Deposits, debt securities issued and subordinated liabilities

Deposits, debt securities issued and subordinated liabilities are the main sources of funding used by the Organization to finance its operations.

They are initially recorded at fair value plus transaction costs and are subsequently measured at amortized cost using the effective interest method.

n) Provisions, contingent liabilities and contingent assets

A provision is recognized when, as a result of a past event, the Organization has a present legal or constructive obligation that can be reliably estimated and it is probable that an outflow of economic benefits will be required to settle an obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The provisions were established by Management taking into account the opinion of their legal advisors, nature of the actions, similarity with previous suits, complexity and positioning of the Courts, whenever there is a probable loss.

Notes to the Consolidated Financial Statements

Contingent liabilities are disclosed if there is a possible future obligation resulting from past events or if there is a present obligation resulting from a past event.

Contingent assets are recorded only when there are real guarantees or favorable and non-appealable court decisions, and when the gain is considered to be virtually certain. The contingent assets for which the expectation of the outcome is favorable are only disclosed in the financial statements, when material.

o) Classification of insurance contracts and investments

An insurance contract is a contract in which the Organization accepts a significant insurance risk from the policy holder by agreeing to compensate the policyholder if a specific uncertain future event adversely affects the policy holder. Reinsurance contracts are also treated from the perspective of insurance contracts by transferring significant insurance risk. Contracts classified as investment contracts are related to our capitalization bonds, which do not transfer significant insurance risk and are accounted for as financial instruments in accordance with IAS 39.

p) Insurance and pension plan technical provisions

i. **Property damage**

The Provision for Unearned Premiums (PPNG) is calculated on a pro-rata die basis on the net assignment of coinsurance premiums, taking into account reinsurance operations in and corresponding to the unexpired risk period of the insurance contracts with the deductions in respect of initial contracting costs. The assignment of the corresponding provision to the estimate of Current Risks Not Yet Issued is constituted in the PPNG-RVNE.

The Case Reserves for Loss (PSL) is established based on the estimated claims paid, taking into account all administrative and judicial claims on the reporting date, net of the expected portion of salvage and reimbursement, including legal fees.

Constitution of Provision for incurred but not reported losses (IBNR) is based on incurred but not paid losses (IBNP) deducting the PSL balance on the calculation base date. To calculate IBNP, the final estimate of incurred and not paid losses is calculated on the basis of a half-yearly run-off triangle that considers the historic development of losses paid over the last 14 semesters to establish a future projection per occurrence period, and also considers the estimate for claims incurred but not enough reported (IBNER), reflecting the expected change of the provision until the payment to the policyholders in the amount accounted for on the balance sheet.

The IBNR provision related to retroceding operations was constituted on the basis of amounts informed by IRB - Brasil Resseguros S.A.

The complementary reserve for coverage (PCC) is recorded when insufficiency in technical provisions are found, as determined in the Liabilities Adequacy Test value in accordance with the determinations specified on the regulations in force. For the current period, there was no identified need for additional provision to those already established.

The Provision of Related Expenses (PDR) is established to cover the expected amounts regarding expenses related to losses.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

Other technical provisions correspond to the Provision for Administrative Expenses (PDA) derived from Mandatory Insurance For Personal Injury Caused by Motor Vehicles (DPVAT) insurance operations.

ii. **Individual life insurance, excluding the insurance of variable contribution with survival coverage (VGBL)**

The Provision for Unearned Premiums (PPNG) is calculated on a pro-rata die basis on the net assignment of coinsurance premiums, taking into account reinsurance operations in and corresponding to the unexpired risk period of the insurance contracts and considers estimates of Current Risks Not Yet Issued (RVNE).

The Mathematical Provision for Benefits to be Granted (PMBaC) is calculated by the difference between the current value of the future benefits and the current value of the future contributions, corresponding to the obligations.

The Provision for Redemptions and other Unsettled Values (PVR) comprises the values relating to the unsettled redemptions, to the premium returns and transfers of the insurance, requested by the policyholder, not yet concluded.

Constitution of Provision for incurred but not reported losses (IBNR) is based on incurred and not paid losses (IBNP) deducting the PSL balance on the calculation date base. To calculate IBNP, the final estimate of incurred and not paid losses is calculated on the basis of a half-yearly run-off triangle that considers the historic development of losses paid over the last 14 semesters to establish a future projection per occurrence period.

The Case Reserves for Loss (PSL) considers all of the reported claims received until the reporting date and judicial fees by decree, among others. The PSL is adjusted for inflation and includes all of the claims under judicial review.

d) Sale and repurchase agreements

The Technical Surplus Provision (PET) corresponds to the difference between the value of the expected amount and the actual amount of events that occurred during the period for life insurance of individuals with rights to participate in technical surplus.

iii. **Health**

The Provision for Claims Incurred but Not Reported (IBNR) is actuarially calculated to quantify the amount of claims incurred but not paid to policyholders / beneficiaries (IBNP). The methodology is based on the projection of future claims payments related to occurrences that to place prior to the date of calculation occurrences based on historical behavior observed in the last 12 months. By deducting from the total projected amount of Case Reserves for Loss (PSL) recorded, one obtains the IBNR provision.

The Case Reserves for Loss (PSL) was measured, as the base of the reported claims received until the reporting date including judicial claims and related costs and for inflation adjustments.

For the portfolio of individual health plans, with respect to five-years coverage period for the policy holder’s dependents in case of his/her death, the Mathematic Provision of Benefits to be Granted (PMBaC) calculated using a methodology of which takes into consideration, a discount rate of 3.5% per year used until November 2013 and 4.9% per year thereafter, the expected continuance of insured persons in the plan until their withdrawal due to death, and thereafter, the costs related to the continuance of dependents in the plan for five years without the corresponding payment of premiums The mathematic provision for benefits granted (PMBC) from the individual health plan portfolio is made up of liabilities resulting from contractual remission clauses of health assistance coverage payments, based on the present value of future estimated expenses with health assistance costs of the dependents of deceased policyholders.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

The Provision for Unearned Premiums (PPNG) is calculated of a daily pro-rated basis, based on the health insurance premiums, and is comprised of the portion corresponding to periods of unexpired risks of insurance contracts, the term of which has already started.

The other provisions are constituted, for the individual health portfolio, to cover the resulting differences between the expected present value of indemnities and related future costs and the expected present value of future premiums considering a discount rate of 3.5% per year used until November 2013 and 4.9% per year thereafter.

iv. **Operations with DPVAT Insurance**

DPVAT insurance operations, including their respective technical provisions, are recorded on the basis of information received from the Seguradora Líder dos Consórcios do Seguro DPVAT S.A.

v. **Open pension plan and life insurance of variable contribution with survival coverage (VGBL)**

The Provision for Unearned Premiums (PPNG) is calculated on a pro-rata die basis on the net assignment of coinsurance premiums, taking into account reinsurance operations in and corresponding to the unexpired risk period of the insurance contracts and considers estimates of Current Risks Not Yet Issued (RVNE).

The Mathematic Provisions for Benefits to be Granted (PMBaC) refer to participants whose benefits have not started yet. In pension plans with characteristics of defined benefit plans, provisions represent the difference between the current value of future benefits and the current value of future contributions corresponding to obligations assumed in the form of retirement, disability, pension and savings plans. The Provision is calculated according to methodologies and assumptions established in the actuarial technical notes.

Mathematical Provisions for Benefits to be Granted (PMBaC) related to long term life insurance and pension plans (VGBL and PGBL), in addition to the defined contribution plans, represent the total amount of contributions made by participants, net of charges and other contractual fees, plus financial yield generated through the investment of resources in investments funds.

The Provision for Redemptions and other Unsettled Values (PVR) is made up of the values referring to the unsettled redemptions, to the premium returns and to the portability requested and still not transferred to the receiving entity.

The Mathematical Provision for Benefits Granted (PMBC) refers to participants that receive benefits and corresponds to the current value of future obligations for the continued payment of benefits.

The Complementary Reserve for Coverage (PCC) refers to the amount necessary to complement technical reserves, as calculated through the Liability Adequacy Test (LAT), which is prepared using statistical and actuarial methods based on realistic considerations, taking into account the biometric table BR-EMS of both genders, improvement of G Scale and forward interest rate structures (ETTJ) free from risk. The improvement rate is calculated from automatic updates of the biometric table, considering the expected increase in future life expectancy.

d) Sale and repurchase agreements

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

The related expenses reserve (PDR) is recorded to cover estimated benefit and claims expenses.

The Provision for Financial Surplus (PEF) corresponds to an installment of financial yield obtained through the application of provisions that exceed the minimum yield of pension plans with a clause for the participation in financial surplus.

The Provision for Technical Surplus (PET) corresponds to the difference between the value expected and the value observed of the events incurred in the period for the pension plans with a participation clause in the technical surplus.

The Provision for Events Incurred but Not Reported (IBNR) is established based on losses that occurred but were not reported, based on run-off triangles, which considers the historical development of losses over the past 20 quarters to establish a future projection per period of occurrence.

The Case Reserves for Loss (PSL) considers all of the reported claims received until the reporting date and judicial fees by decree, among others. The PSL is adjusted for inflation and includes all of the known claims under judicial review.

Financial charges credited to technical provisions, as well as the constitution and/or reversal of the provision of financial excess, are classified as financial expenses and are shown in the group “Financial income”.

vi. **Liability Adequacy Test (LAT)**

d) Sale and repurchase agreements

The Organization conducted the liability adequacy test for all the contracts that meet the definition of an insurance contract according to IFRS 4 and which are in force on the date of execution of the test. This test is conducted every six months and the liability of insurance contracts, gross of reinsurance, is considered to be the sum of the carrying amount, deducting the deferred acquisition costs and the related intangibles, compared to the expected cash flows arising from the enforcement of contracts and certificates traded value.

The test considerers the projection of claims and benefits that have occurred and are to occur, administrative expenses, allocable expenses related to the claims, intrinsic options and financial surpluses, and other income and expense directly related to the insurance contracts.

To calculate the present value of projected cash flows to value the Organization used the free exchange term risk.

The test was segmented into life and property insurance, and were not included in the tests of suitability of liabilities related to DPVAT insurance:

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

- **Property Coverage**

The expected present value of cash flows relating to claims incurred, as reflected by the expectation of costs allocable to claims and salvage recoveries, was compared the technical provisions for claims incurred - PSL and IBNR.

The expected present value of cash flow relating to claims to be incurred regarding the policies in force, plus any administrative expenses and other expenses and income relating to products in run-off, was compared to the sum of the PPNG and PPNG-RVNE.

- **Life and pension products**

For private pension products, Individual Life Insurance, and Life Insurance with Coverage for Survival, testing was conducted per risk type, which includes (among others): guarantee of inflation, mortality table, death, disability and other risks.

The cash flows related to future premiums not recorded in the PPNG were included in income only when the result of this value was negative.

The result of the liability adequace test did not result in any incremental accrual of insurance liabilities.

q) Financial guarantees

Financial guarantees are contracts that require the Organization to make specific payments under the guarantee for a loss incurred when a specific debtor fails to make a payment when due in accordance with the terms of the debt instrument.

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Organization's obligations under such guarantees are measured as the higher out of the initial amount, less the accumulated amortization, and the best estimate of the amount required to settle the guarantee if management deems such expenditure as probable. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of the Management. The fee income earned is recognized on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the consolidated statement of income within "Other operating income/ (expenses)".

r) Employee benefits

i. **Defined contribution plan**

Bradesco and its subsidiaries sponsor pension plans for their employees and Management of the "Free Benefit Generator Plan (PGBL)" type. The PGBL is a pension plan with defined contributions which allows financial resources to be accumulated throughout the professional career of the participants based on contributions paid by them and the sponsoring company, the funds of which are invested in an Exclusive Mutual Fund (FIE). The actuarial obligations of PGBL are fully covered by the corresponding FIE.

The PGBL is managed by the subsidiaries Bradesco Vida e Previdência S.A..

Contributions from employees and management are equal to 4% of their salaries except for those participants who, in 2001, opted to migrate from a defined benefit plan to the PGBL, and whose contributions were maintained at the same level as the defined benefit plan at the time it was transferred, always in compliance with the minimum of 4% of the salary.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

Contribution obligations for defined contribution pension plans are recognized as expenses in profit or loss as incurred. Once the contributions are paid, Bradesco, in the capacity of employer, has no obligation to make any additional payment.

In addition to the PGBL described above, the participants who migrated from the defined benefit plan are assured a proportional deferred benefit. For retired and pensioned employees, regardless of whether they are participants in the migrated defined benefit plan or not, the present value of the actuarial obligations of the plan is invested in FIEs.

ii. **Defined benefit plans**

The Organization's net obligation, in relation to the defined benefit plans, refers exclusively to institutions acquired and the plans are calculated separately for each plan, estimating the future benefit that the employees have earned in return for their service during the current and prior periods. The benefit is discounted to determine its present value and any unrecognized past service costs and fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on "AA" credit rated bonds, which have maturity dates approximating the terms of the Organization's obligations. The calculation is made by an actuary, using the projected unit credit method.

To determine the net amount in the consolidated statement of financial position, any actuarial gains and losses that have not been recognized because of application of the "corridor" approach described below are added or deducted, as appropriate an unrecognized past service costs are deducted.

The Organization recognizes a portion of actuarial gains and losses that arise in calculating the Organization's obligation in respect of a plan in profit or loss over the expected average remaining working lives of the employees participating in the plan. To the extent that any unrecognized and cumulative actuarial gain or loss exceeds 10% of the greater of the present value of the defined benefit obligation or the fair value of the plan's assets, the amount is recognized in theconsolidated statement of income over

d) Sale and repurchase agreements

the estimated remaining time of service of the participating employees. Otherwise the actuarial gain or loss is not recognized.

When the benefits of a plan are improved, the portion of increased benefit related to past service by employee is recognized in the income using the straight-line method over the average period until the benefits become vested. To the extent that the benefits vest, the expense is recognized in the consolidated statement of income.

iii. **Termination benefits**

Severance benefits are required to be paid when the employment relationship is terminated by the Organization before the employee's normal date of retirement or whenever the employee accepts voluntary redundancy in return for such benefits.

Benefits which are payable twelve months or more after the statement of financial position date are discounted to their present value.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

iv. **Short-term benefits**

Benefits such as wages, salaries, social security contributions, paid annual leave and paid sick leave, profit sharing and bonuses (if payable within twelve months of the reporting date) and non-monetary benefits such as health care, etc. are recorded as expenses in the consolidated statement of income, without any discount to present value, if the Organization has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be reliably estimated.

s) Capitalization bonds

Financial liabilities and revenues from capitalization bonds are accrued at the time funds are received. Bonds are issued according to the types of payments, monthly or single payment. Each bond bears a nominal value and deposit value is adjusted for inflation using the referential rate (TR) + 0.5% interest per month, which constitutes the mathematical provision for redemptions.

Capitalization bond beneficiaries are eligible for a prize draw. At the end of a certain period that is determined at the time the capitalization bond is issued, a beneficiary may redeem the nominal value if they have not won in the draw. These products are regulated by the insurance regulator in Brazil; however, do not meet the definition of an insurance contract in accordance with IFRS 4 and, therefore, are classified as financial liabilities in accordance with IAS 39.

The mathematical provision for Capitalization (PMC) is recorded for each active or suspended security for the period provided in the general conditions of the plan, and is calculated by percentage of quota capitalization applicable on payments being capitalized monthly by the index and interest rate defined in the plan until the maturity date.

d) Sale and repurchase agreements

The provision for redemptions (PR) consists of the values bonds, updated by the index of the plan until the date of actual payment of the redemption to the beneficiary.

The provision for prizes draw (PSR) are constituted to cover premiums from future raffles, and the balance thereof represents the present value of the raffles already funded and not yet realized. The calculation methodology consists of the accumulation of contributions that come from percentage of shares of raffles applicable on payments, as established in the plan, and write-offs that come from the amount equivalent to the expired risk. The percentage of lottery quotas are predefined by an actuarial technical note and are not modified during the term of the bond.

The provision for raffles payable (PSP) consists of the values of the award titles from prize draws and those not yet paid, monetarily updated for the period between the effective date of the draw and liquidation.

The provision for administrative expenses (PDA) consists of costs directly attributable to the comercialization, brokerage and other expenses, and is in accordance with the methodology set forth in the actuarial technical note.

t) Interest

Interest income and expenses are recognized on an accrual basis in the consolidated statement of income using the effective interest rate method. The effective interest rate is the rate that discounts estimated future cash payments and receipts throughout the expected life of the financial asset or liability (or, when appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective rate, the Organization estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

The calculation of the effective interest rate includes all commissions, transaction costs, discounts or bonuses which are an integral part of such rate. Transaction costs are incremental costs directly attributable to the acquisition, issuance or disposal of a financial asset or liability.

u) Fees and commissions

Fees and commission income and expense which are part of and are directly allocable to the effective interest rate on a financial asset or liability are included in the calculation of the effective interest rate.

Other fee and commission income, including account service fees, asset management fees, credit card annual charges, and collection and consortium fees are recognized as the related services are rendered. When a loan commitment is not expected to result in the drawdown of a loan, the related commitment fees are recognized on a straight-line basis over the commitment period. Other fees and commissions expense relate mainly to transaction as the services are received.

v) Insurance income

Income and expense are recognized on an accrual basis.

Insurance and coinsurance premiums net of premiums transferred to coinsurance and reinsurance and related commissions, are recognized as income upon issuance of the respective policies / certificates / endorsements and invoices, or at the beginning period of the risk for cases in which the risk begins before issue date, and accounted for on a straight-line basis, over the duration of the policies, through recognizing and reversing the provision for unearned premiums and deferred acquisition costs (deferred acquisition costs).

d) Sale and repurchase agreements

The health insurance premiums are recorded at the start of the risk period, net of the portion of premiums corresponding to the period of unexpired risk.

Income from premiums and the acquisition costs related to risks already assumed whose respective policies have not yet been issued are recognized in income at the start of the risk coverage on an estimated basis.

Revenues and expenses related to DPVAT insurance operations are recorded on the basis of information received from the Seguradora Líder dos Consórcios do Seguro DPVAT S.A.

Accepted and retroceding co-insurance operations are recorded on the basis of information received from participating co-insurance and IRB - Brasil Resseguros S.A., respectively.

Deferment of assigned reinsurance premiums is made consistently with the related insurance premium and/or reinsurance agreement.

Acquisition costs are deferred and recognized in proportion to the recognition of earned premium.

The increase of insurance agency operations are deferred and recognized in income linearly, for a period of 24 months in health insurance operations and by 12 months in the other operations, following the allocation of revenues from insurance and coinsurance premiums.

Contributions to pension plans and life insurance premiums with survivor coverage are recognized in income upon their effective receipt.

d) Sale and repurchase agreements

Income from management fees are recognized as income on an accrual basis at contractually determined rates.

Revenues from “capitalization plans” are recognized in the month of issue thereof. The corresponding technical provisions are established simultaneously to the revenue recognition.

Revenues from prescribed “capitalization plans” are recognized after the prescription period, in accordance with Brazilian law is up to 20 years for securities and lotteries not redeemed until November 11, 2003 and five years thereafter.

The expenses for placement of “capitalization plans”, classified as “acquisition costs,” are recognized as they are incurred.

Deferral of paid reinsurance premiums is made consistently with the treatment of the respective insurance premium and/or reinsurance contract.

w) Income tax and social contribution expenses

Income tax is calculated at the rate of 15%, plus a surcharge of 10% and the social contribution tax at the rate of 15% for banks, insurance companies and similar institutions and 9% for non-financial subsidiaries, after making certain adjustments required by tax legislation.

Tax expense comprises current and deferred tax. Current and deferred tax are recorded in the consolidated statement of income except when the result of a transaction is recognized directly in equity, in which case the related tax effect is also recorded in equity or in other comprehensive income.

Current tax expenses are the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amount used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries, associates and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

In determining the amount of current and deferred tax the Organization takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The organization believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Organization to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

d) Sale and repurchase agreements

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Additional taxes that arise from the distribution of dividends by the Bank are recognized at the same time as the liability to pay the related dividend is recognized.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

x) Segment reporting

Information for operating segments is consistent with the internal reports provided to the management's decision-making process. The Organization operates mainly in the banking and insurance segments. The banking operations include operations in retail, middle market and corporate activities, leasing, international bank operations, investment banking and private banking. The Organization performs in banking segments through its own branches located throughout the country, in branches abroad and through subsidiaries, as well as by means of our shareholding interest in other companies. Additionally, we are engaged in operations in insurance, supplementary pension plans and certificated savings plans through a subsidiary, Bradesco Seguros S.A., and its subsidiaries.

y) Equity

Preferred shares have no voting rights, but have priority over ordinary shares in reimbursement of capital, in the event of liquidation, up to the amount of the capital represented by such preferred shares, and the right to receive a minimum dividend per share ten percent (10%) higher than the dividend distributed per share to the holders of ordinary shares.

d) Sale and repurchase agreements

i. Share issue costs

d) Sale and repurchase agreements

d) Sale and repurchase agreements

Incremental costs directly attributable to the issuance of shares are shown net of taxes in equity, thus reducing the initial share value.

ii. Earnings per share

d) Sale and repurchase agreements

The Organization presents basic and diluted earnings per share data. Basic earnings per share is calculated by dividing the net income attributable to shareholders of the Organization by the weighted average number of shares outstanding during the year, excluding the average number of shares purchased by the Organization and held as treasury shares. Diluted earnings per share are the same as basic earnings per share, as there are no potentially dilutive instruments.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

iii. Dividends payable

Dividends on shares are recognized at the time they are approved by a Meeting of Shareholders. Dividends for the year, approved and declared after the reporting date of the financial statements, are disclosed in the notes as subsequent events.

iv. Capital transactions

Capital transactions are transactions between partners qualified as investment owners. These transactions modify the equity held by the controlling shareholder in a subsidiary. Since there is no loss of control, the difference between the amount paid and the fair value of the transaction is recognized directly in equity.

3) Risk Management

Risk-management structure

The risk management structure is made up of committees, which assist the Board of Directors and the Board of Executive Officers in their strategic decision-making process.

The Organization has a committee known as the Integrated Risk and Capital Allocation Management Committee, whose duty is to advise the Board of Directors in performing its duties in risk management, capital and control.

d) Sale and repurchase agreements

This committee is assisted by the Capital Management Executive Committee and the Executive Committees for the Management of Risks relating to a) Credit, b) Market and Liquidity, c) Operational, d) Bradesco's Insurance Group and e) Basel II Implementation, in addition to Executive Committees in the business areas, which, among other duties, suggest exposure limits for their respective risks and prepare the mitigation plans to be submitted to the Integrated Risk and Capital Allocation Management Committee and the Board of Directors.

It is worth highlighting the Integrated Risk Control Department (DCIR), responsible for implementing the Organization's risk control and determining its activities' capital requirements in an independent, consistent, transparent and integrated manner. It is also responsible for complying with the Bacen rules for risk management activities.

d) Sale and repurchase agreements

3.1. Credit risk

d) Sale and repurchase agreements

Credit risk refers to the possibility of losses associated with the borrower's or counterparty's failure to comply with their contractual liabilities under the original terms. For risk management reporting purposes, the Organization considers and consolidates all elements of credit risk exposure, such as deterioration of loans as reflected in an increase in the borrower's risk, the reduction in gains or remunerations, as well as benefits granted in renegotiations, recovery costs and other amounts related to the counterparty's noncompliance with the financial obligations.

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

The Organization controls the exposure to credit risk which comprises mainly credit operations, securities and derivatives. There is also the credit risk in financial obligations relating to commitments on loan or financial guarantees.

d) Sale and repurchase agreements

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

With the objective of not compromising the quality of the portfolio, all aspects inherent to credit concession, concentration, guarantee requirements and terms, among others, are observed.

The Organization continuously maps all the activities that could possibly generate exposure to credit risk, classifying them by their probability and magnitude, identifying their managers, as well as their measurement and mitigation plans.

Counterparty's Credit Risk

The counterparty credit risk to which the Organization is exposed includes the possibility of losses due to the non-compliance by counterparties with the obligations relating to the settlement of operations involving financial asset trading, including the settlement of derivative financial instruments. Counterparty credit risk also includes the risk related to a downgrade in the counterparty's credit standing.

The Organization maintains control over the net position (that is, the difference between purchase and sale agreements) and potential future exposures of operations where there is counterparty risk. Each counterparty's exposure to risk is treated in the same way and is part of general credit limits granted to the Organization's customers. Usually, guarantees associated with this type of operation include margin deposits, which are made by the counterparty with the Organization or with other trustees, whose counterparty's risks are also appropriately evaluated.

Credit Concession

Under the responsibility of the Credit Department, lending procedures are based on the Organization's credit policy emphasizing security, quality and liquidity for the application of credit assets. The process is guided by the Organization's risk-management governance and complies with the rules of the Central Bank of Brazil.

In the constant pursuit for profitability in the business, the Organization uses the appropriate methodologies for each segment in which it operates, which guide the lending processes and the determination of operational limits.

In the evaluation and classification of customers or economic groups, the quantitative (economic and financial indicators) and qualitative (personal data and behaviors) aspects associated with the customers capacity to honor their obligations are considered.

All business proposals are subject to the Organization’s operational limits, which are included in the Loan Guidelines and Procedures. At branches, the delegation of power to grant a loan depends on its size, the total exposure to the Organization, the guarantees offered, the level of restriction and their credit risk score/rating. Business proposals with risks beyond these limits are subject to technical analysis and approval of the Credit Department.

In its turn, the Executive Credit Committee was created to decide, within its authority, on queries about assignment of limits or operations proposed by business areas, previously analyzed and with approval from the Credit Department. According to the financial amount, operations/limits proposed, after obtaining a favorable opinion from this Committee, may be submitted for approval by the Board of Directors.

d) Sale and repurchase agreements

Notes to the Consolidated Financial Statements

Loan proposals pass through an automated system with parameters to provide indispensable information for analysis and granting of loans, in addition to the follow-up of the granted loans, thereby minimizing the risks inherent to the operations.

The Organization has exclusive Credit and Behavior Scoring systems for the assignment of mass loans in the Retail segment, meant to provide greater speed and reliability, while standardizing the procedures for loan analysis and approval.

Business is diversified, wide-spread and aimed at individuals and companies with a proven payment capacity and solvency, always seeking to support them with guarantees that are adequate to the risk assumed, considering objectives and the maturities of loan granted.

Credit Risk Rating

The methodology for credit-risk evaluation, in addition to providing the institution with the minimum parameters for credit concession and risk management, promotes the determination of credit policies that are differentiated by the customer's characteristics and capacity. Thus, it provides a base for operation pricing and determination of guaranties to each circumstance.

Risk ratings for economic groups – legal entities – are based on standardized statistical and judgmental procedures, and on quantitative and qualitative information. Classifications are made corporately and are monitored periodically in order to preserve the quality of the credit portfolio.

For individuals, credit ratings are based on personal data variables, such as income, assets, restrictions and indebtedness, in addition to the history of their relationship with the Organization, and statistical credit evaluation models.

The risk classification adopted on the basis of the customers' capacity of honoring their commitments is shown below:

	Internal Rating	**Organization classification**
1	AA1	
2	AA2	
3	AA3	
4	A1	
5	A2	
6	A3	
7	B1	
8	B2	
9	B3	
10	C1	
11	C2	
12	C3	Low risk
13	D	Medium risk
14	E	
15	F	
16	G	
17	H	High risk

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

Credit-Risk Management Process

The credit risk is controlled in a corporate and centralized manner. All exposures to credit risk are analyzed, measured, classified and monitored independently.

This sector participates in the process to improve customer risk classification models by monitoring the high risks through the periodic follow-up of major default events, and the level of provision against expected and unexpected losses.

The credit risk area continuously reviews the internal processes, including the roles and responsibilities and IT training and requirements. It also conducts periodic reviews of risk evaluation processes to incorporate new practices and methodologies.

Control and Monitoring

The Organization's credit risk is controlled and monitored by the credit risk area of the Integrated Risk Control Department.

The department coordinates, within the risk governance structure, the Executive Credit Risk Management Committee, in which methodologies for credit risk measurement are discussed and formalized. Significant issues discussed in this committee are reported to the Integrated Risk Management and Capital Allocation Committee, which is subordinated to the Board of Directors.

In addition to the Committee, the Integrated Risk Control Department holds monthly meetings with product and segment executives and officers, Credit, Credit Recovery, with a view to informing them about the evolution of the loan portfolio, delinquency, impairment of loans and advances, loan recoveries, portfolio limits and concentrations and other items. This information is also reported to the Audit Committee.

The area also monitors any internal or external event that may cause a significant impact on the Organization's credit risk, such as spin-offs, bankruptcies and crop failure, in addition to monitoring economic activity sectors in which the company is exposed to significant risks.

Both the governance process and existing limits are sanctioned by the Integrated Risk Management and Capital Allocation Committee, which are submitted for the approval of the Board of Directors, which are revised at least once a year.

Internal Report

Credit risk is monitored on a daily basis in order to maintain the risk levels within the limits established by the Organization. Managerial reports on risk control are furnished to the business areas, Credit, Credit Recovery and the Executive Officers, in addition, daily, monthly and quarterly reports.

Pointing out the risk situations that could result in the customers' inability to honor its obligations as contracted, the credit risk control area provides daily reports, to the branches, business segments, as well as the lending and loan recovery areas. This system provides timely information about the loan portfolios and credit bureau information of customers, in addition to enabling comparison of past and current information, highlighting points requiring a more in-depth analysis by managers.

The Organization also has an electronic corporate system of credit risk indicators to provide the lending and loan recovery areas, business areas, regional managers and branches with information on assets by segment, product, region, risk classification, delinquency and expected and unexpected losses, among others. This electronic system provides both a macro-level and detailed view of the information, and also enables a specific loan operation to be viewed.

Notes to the Consolidated Financial Statements

The information is viewed and delivered via dashboards, allowing queries at several levels such as business segment, divisions, managers, regions, products, employees and customers, and under several aspects (asset, delinquency, provision, write-off, restriction levels, guarantees, portfolio quality by rating, among others).

Credit Risk Exposure

We present below the maximum credit risk exposure of the financial instruments.

		R$ thousand
	December 31	
	2013	**2012 (Restated)**
Cash and balances with banks	67,450,363	59,901,564
Derivative financial instruments	2,509,028	3,222,631
Loans and advances to banks	78,719,723	92,459,347
Loans and advances to customers	323,979,568	288,935,614
Other financial assets (1)	296,348,759	294,462,510
Total items recorded in the balance sheet	**769,007,441**	**738,981,666**
Total items not recorded in the balance sheet (Note 41)	**226,127,235**	**203,640,555**
Total risk exposure	**995,134,676**	**942,622,221**

(1) Includes Investments held to maturity recognized as amortized cost in the amount of R$ 23,069,026 thousand (2012 – R$ 3,715,673 thousand).

The Organization's maximum credit risk exposure was R$ 995,134,676 thousand in 2013, which was an increase of 5.6% from 2012.

Of this exposure, R$ 67,450,363 thousand, or 6.8% is related to cash and bank deposits composed mainly of funds deposited with the Central Bank of Brazil that are assessed to have low credit risk.

In relation to the “Other financial assets” item totaling R$ 296,348,759 thousand, representing approximately 29.8% of the exposure, which largely consists of financial assets that, being Brazilian government bonds, have low credit risks that, and are recorded at their market value.

In 2013, items not recorded in the consolidated statement of financial position (recorded in memorandum accounts) amounted to R$ 226,127,235 thousand (2012 - R$ 203,640,555 thousand), reaching a level of 22.7% (2012 – 21.6%) of total exposure.

The following provides a detailed analysis of other exposures subject to credit risk totaling R$ 405,208,319 thousand, representing 40,7% of the total exposure, including derivatives (R$ 2,509,028 thousand), loans and advances to credit institutions (R$ 78,719,723 thousand) and clients (R$ 323,979,568 thousand).

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards (IFRS)

Notes to the Consolidated Financial Statements

Derivative Financial Instruments

		R$ thousand
	December 31	
	2013	**2012 (Restated)**
Traded in the stock exchange	154,541	209,098
OTC contract	2,354,487	3,013,533
Total	**2,509,028**	**3,222,631**

In relation to derivatives, 93.8% of the total, refers to over-the-counter contracts, most of them involving counterparties assessed to have "low credit risk" by the Organization's internal procedures, so these derivatives do not have significant credit risk exposure.

Loans and advances to banks

We present below the portfolio of loans and advances to banks as rated internally by the Organization:

	R$ thousand	
	December 31	
	2013	**2012 (Restated)**
Low risk	78,632,199	92,318,045
Medium risk	87,524	141,302
High risk	-	-
Total	**78,719,723**	**92,459,347**

Ratings as assigned by the Organization: Low risk: Ratings AA1 – C3; Medium risk: Rating D; and High risk: Ratings E – H.

Of total loans and advances to credit institutions, 99.9% are not rated as due or impaired. In addition, the portfolio has no debt-rescheduling history.

Loans and advances to customers

The loans and advances to customers are classified as:

- Neither past due nor impaired.
- Past due but not impaired.
- Impaired, including loans and advances classified as impaired and loans and advances that are analyzed individually for loss.

The Organization's loans and advances to customers are classified as "impaired" when they fall in at least one of the following situations: (a) are delinquent more than 90 days, except for housing loan operations secured by residential property (overdue more than 180 days); (b) have incurred a loss; (c) have been renegotiated provided they are within the internal criteria of relevance (materiality and representation); (d) have been reclassified as a higher risk level; and/or (e) have been subject to bankruptcy events (declared bankruptcy, or application, or grant, or approval by judicial or extrajudicial authority).

	R$ thousand	
	December 31	
	2013	**2012 (Restated)**
Neither past due nor impaired (i)	287,052,062	253,316,688
Past due but not impaired (ii)	7,128,874	6,848,895
Impaired (iii)	29,798,632	28,770,031
Total loans and advances to customers	**323,979,568**	**288,935,614**
Impairment of loans and advances	(19,858,234)	(19,914,294)
Net amount	**304,121,334**	**269,021,320**

The portfolio of loans and advances to customers grew by 12.1% from 2013 to 2012.

(i) Loans and advances to customers neither past due nor impaired

	R$ thousand	
	December 31	
	2013	**2012 (Restated)**
Low risk		