

BANK BRADESCO
Form 6-K
April 02, 2012

**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, 2012
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 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

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

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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 statement of Banco Bradesco S.A. ("Bradesco"), which comprise the consolidated statement of financial position of Bradesco as of December 31, 2011, the consolidated statements of income, comprehensive income, changes in shareholders' 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 (IFRS) as issued by the International Accounting Standards Board (IASB), 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 approved Brazilian auditing standards 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 taken as a whole.

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, mentioned above, present fairly, in all material respects, the consolidated financial position of Bradesco, as of December 31, 2011, and of its consolidated financial performance of its operations and its consolidated cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board – IASB.

Other matter

Audit of the corresponding amounts of prior years

The consolidated financial statements of the Bradesco as of and for years ended December 31, 2010 and 2009, were audited by another independent auditor who issued their report dated April 14, 2011, which did not contain any modification.

Osasco, March 29, 2012

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 Reporting Standards (IFRS)

Audit Committee 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, 2011, issued on January 30, 2012, 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, 2011, prepared in accordance with International Financial Reporting Standards.

Cidade de Deus, Osasco, SP, March 29, 2012

CARLOS ALBERTO RODRIGUES GUILHERME

(Coordinator)

JOSÉ LUCAS FERREIRA DE MELO

ROMULO NAGIB LASMAR

OSVALDO WATANABE

Bradesco _____

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

Consolidated Statement of Income

		R\$ thousand		
		Years ended December 31		
	Note	2011	2010	2009
Interest and similar income		82,367,272	63,772,183	55,165,229
Interest and similar expenses		(46,755,986)	(31,000,892)	(27,974,717)
Net interest income	6	35,611,286	32,771,291	27,190,512
Fee and commission income		10,868,311	9,421,485	7,866,601
Fee and commission expenses		(33,978)	(26,947)	(19,219)
Net fee and commission income	7	10,834,333	9,394,538	7,847,382
Net gains/(losses) on financial instruments classified as held for trading	8	(608,270)	2,212,733	5,983,781
Net gains/(losses) on financial instruments classified as available for sale	9	365,302	754,416	757,255
Net gains/(losses) of foreign currency transactions	10	2,625,813	(682,961)	(897,638)
Income from insurance and pension plans	11	3,076,175	2,577,730	1,778,016
Impairment of loans and advances	12	(8,296,151)	(5,756,125)	(10,809,611)
Personnel expenses	13	(11,150,970)	(8,794,017)	(7,334,164)
Other administrative expenses	14	(11,477,134)	(9,761,445)	(8,138,058)
Depreciation and amortization	15	(2,120,335)	(1,966,433)	(1,516,529)
Other operating income/(expenses)	16	(4,858,702)	(6,002,663)	(3,024,640)
Income before income taxes and equity in the earnings of associates		14,001,347	14,747,064	11,836,306
Equity in the earnings of associates	27	682,122	577,053	728,867
Income before income taxes		14,683,469	15,324,117	12,565,173
Income and social contribution taxes	17	(3,594,027)	(5,271,924)	(4,264,330)
Net income for the year		11,089,442	10,052,193	8,300,843
Attributable to shareholders:				
Controlling shareholders		10,958,054	9,939,575	8,283,007
Non-controlling interest		131,388	112,618	17,836
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	2.74	2.52	2.12
– Earnings per preferred share	18	3.01	2.77	2.34

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

IFRS – *International Financial Reporting Standards* – December 2011

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

Consolidated Statement of Comprehensive Income

	R\$ thousand		
	Years ended December 31		
	2011	2010	2009
Net income for the year	11,089,442	10,052,193	8,300,843
Unrealized gains/(losses) on financial assets available for sale	(763,425)	651,063	3,486,555
Exchange differences on translations of foreign operations	389	(11,708)	-
Tax effect	294,823	(255,742)	(1,394,623)
Total comprehensive income for the year	10,621,229	10,435,806	10,392,775
Attributable to shareholders:			
Controlling shareholders	10,489,841	10,323,188	10,374,939
Non-controlling interest	131,388	112,618	17,836

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

Bradesco _____

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

Consolidated Statement of Financial Position

		R\$ thousand	
	Note	December 31 2011	2010
Assets			
Cash and balances with banks	19	93,777,577	80,960,127
Financial assets held for trading	20a	96,597,077	75,234,191
Financial assets available for sale	21	45,248,398	40,179,144
Investments held to maturity	22	4,110,987	3,394,307
Assets pledged as collateral	23	97,122,080	79,700,612
Loans and advances to banks	24	72,663,890	64,715,412
Loans and advances to customers, net of impairment	25	245,874,949	210,280,182
Non-current assets held for sale	26	445,351	412,142
Investments in associated companies	27	2,390,466	2,298,200
Property and equipment	29	4,267,218	3,669,281
Intangible assets and goodwill	30	7,216,697	5,412,088
Taxes to be offset	17g	4,572,927	1,590,297
Deferred income tax assets	17c	17,093,388	12,733,792
Other assets	31	30,705,887	22,374,249
Total assets		722,086,892	602,954,024
Liabilities			
Deposits from banks	32	204,290,176	171,920,917
Deposits from customers	33	216,320,938	192,475,948
Financial liabilities held for trading	20b	747,210	732,967
Funds from securities issued	34	41,630,969	17,809,765
Subordinated debt	35	26,910,091	26,314,946
Insurance technical provisions and pension plans	36	99,112,321	83,493,046
Other provisions	38	17,926,450	13,327,866
Current income tax liabilities		2,758,978	1,923,372
Deferred income tax liabilities	17c	2,246,508	1,980,544
Other liabilities	39	50,761,157	41,816,088
Total liabilities		662,704,798	551,795,459
Equity			
Share capital	40	30,100,000	28,500,000
Treasury shares		(183,109)	(10,049)
Capital reserves		35,973	87,146
Revenue reserves		26,732,531	19,481,986
Additional paid-in capital		70,496	70,496
Other comprehensive income		1,751,059	2,219,272

Retained earnings	632,096	702,383
Equity attributable to controlling shareholders	59,139,046	51,051,234
Non-controlling interest	243,048	107,331
Total equity	59,382,094	51,158,565
Total liabilities and equity	722,086,892	602,954,024

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

IFRS – International Financial Reporting Standards – December 2011

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

Consolidated Statement of Changes in Equity

	Share capital	Treasury shares	Capital reserves	Revenue reserves	Legal	Statutory	Additional paid-in capital	Other comprehensive income ⁽¹⁾	Retained earnings	attributable to shareholders
Balance on January 1, 2009	23,000,000	(4,853)	62,614	1,853,688	10,006,599	-	(256,273)	630,748		
Net income	-	-	-	-	-	-	-	-	8,283,007	
Financial assets available for sale	-	-	-	-	-	-	-	2,091,932	-	
Comprehensive income	-	-	-	-	-	-	-	-	-	
Purchase of treasury shares	-	(184,021)	-	-	-	-	-	-	-	
Increase of non-controlling shareholders' interest	-	-	-	-	-	-	-	-	-	
Merger of Odontoprev shares	-	-	-	-	-	-	150,032	-	-	
Transfers to reserves	-	-	-	400,614	4,893,586	-	-	-	(5,294,200)	
Capital increase with reserves ⁽²⁾ ⁽³⁾	2,131,817	-	-	-	(2,131,817)	-	-	-	-	
Capital increase ⁽²⁾	1,368,183	-	24,532	-	-	-	-	-	-	
Interest on equity and dividends	-	-	-	-	-	-	-	-	(2,834,734)	
Balance on December 31, 2009	26,500,000	(188,874)	87,146	2,254,302	12,768,368	150,032	1,835,659	784,821		
Net income	-	-	-	-	-	-	-	-	9,939,575	
Financial assets available for sale	-	-	-	-	-	-	-	390,638	-	

sale									
Foreign currency translation adjustment	-	-	-	-	-	-	(7,025)	-	-
Comprehensive income	-	-	-	-	-	-	-	-	-
Decrease of non- controlling shareholders' interest	-	-	-	-	-	(79,536)	-	-	-
Purchase of treasury shares	-	(14,789)	-	-	-	-	-	-	-
Cancellation of treasury shares	-	193,614	-	-	(193,614)	-	-	-	-
Transfers to reserves	-	-	-	501,083	6,151,847	-	-	-(6,652,930)	-
Capital increase with reserves ⁽⁴⁾	2,000,000	-	-	-	-(2,000,000)	-	-	-	-
Capital increase ⁽⁵⁾	1,500,000	-	-	-	-	-	-	-	-
Capital to pay in ⁽⁵⁾	(1,500,000)	-	-	-	-	-	-	-	-
Interest on equity and dividends	-	-	-	-	-	-	-	-(3,369,083)	-
Balance on December 31, 2010	28,500,000	(10,049)	87,146	2,755,385	16,726,601	70,496	2,219,272	702,383	

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

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

Consolidated Statement of Changes in Equity (continued)

	Share capital	Treasury shares	Capital reserves	Revenue reserves	Legal	Statutory	Additional paid-in capital	Other comprehensive income ⁽¹⁾	Retained earnings	attributable to controlling shareholders
Balance on December 31, 2010	28,500,000	(10,049)	87,146	2,755,385	16,726,601	70,496	2,219,272	702,383	5	1
Net income	-	-	-	-	-	-	-	-10,958,054	-	-
Financial assets available for sale	-	-	-	-	-	-	-	(468,447)	-	-
Foreign currency translation adjustment	-	-	-	-	-	-	-	234	-	-
Comprehensive income	-	-	-	-	-	-	-	-	-	1
Purchase of treasury shares	-	(173,060)	-	-	-	-	-	-	-	-
Increase of non-controlling shareholders' interest	-	-	-	-	-	-	-	-	-	-
Premium on share subscription ⁽⁵⁾	-	-	11,441	-	-	-	-	-	-	-
Transfers to reserves	-	-	-	551,413	6,736,518	-	-	-	(7,287,931)	-
Capital increase with reserves ⁽⁶⁾	100,000	-	(62,614)	(37,386)	-	-	-	-	-	-
Payment of Capital ⁽⁵⁾	1,500,000	-	-	-	-	-	-	-	-	-
Interest on equity and dividends	-	-	-	-	-	-	-	-	(3,740,410)	(3,740,410)
Balance on December 31, 2011	30,100,000	(183,109)	35,973	3,269,412	23,463,119	70,496	1,751,059	632,096	5	1

- (1) 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\$ 1,184,692 thousand (2010 – R\$ 1,479,515 thousand and 2009 – R\$ 1,223,773 thousand);
- (2) On October 29, 2009, the Special Shareholders' Meeting approved the merger of Banco Ibi SA upon the issue of 45,662,775 new shares, being 22,831,389 common shares and 22,831,386 preferred shares, to the former's shareholders of the Banco Ibi S.A., in amount of R\$ 1,368,183 thousand and capital increase through the transfer of reserve, without issue new shares, in the amount of R\$ 131,817 thousand, R\$ 65,909 thousand of ordinary shares and R\$ 65,908 thousand of preferred shares;
- (3) On December 18, 2009, the Special Shareholders' Meeting decided to implement a stock dividend of one new share for each ten held of the same class in order for shareholders to increase their holdings, without a change in resources. Therefore, all numbers of shares presented during previous years were adjusted to reflect the share split in the proportion of one new share for every ten held. It was decided in the same Meeting to increase the capital with reserves in the amount of R\$ 2,000,000 thousand – R\$ 1,000,000 thousand in common shares and R\$ 1,000,000 thousand in preferred shares;
- (4) On June 10, 2010, the Special Shareholders' Meeting decided to implement a stock dividend of one new share for each ten held of the same class in order for shareholders to increase their holdings, without a change in resources. Therefore, all the numbers of shares, presented during previous periods were adjusted to reflect the share split in the proportion of one new share for every ten held. It was decided in the same Meeting to increase the capital with reserves in the amount of R\$ 2,000,000 thousand – R\$ 1,000,000 thousand in ordinary shares and R\$ 1,000,000 thousand in preferred shares;
- (5) 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; and
- (6) 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.

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

IFRS – International Financial Reporting Standards – December 2011

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

Consolidated Statement of Cash Flows

	R\$ thousand		
	Years ended December 31		
	2011	2010	2009
Operating activities			
Income before income taxes	14,683,469	15,324,117	12,565,173
Adjustments to reconcile income before income tax to net cash flow from operating activities:			
Impairment of loans and advances	8,296,151	5,756,125	10,809,611
Changes in the insurance technical provisions and pension plans	18,212,405	14,294,976	12,768,473
Net gains from disposals on assets available for sale	(238,606)	(645,216)	(549,038)
Depreciation	990,092	956,092	824,899
Amortization of intangible assets	1,130,243	1,010,341	691,630
Impairment of intangible assets	5,126	26,493	36,511
Equity in the earnings of associates	(682,122)	(577,053)	(728,867)
Losses on disposal of non-current assets held for sale	237,727	292,595	315,248
Net losses from disposal of property and equipment	8,596	12,148	14,355
Gains on sale of investments in associated companies	-	-	(2,409,619)
Changes in assets and liabilities:			
Increase in compulsory deposits in the Central Bank	(6,013,739)	(47,273,389)	(4,722,952)
Increase in loans and advances to banks	(25,693,398)	(29,473,272)	(22,935,353)
Increase in loans and advances to customers	(88,088,656)	(81,584,730)	(44,996,235)
(Increase)/decrease in financial assets held for trading	(75,106,993)	(36,900,513)	2,166,148
(Increase)/decrease in other assets	(6,508,618)	(1,578,591)	18,752,963
Net increase in deposits from banks	50,571,306	62,708,679	26,705,387
Net increase in deposits from customers	38,975,249	32,148,572	14,716,268
Increase/(decrease) in financial liabilities held for trading	14,243	200,545	(1,523,248)
Decrease in insurance technical provisions and pension plans	(2,593,130)	(3,398,827)	(2,739,259)
Increase in other provisions	4,598,584	2,475,383	893,781
Increase/(decrease) in other liabilities	8,852,270	9,209,750	(8,749,105)
Interest received	64,161,337	52,844,025	48,030,114
Interest paid	(33,332,306)	(20,474,472)	(15,892,066)
Income and social contribution taxes paid	(5,383,283)	(3,196,072)	(3,791,506)
Other changes in taxes	(4,156,577)	(500,862)	(1,551,228)
Net cash provided by/ (used in) operating activities (Revised – See Note 2 (z))	(37,060,630)	(28,343,156)	38,702,085
Investing activities			
	(214,676)	(226,765)	35,779

Acquisitions of subsidiaries, net of cash and cash equivalents paid			
Acquisitions of financial assets available for sale	(19,055,607)	(41,287,204)	(15,854,009)
Proceeds from sale of financial assets available for sale	32,753,402	9,405,730	754,251
Acquisitions of investments held to maturity	-	-	(14,554)
Redemption of investments held to maturity	105,722	89,844	62,828
Disposal of non-current assets held for sale	228,958	327,377	324,246
Acquisition of investments in associated companies	(111,826)	(786,688)	(339,902)
Disposal of investments in associated companies	-	-	2,519,272
Dividends received from investments in associated companies (Revised – See Note 2 (z))	489,200	496,698	560,965
Acquisition of property and equipment	(1,698,704)	(1,356,856)	(1,299,292)
Disposal of property and equipment	102,079	123,876	252,150
Acquisition of intangible assets	(3,232,620)	(1,695,177)	(1,058,075)
Dividends received	126,696	109,200	208,217
Interest received	7,190,077	5,494,551	2,736,771

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

Consolidated Statement of Cash Flows (continued)

	R\$ thousand		
	Years ended December 31		
	2011	2010	2009
Net cash provided by/(used in) investing activities (Revised – See Note 2 (z))	16,682,701	(29,305,414)	(11,111,353)
Financing activities			
Funds from securities issued	28,212,490	12,815,608	3,565,694
Payment of funds from securities issued	(5,679,892)	(3,725,745)	(3,705,243)
Issuance of subordinated debts	9,505,799	1,282,600	2,628,271
Payment of subordinated debts	(6,542,624)	(828,351)	-
Premium on share subscription	11,441	-	-
Capital increase in cash	1,500,000	-	-
Acquisition of treasury shares	(173,060)	(14,789)	(184,021)
Increase/(decrease) of non-controlling interest	42,483	(448,060)	19,131
Interest paid	(2,342,856)	(1,611,252)	(2,933,162)
Interest on equity and dividends paid	(3,568,337)	(2,914,982)	(2,829,871)
Net cash provided by/(used in) financing activities	20,965,444	4,555,029	(3,439,201)
Increase/(decrease) in cash and cash equivalents	587,515	(53,093,541)	24,151,531
Cash and cash equivalents			
At the beginning of the year	36,265,611	89,359,152	65,207,621
At the end of the year	36,853,126	36,265,611	89,359,152
Increase/(decrease) in cash and cash equivalents	587,515	(53,093,541)	24,151,531
Non-cash transactions			
Credit operations transferred to non-current assets	758,757	988,702	1,054,613
Dividends and interest on equity declared but not yet paid	2,519,378	2,029,222	1,548,141
Unrealized gains/losses on securities available for sale	468,447	(390,638)	(2,091,932)
Exchange of shares on acquisition of Odontoprev	-	-	327,302

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. (“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 in the banking activities, 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 29, 2012.

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.

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

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 jointly-controlled entities, as well as exclusive mutual funds and special purpose entities.

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

	Activity	Shareholding interest (%)	
		December 31 2011	2010
Alvorada Cartões, Crédito Financiamento e Investimento S.A.	Banking	100.00	100.00
Banco Alvorada S.A.	Banking	99.95	99.95
Banco Bradesco Financiamentos S.A.	Banking	100.00	100.00
Banco Bankpar S.A	Banking	100.00	100.00
Banco Boavista Interatlântico S.A.	Banking	100.00	100.00
Banco Bradesco Argentina S.A.	Banking	99.99	99.99
Banco BERJ S.A. ⁽¹⁾	Banking	96.23	-
Banco Ibi S.A.	Cards	100.00	100.00
Banco Bradesco BBI S.A.	Investment bank	98.35	98.35
Banco Bradesco Cartões S.A.	Cards	100.00	100.00
	Consortium		
Bradesco Administradora de Consórcios Ltda.	Management	100.00	100.00
Bradseg Participações S.A.	Holding	100.00	100.00
Bradesco Auto/RE Cia. de Seguros	Insurance	100.00	100.00
Bradesco Capitalização S.A.	Capitalization	100.00	100.00
Odontoprev S.A. ⁽²⁾	Dental Health	43.50	43.50
Bradesco Leasing S.A. Arrendamento Mercantil	Leasing	100.00	100.00
Ágora Corretora de Títulos e Valores Mobiliários S.A.	Broker	100.00	100.00
Bradesco S.A. Corretora de Títulos e Valores Mobiliários	Broker	100.00	100.00
Bradesco Saúde S.A.	Insurance/Health	100.00	100.00
Bradesco Seguros S.A.	Insurance	100.00	100.00
	Pension		
Bradesco Vida e Previdência S.A.	plan/Insurer	100.00	100.00
Bradesplan Participações Ltda.	Holding	100.00	100.00
	Asset		
BRAM – Bradesco Asset Management S.A. DTVM	Management	100.00	100.00
Tempo Serviços Ltda.	Service Provider	100.00	100.00
União de Participações Ltda.	Holding	100.00	100.00

(1) Agreement signed in May 2011 and consolidated as of November 2011, upon approval of the Brazilian Central Bank, which was the acquisition date; and

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

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 control, i.e., for which it has control of the majority of the voting rights. There may still be control when the Organization has direct or indirect power to govern financial and operational policies of the entity so as to obtain benefits from its activities, even if the percentage that the Organization holds in the equity capital is less than 50%. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Organization controls another entity. The subsidiaries are fully consolidated from the date on which the control is transferred to the Organization and cease to be consolidated from the date that control ceases.

The results of the subsidiaries acquired or sold during the years are included in the consolidated financial statements as from the effective acquisition date or up to the effective date on which the control ceases.

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.

a) Consolidation

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.

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Notes to the Consolidated Financial Statements

iii. Joint ventures

The Organization has contractual agreements in which one 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 proportionate consolidation method.

See Note 28 for summarized financial information about jointly controlled entities.

iv. Special purpose entities

Even if there is no shareholder relationship, special purpose entities (SPEs) are consolidated in accordance with SIC-12 (Consolidation of Special Purpose Entities), if the Organization controls them from an economic perspective.

When assessing whether the Organization controls a SPE, in addition to the criteria in IAS 27, it evaluates a range of factors, including whether:

- (a) the activities of the SPE are being conducted on the Organization's behalf according to its specific business needs so that the Organization obtains the benefits from the SPE's operations; or
- (b) the Organization has the decision-making power to obtain the majority of the benefits of the activities of the SPE or the Organization has delegated these decision-making powers by setting up an 'autopilot' mechanism; or

- (c) the Organization has the rights to obtain the majority of the benefits from the activities of the SPE and therefore may be exposed to risks incurred due to the activities of the SPE; or
- (d) the Organization retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain the benefits from its activities.

Whenever there is a change in the substance of the relationship between the Organization and the SPE, the Organization reassesses the continued appropriateness of consolidation. Indicators for a re-assessment of consolidation are, in particular, changes in ownership of the SPE, changes in contractual arrangements, and changes in the financial structure.

v. 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.

vi. 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.

IFRS – International Financial Reporting Standards – December 2011

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

Notes to the Consolidated Financial Statements

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 for 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.

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

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- 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.

c) Cash and cash equivalents

Cash and cash equivalents include: cash, bank deposits, unrestricted balances held with the Central Bank 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.

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 recorded and valued at their fair value and the respective subsequent changes to the fair value are recognized immediately in the income statement. 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.

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Notes to the Consolidated Financial Statements

- **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 balance sheet 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

e) Financial assets and liabilities

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 assets 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.

Interest is recognized in the consolidated statement of income statement 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.

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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 income statement.

- **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.

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 balance sheet as loans and advances to banks or customers. Interests on loans are included in the consolidated statement of income and are 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.

- ***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".

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Notes to the Consolidated Financial Statements

• **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**

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.

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, and only 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.

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Notes to the Consolidated Financial Statements

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.

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, 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

e) Financial assets and liabilities

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:

- 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:

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- (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.

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.

- e) Financial assets and liabilities

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.

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 uncollectable, 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.

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Notes to the Consolidated Financial Statements

(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.

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 its 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 us from our 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, 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 the brokers' fees over a twelve-month period.

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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.

There was no indication of impairment within the reporting period.

Gains and losses from the sale of property and equipment is 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 financial period in which they are incurred.

iii. Depreciation

Depreciation is recognized in the consolidated statement of income using the straight-line basis over 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. Leased assets under finance leases are depreciated over the shorter of the lease term and their useful lives. Useful lives and residual values are reassessed at each reporting date and adjusted, if appropriate.

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.

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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 is negative (bargain purchase gain), it is immediately taken to 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.

j) Intangible assets

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.

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.

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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 is 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 substantially finance lease 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.

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.

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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.

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.

k) Leasing

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

I) 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 is the greater of an asset's fair value, less costs to sell, and its value in use.

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 CGU. 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.

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The recoverable amount is the higher out of an asset's fair value less costs to sell and value in use. When assessing the value in use, the estimated future cash flows are discounted to their present value using a fixed rate 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 the 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.

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 the 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.

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 therefore the gain is virtually certain. The contingent assets for which the expectation of the outcome is favorable are only disclosed in the financial statements.

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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 an uncertain future event specific and adverse 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 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 day 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. The assignment of the corresponding provision to the estimate of current risks relating to policies not yet issued is constituted in the PPNG-RVNE.

The provision for claims to settle (PSL) is established based on the estimated claims paid, taking into account all administrative and judicial claims on the balance sheet date and the related costs such as expenses for claim adjustments and legal fees, among others.

The provision for incurred but not reported claims (IBNR) related to the Company's own operations is calculated on an actuarial basis, considering the number of claims that have been incurred but not reported by insured/beneficiaries. The methodology uses a projection – based on observed historic behavior – of future claim payments related to events that occurred before the reference date for the calculation. The IBNR provision is calculated by subtracting the expected total of the provision for claims to settle (PSL) from the aforementioned projection, estimated on a case-by-case basis.

The provision for premium insufficiency (PIP) should be constituted, if deficit is verified in the PPNG related to the risks in course to cover the indemnities due to incur and future-related expenses. The need of constitution was not identified for the base date.

ii. Insurance for people, except individual life

The provision for unearned premiums (PPNG) is calculated on a pro-rata day 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 includes an estimate for the current risks relating to policies not yet issued (RVNE).

The provision for premium deficiency (PIP) is made to cover any differences between the expected present value of indemnities and related future costs and the expected present value of future premiums. The provision is calculated on an actuarial basis and takes into account the biometric AT-2000 Male for men and AT-2000 Female for women, improvement of 1.5% per year, rates for other specific risk coverage and the real interest rate of 4% per year.

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 assumed.

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The provision for redemptions and other unsettled values (PROVR) comprises the values related to the redemptions to settle and to the returns of premiums still not transferred to the receiving entity.

The provision for claims incurred but not reported (IBNR) is calculated based on the estimate of the claims already incurred, but that still have not been reported to the insurance companies.

The provision for unsettled claims (PSL) considers all the reports of claims received until the balance date and the related costs, such as expenses with the regulation of claims, and judicial fees by decree, among others. The provision is restated monetarily and includes all of the claims under judicial review.

iii. Individual life insurance, excluding the insurance of variable contribution with survival coverage

The provision for unexpired risks (PRNE) is calculated on a pro-rata day 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 that have yet to be 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 (PROVR) comprises 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 provision for events incurred but not reported (IBNR) is calculated based on the estimate of claims already incurred, but that still have not been reported to the insurance company.

The provision of unsettled benefits (PBR) considers all of the reported claims received until the balance date and the related costs, such as expenses with the regulation of claims, and judicial fees by decree, among others. The provision is restated monetarily and includes all of the claims under judicial review.

The provision for financial variation (POF) is recorded up to the 15% limit on the mathematical provision for benefits to be granted for life insurance with guaranteed yield, in order to cover future financial variations. The annual real interest rate of 4% is used to calculate this provision.

iv. **Health**

For the health sector, the provision for unsettled claims (PSL) was measured, as the base of the reported claims received until the reporting date including judicial claims and related costs.

For the individual health plan portfolio, regarding the cover of remission for five years to the dependents of the policyholder in case of death, the mathematical provision for benefits to be granted (PMBaC) is constituted, whose calculation methodology takes into account the expectation of permanence of policyholders in the plan until their exit from the group following death, and as per this moment, the costs related to the permanence of the dependents in the plan for five years without the corresponding payment of premiums.

The 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.

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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.

v. Open pension plan and life insurance of variable contribution with survival coverage

The provision for unexpired risks (PRNE) is calculated on a pro-rata day 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 that have yet to be issued (RVNE).

The mathematical provision for benefits to be granted (PMBaC) refers to participants that have yet to begin receiving benefits. In the pension plans, known as 'traditional', the provision represents the difference between the current value of the future benefits and the current value of the future contributions, corresponding to the obligations assumed under the form of retirement, disability, pension and savings. The provision is calculated according to the methodology and premises established in the Technical Actuarial Notes.

Mathematical provisions for benefits to be granted related to long term life insurance plans (VGBL and PGBL) 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 through quotas in specially recorded investment funds (FIEs).

The provision for redemptions and other unsettled values (PROVR) comprises 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 provision for insufficient contributions (PIC) is recorded to meet occasional unfavorable variations in technical risks taken on in the mathematical provision for benefits to be granted and the mathematical provision for benefits granted, considering a greater tendency of survival among participants. In the plans with survival risk, the provision is calculated actuarially and takes into consideration the biometric table AT-2000 Male (smoothed) for men and AT-2000 Female (smoothed) for women, improvement of 1.5% a year and real interest rate of 4% a year. In the plans with risk of survival of disabled the provision takes into account the biometric table AT-49 Male and the real interest rate of 4% a year. Improvement is a technique that restates the table of survival automatically, considering the increase expected of the future survival.

The provision for administrative expenses (PDA) is constituted to cover future administrative expenses of the plans with a defined benefit, defined contribution and variable contribution. The premises of the calculation are the same included in the calculation of the PIC, with the inclusion of expenditure on benefit payments.

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 of unsettled benefits (PBR) considers all of the reported claims received until the balance date and the related costs, such as expenses with the regulation of claims, and judicial fees by decree, among others. The provision is restated monetarily and includes all of the claims under judicial review.

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The provision for financial variation (POF) is recorded up to the 15% limit on the mathematical provision for benefits to be granted for variable-contribution pension plans with guaranteed yield, in order to cover future financial variations. The annual real interest rate of 4% is used to calculate this provision.

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

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 as the net carrying amount, deducting the deferred acquisition costs (DAC) and the related intangibles.

To conduct this test, the Organization uses actuarial methods that consider the estimated present value of all future cash flows, including expenses to settle claims from actuarial premises on the date the test is conducted. In the test, contracts are grouped by similar risk or by whether the insurance risk is co-managed by the Management.

The assumptions related to the claims ratio, administrative and operating expenses, selling expenses, cancellations, future contributions, redemptions and conversions into income adopted for testing purposes, are based on historical records. On the other hand, the assumptions related to mortality and survival follow the biometric tables which are formulated specifically based on Brazilian insurance market experience, BR-EMS, and also consider the continued improvement of life expectancy (known technically as the 'improvement' assumption), in accordance with the G Scale of the Sociedade de Atuários (SOA).

The discount rates used to bring the projected flows to present value are risk-free forward rates, corresponding to the guarantees offered for each product.

If any insufficiency is detected, the Organization must record it as an expense in the income statement for the year and establish additional provisions for the insurance losses already recorded on the test base date.

The result of the adequacy test does not show insufficiency in 2011 and 2010.

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)".

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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. and BRAM, Bradesco Asset Management S.A. DTVM, is responsible for the financial management of the FIEs funds.

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. Contribution obligations for the defined contribution pension plans are recognized as expenses in the income statement during which services are rendered by employees. The Organization, as employer, has no further payment obligations, once the contributions have been made.

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

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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.

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 mathematical provision for redemptions.

Capitalization bonds 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 redemptions is calculated for each active or suspended security, during the term expected in the general conditions of bond.

The mathematical provision for redemptions are calculated by the values of the matured securities and also by the values of the securities which are not yet mature, but have had their redemption request anticipated by the clients. The provisions are restated monetarily based on the indexers established in each bond.

The provisions for draws to be held and settled are calculated to cover the premiums originating from the future draws (still not held) and also to the premiums originating from the draws in which the clients have been selected (to pay).

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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 of, the Organization estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Insurance premiums are recognized as revenue proportionally over the policies coverage period.

Insurance and coinsurance premiums net of premiums transferred to coinsurance and reinsurance and related commissions, are recognized as income at the time the relevant insurance policies and invoices are issued, 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).

Income from premiums and the corresponding 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.

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

Income from management fees paid by specially constituted investment funds are recognized as income on an accrual basis at contractually determined rates.

Brokers' commissions and other selling expenses of pension plans and life insurance are deferred and allocated to the income statement, using the straight-line method over twelve months.

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

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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 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 position 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.

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

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Information for operating segments is consistent with the internal reports provided for 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

The preferred shares have no voting rights, but have priority over the 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.

i. Share issue costs

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

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 ordinary 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.

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.

z) Change in classification in the statement of cash flows

In these financial statements the Organization has voluntarily elected to change its accounting policy with respect to the classification in the cash flow statements of dividends received from investments in associated companies. This accounting policy change did not affect the amounts that were previously recorded as assets, liabilities, equity, net income or other comprehensive income.

In the previously issued financial statements for the years ended December 31, 2010 and 2009 dividends received from investments in associated companies were presented as a cash inflow from operating activities. In these financial statements dividends received from investments in associated companies are presented as a cash inflow from investing activities and prior periods have been revised to be presented on a consistent basis. Management believes that this presentation provides more relevant information by including as cash flows from investing activities all cash inflows and outflows related to its associated companies including the purchase and sale of interests as well as dividends received.

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As a result of the change in accounting policy there was a decrease in the 2010 and 2009 previously reported cash flow statements in the line “Net cash provided by (used in) operating activities” and a corresponding increase in the line “Net cash provided by (used in) investing activities” in the amounts of R\$ 496,698 thousand and R\$ 560,965 thousand, respectively.

3) Risk Management

Risk-management structure

Our risk-management structure consists of Statutory and Executive Committees, which assist in the strategic decision-making by the organization's Board of Directors and Executive Officers.

The Organization has a Statutory Committee known as the Integrated Risk Management and Capital Allocation Committee, whose duty is to advise the Senior Management in the approval of institutional policies and risk exposure limits.

Reporting to this statutory committee are executive risk-management committees for a) credit risk, b) market and liquidity risk, c) operating risks, d) Bradesco's insurance and pension business, and e) implementing Basel II. There are also executive committees for the business areas, which, among other duties, suggest exposure limits for their corresponding risks and prepare mitigation plans to be submitted for the Integrated Risk and Capital Allocation Committee and the Board of Directors.

A key part of this structure is the Integrated Risk Control Department, whose mission it is to facilitate and foster the Organization's risk-control and capital-allocation activities independently, consistently, and transparently on an integrated basis. This area also ensures compliance with the stipulations of the Central Bank of Brazil pertaining to risk-management activities.

3.1. Credit risk

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 consolidated 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.

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.

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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 consists of the probable failure of the counterparty to comply with its financial or non-financial obligations, causing losses to the Organization. This risk may be identified especially in transactions that involve derivative financial instruments, where the counterparty is subject to market fluctuations.

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.

According to the guidance contained in the Credit Policy, all business proposals comply with the Organization's departments' approval hierarchy.

The Executive Credit Committee takes decisions within its remit on consultations for limits and transactions proposed by business areas, after the Credit Department has analyzed them and drafted its opinions. Proposed transactions / limits involving amounts of R\$ 2 billion or more first pass through the Credit Executive Committee and are then submitted to the Board of Directors for approval.

For mass market retail loans, the Organization has exclusive Credit and Behavior Scoring systems, as well as standardized procedures for reviewing applications and lending.

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.

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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

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 by the credit risk sector.

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 sector reviews the internal processes, continuously, including roles and liabilities, the capacity building and demands for information technology, and risk evaluation, with the creation or review of products and services.

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The credit risk management process includes a periodic self-appraisal to incorporate new practices and processes, as well as to monitor projects to meet the New Basel Capital Accord (Basel II) requirements. All activities are monitored to improve the management processes.

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.

Additionally to the Committee, the area 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 customers' ability 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 of customers about the loan portfolios and credit bureau information of customers, in addition to enabling comparison of the 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.

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).

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Credit Risk Exposure

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

	R\$ thousand	
	December 31	
	2011	2010
Cash and balances with banks	93,777,577	80,960,127
Derivative financial instruments	955,912	1,650,708
Loans and advances to banks	72,663,890	64,715,412
Loans and advances to customers	263,521,615	225,635,918
Other financial assets	237,166,083	191,893,419
Total items recorded in the balance sheet	668,085,077	564,855,584
Total items not recorded in the balance sheet	180,842,424	147,446,817
Total risk exposure	848,927,501	712,302,401

The Organization's maximum credit risk exposure was R\$ 848.9 billion in 2011, which was a 19.2% increase from 2010.

Of this exposure, R\$ 93.8 billion 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\$ 237.2 billion, representing for approximately 27.9% of exposure in 2011, which largely consists of financial assets that, being Brazilian government bonds, have relatively low credit risks that, and are recorded at their market value.

In 2011, items not recorded in consolidated statement of financial position (recorded in memorandum accounts) amounted to R\$ 180.8 billion, reaching a level of 21.3% of total exposure from available lines of credit, of which R\$ 130.7 billion corresponded to limits for credit cards, personal loans, housing loans and

overdrafts, all of which were individually insignificant. Of the remaining R\$ 50.1 billion, R\$ 48.5 billion were guarantees mostly provided for Corporate customers and R\$ 1.6 billion was available import finance. According to the Organization's internal ratings, these transactions are mostly assessed as having relatively "low risk".

In 2010, items not recorded in the consolidated statement of financial position, amounted to R\$ 105 billion comprises credit limits to be released, of which 79% corresponds to limits to be released of the following products: credit cards, personal credit, housing loans and checking account overdraft facilities, and which are considerably dispersed. In addition, an amount of R\$ 42 billion comprises guarantees provided, of which 90% is realized with large sized companies, which based on the Organization`s internal rating, are classified as low risk.

The following provides a detailed analysis of other exposures subject to credit risk totaling R\$ 337.1 billion in 2011, representing 39.7% of the total exposure, including loans and finance, derivatives and advances to credit institutions and clients.

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Derivative Financial Instruments

	R\$ thousand	
	December 31	
	2011	2010
Traded in the stock exchange	4,249	35,113
OTC contract	951,663	1,615,595
Total	955,912	1,650,708

In relation to derivatives, 99.6% of the total, transactions refer 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	
	2011	2010
Low risk	72,663,890	64,715,412
Medium risk	-	-
High risk	-	-
Total	72,663,890	64,715,412

Low risk: Ratings AA1 – C3; Medium risk: Rating D; and High risk: Ratings E – H.

Loans and advances to credit institutions 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 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 are classified as "impaired" when they are (a) past due over 90 days, or (b) incurred in loss, or (c) rescheduled and/or that have been, or (d) reclassified as high risk levels and/or have been subject to, or (e) bankruptcy events (declared bankrupt, or application, or grant, or approval by judicial or extrajudicial authority).

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	R\$ thousand	
	December 31	
	2011	2010
Neither due nor impaired (i)	230,869,648	196,614,589
Past due but not impaired (ii)	6,352,829	6,037,858
Impaired (iii)	26,299,138	22,983,471
Total loans and advances to customers	263,521,615	225,635,918
Impairment loss	(17,646,666)	(15,355,736)
Net amount	245,874,949	210,280,182

The portfolio of loans and advances to customers grew by 16.8% from 2011 compared to 2010.

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

	R\$ thousand December 31	
	2011	2010
Low risk	226,629,368	194,270,226
Medium risk	3,675,521	1,918,707
High risk	564,759	425,656
Total	230,869,648	196,614,589

Low risk: Ratings AA1 – C3; Medium risk: Rating D; and High risk: Ratings E – H.

The loans and advances to customers as assessed to have neither due nor impaired totaled R\$ 230.9 billion in 2011.

Of the total transactions, 98.2% were classified as low risk.

(ii) Loans and advances to customers past due but not impaired

We present below the analysis by number of days past due of the contracts for loans and advances which were not marked as impaired in the collective analysis and which are not impaired based on the individual analysis.

For purposes of this analysis, an asset is considered past due and included in the following table when payment is late or is not received strictly in accordance with the corresponding contractual terms. The amount included in this category comprises the total financial asset, i.e. not only the overdue installment amount but the contractual amount plus interest.

The loans and advances to customers which are not individually material, such as, for example, the retail transactions which have not been classified as impaired are presented in this category.

The individually material loans and advances may be presented in this category when, based on the individual analysis, no necessity for recording an individual impairment loss is indicated and, accordingly, the asset is then subject to collective loss analysis.

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	R\$ thousand	
	December 31	
	2011	2010
Past due up to 60 days	5,401,445	5,185,401
Overdue between 61 and 90 days	920,843	823,339
Overdue for more than 90 days	30,541	29,118
Total	6,352,829	6,037,858

The previous table presents the loans and advances that, despite a certain delay in payment, do not present any indication of impairment. This amount comprises 2.4% of the portfolio in 2011 (2.7% in 2010).

(iii) Loans and advances to customers impaired

	R\$ thousand	
	December 31	
	2011	2010
Portfolio not yet due	11,126,234	11,677,435
Past due up to 60 days	3,155,675	2,143,584
Overdue between 61 and 90 days	1,356,916	878,331
Overdue for more than 90 days	10,660,313	8,284,121
Total	26,299,138	22,983,471

Loans and advances impaired reached R\$ 26.3 billion and accounted for 10.0% of the total portfolio in 2011 (10.2% in 2010).

By category

The following table presents the loans and advances by category that are impaired:

	R\$ thousand	
	December 31	
	2011	2010
Credit card	4,282,203	3,181,897
Personal credit	3,945,625	2,485,736
Vehicles - CDC	3,471,296	2,127,855
Working capital	2,765,937	2,086,699
Leasing	1,743,897	1,864,016
Onlending BNDES/FINAME	1,078,121	1,169,933
Rural loans	780,236	932,607
Housing loans	577,885	337,099
Overdraft facilities	521,851	547,985
Financing and export	498,236	828,502
Guaranteed account	331,784	243,411
Others	6,302,067	7,177,731
Total	26,299,138	22,983,471

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Renegotiated loans and advances

	R\$ thousand	
	Maximum exposure	
	December 31	
	2011	2010
Loans and advances to customers	8,658,167	6,911,604
Total	8,658,167	6,911,604

The renegotiations include debt restructuring, which considers the lengthening of the payment plans among other variables. The renegotiation policies and practices are based on collection parameters and these policies are reviewed on a periodic basis.

Concentration of credit risk in loans and advances

	R\$ thousand	
	December 31	
	2011	2010
Largest borrower	0.9%	1.2%
Ten largest borrowers	5.2%	5.8%
Twenty largest borrowers	8.6%	9.1%
Fifty largest borrowers	14.0%	14.6%
Hundred largest borrowers	18.1%	18.5%

There was a reduction of concentration levels in 2011 compared to 2010.

By Economic Activity Sector

The credit-risk concentration analysis presented below is based on the economic activity sector in which the counterpart operates.

	R\$ thousand	
	December 31	
	2011	2010
Public sector	1,046,107	973,497
Federal	764,524	585,521
State	281,583	387,976
Private sector	262,475,508	224,662,421
Individuals	100,432,908	88,727,218
Industry	52,582,415	45,588,624
Commerce	43,018,181	34,432,554
Services	63,025,931	52,988,679
Agribusiness	3,416,073	2,925,346
Total portfolio	263,521,615	225,635,918
Impairment of loans and advances	(17,646,666)	(15,355,736)
Total of net loans and advances to customers	245,874,949	210,280,182

The portfolio's breakdown by sector of economic activity showed variations in the shares of these sectors. Note the increased share of "commerce" and "services".

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Measurement of Credit Risk

Periodically, the Organization evaluates the existence of an objective evidence of loss in the loan and advance portfolio, taking into account its historical experience of impairment losses and other circumstances known at the time of evaluation.

Initially, clients are classified as individually significant and individually non-significant. Following that initial classification, clients are evaluated on the basis of their experience of one or more events of objective loss evidence. As sometimes it may not be possible to identify a specific event that has caused a loss in recoverable amount, the combined effects of several events are evaluated. In addition, loss events may be specific, that is, refer to only a particular client, such as payment defaults, renegotiation or bankruptcy event, or be collective to affect a greater group of assets as a result, for example, of interest or exchange rate variations or reduction of the activity level of one or more economic sectors.

For individually significant clients showing specific objective evidences, impairment loss is estimated individually, taking into account the future cash flow expected from each client, including the realization of guarantees associated with operations.

For individually non-significant clients showing specific objective evidences, loss from the reduction of recoverable amount is estimated according to a model based on the Organization's historical experience.

Clients showing no specific objective evidence of impairment losses, both individually significant and individually non-significant clients are evaluated collectively by Organization's internal models based on collective parameters of loss identified and macroeconomic parameters of economic activity and default.

For collective evaluation, Probability of Default and Loss Given Default models, as well as the Loss Identification Period factor, are used.

Probability of Default (PD): determines the probability of default perceived by the Organization with respect to the customer, according to its internal evaluation model. This risk parameter is differentiated according to its related segment: retail models are quantitative, while wholesale models are both quantitative and qualitative (subjective).

Loss Given Default (LGD): refers to the percentage effectively lost after recovery efforts given the nonperformance of the contract, which is expressed as a percentage of exposure.

Loss Identification Period (LIP): interim period between the occurrence of the loss event in groups of collectively evaluated financial assets and its identification by the institution as an impairment of individual assets.

Write-offs

Credits are written off in the consolidated statement of financial position against impairment of loans and advances when they are considered uncollectible or a permanent loss. Credit operations are written off when they are overdue for 180 to 360 days. However, credit operations with original terms beyond 36 months are written off when they are overdue for 360 to 540 days.

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Credit Risk Mitigation

Potential credit losses are mitigated by several types of collateral formalized through legal instruments such as conditional transfer with retained ownership, mortgages, or through third-party guarantees, or financial instruments such as credit derivatives (CDS). The efficacy of these instruments is reviewed in terms of time required for recovery and realization of assets provided as guarantees, their market value, guarantor counterparty risk, and legal security of contracts. The principal types of collateral are time deposits; financial applications and securities; residential and commercial properties; movable property such as vehicles, aircraft, machinery and equipment; collateral may include commercial invoices, checks and credit card bills. Sureties include in particular bankers' guarantees and letters of credit.

Credit derivatives are bilateral contracts in which one counterparty hedges credit risk on a financial instrument and its risk is transferred to the counterparty selling the hedge. Normally, the latter is remunerated on a straight-line basis throughout the period of the transaction. In the case of a credit event ("default"), the buying party will receive a payment intended to compensate for the loss in the financial instrument. In this case, the seller receives the underlying asset in exchange for said payment.

We present below the credit derivative transactions:

	R\$ thousand	
	Value of credit risk	
	December 31	
	2011	2010
Transferred		
Credit Swaps, the underlying assets of which include:		
Bonds and securities - Brazilian public debt securities	(543,982)	(483,198)
Derivatives held by companies	(3,752)	(3,332)
Received		
Credit Swaps, the underlying assets of which include:		
Bonds and securities - Brazilian public debt securities	778,457	591,501

Derivatives held by companies	5,627	13,330
Total	236,350	118,301
Deposited margin	4,690	181,442

Bradesco carries out operations involving credit derivatives in order to better manage its risk exposure and assets. The contracts related to the credit derivative transactions described above mature on different dates up to 2013. The mark-to-market adjustment of the protection rates, which remunerates the counterparties receiving the risk, totals R\$ 826 thousand (2010 – R\$ 1,712 thousand). The fair value of derivative credit instruments is determined based on market quotations or obtained from specialized agencies. During the period, there were no events that, based on the corresponding contracts, could have triggered a credit default.

3.2. Market risk

A market risk relates to the possibility of financial loss due to changes in prices and interest rates of the Organization's financial assets, as its asset and liability portfolios may have mismatches in maturities, currency and indexes.

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This risk is identified, measured, mitigated and managed, with market risk exposure guidelines and limits monitored separately on a daily basis.

All activities exposed to market risk are mapped, measured and classified according to risk probability and magnitude, and their respective mitigation plans are approved by management.

The risk management process relies on the participation of all levels of the Organization, from the business units to the Board of Directors.

In compliance with the Corporate Governance practices and aiming to preserve and strengthen the management of market and liquidity risks in the Organization, as well as to meet the requirements of Resolution n° 3.464/07, of the National Monetary Council (CMN), the Board of Directors approved the Market and Liquidity Risk Management Policy, which is reviewed on an annual basis by the relevant Committees and by the Board of Directors itself, and provides the main guidelines for acceptance, control and management of market and liquidity risks.

In addition to the policy, the Organization has specific rules to regulate the market- and liquidity-risk management process, as follows:

- Classification of Operations;
- Reclassification of Operations;
- Trading of Public or Private Securities;
- Use of Derivatives; and
- Hedging.

Market Risk Management Process

The management process of the market risk is conducted in a corporate, centralized and independent manner; it involves diverse areas, with specific duties in the process, in the measurement and control of market risk. The process, approved by the Board of Directors, is also revalidated annually by the Committees and the Board itself.

Determination of Limits

Proposed market-risk limits are validated by specific business Committees that are submitted for approval by the Integrated Risk Management and Capital Allocation Committee, and then for approval by the Board of Directors and based on the characteristics of the operations, which are segregated into the following Portfolios:

Trading Portfolio: this consists of all operations with financial instruments, including derivatives, maintained for trading purposes or intended to hedge other instruments of the trading portfolio, and which are not subject to trading limitations. Operations maintained for trading purposes are those intended for resale, to obtain benefits from actual or expected price variations or arbitrage.

The following limits are monitored for the Trading Portfolio:

- Risk;
- Stress;
- Income; and
- Financial Exposure.

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Banking Portfolio: these are operations that are not classified in the Trading Portfolio. They consist of structured operations relating to various lines of business in the Organization and their respective hedges.

The following limits are monitored for the Banking Portfolio:

- Interest rate risk; and
- Share Portfolio.

Market-Risk Measurement Models

The market-risk measurement and control are performed using VaR (Value at Risk), EVE (Economic Value Equity), stress testing, and sensitivity analysis, in addition to the limits for Management of Results and Financial Exposure Management.

Trading Portfolio and Risks of Shares of the Banking Portfolio

Although they are controlled separately, the Risks of the Trading Portfolio risks and share positions in the Banking Portfolio are measured using the Delta-Normal VaR methodology for a 1-day period, with a confidence level of 99% and volatilities and correlations calculated on the basis of statistic methods that attribute greater weight to recent returns.

The risk of the Trading Portfolio is also controlled by the Stress Test, the purpose of which is to quantify the adverse impact of economic shocks and events that are financially unfavorable to the Organization. The analysis uses stress scenarios prepared by the Market-Risk area and the economic area of the Organization, based on historical and prospective data on risk factors where the Trading Portfolio has a

position.

For regulatory purposes, capital allocation relating to Banking Portfolio shares is based on credit-risk rating as required by the Central Bank of Brazil.

Risk of Interest Rate in the Banking Portfolio

The measurement and control of the interest-rate risk in the Banking Portfolio area is based on the EVE methodology, which measures the economic impact on the positions, according to scenarios prepared by the Organization's economic area, which are intended to determine positive and negative changes likely to occur in interest-rate curves applicable to investments and borrowings.

The EVE methodology consists of repricing the portfolio subject to interest rate variations, taking into account the increases or decreases of rates used to calculate the present value and total term of assets and liabilities. This way, the economic value of the portfolio is estimated on the basis of market interest rates on the analysis date and of scenarios projected for a period of 1 year. The difference between the values obtained for the portfolio will be EVE, that is, the interest-rate risk applicable to the Banking Portfolio.

For the measurement of the interest-rate risk in the Banking Portfolio, accelerated payment of loans is not assumed, as this situation is not significant in the total volume of operations. For deposits without a defined maturity, such as demand deposits and savings deposits, an analysis is performed to determine their historical behavior and possibility of maintenance.

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Control and Follow-Up

Market risk is primarily controlled and monitored by an independent area, the Integrated Risk Control Department, whom, on a daily basis, measures the risk of outstanding positions, consolidates results and prepares reports required by the existing governance process.

In addition to daily reports, positions are discussed once a week by the Executive Treasury Committee, which evaluates results and risks and discuss and approve strategies for coming weeks. Both the governance process and existing limits are ratified by the Integrated Risk Management and Capital Allocation Committee and submitted to approval of the Board of Directors, which are revised at least once a year.

Internal Communication

The market risk department provides daily managerial control reports on the positions to the business areas and Senior Management, in addition to weekly reports and periodic presentations to the Board of Directors.

Reports are complemented by an alert system, which determines the addressees of risk reports according to the usage percentage previously determined, therefore, the higher the risk limit consumption, more Senior Management members receive the reports.

Economic hedging and use of Derivatives

With the purpose of standardizing the use of financial instruments contracted for hedging purposes and the treasury derivatives, the Organization has created specific rules that have been approved by the applicable Committees.

The economic hedge operations entered into by the Treasury Department of Bradesco should, necessarily, eliminate or mitigate risks of mismatches of volumes, terms, currencies or indexers of the positions on the treasury books, using the assets and derivatives authorized for trading in each of books, in order to:

- control and classify the operations, respecting the current limits of exposure and of risks;
- alter, modify or revert positions due to changes in the market and to operational strategies; and
- reduce or mitigate exposures of operations in inactive markets, in conditions of stress or of low liquidity.

Derivatives Standardized and of Continuous Use

The Treasury Department of Bradesco may use standardized derivatives (traded on an exchange) and those of continuous use (traded over-the-counter) with the purpose of obtaining income and also for the structuring of hedges. The derivatives classified as 'of continuous use' are those habitually traded over-the-counter, such as vanilla swaps (interest rates, currencies, CDS – Credit Default Swap, among others), forward operations (currencies, for example), vanilla options (currency, Bovespa Index), among others. Non-standardized derivatives that are not classified as 'of continuous use' or structured operations are subject to the authorization of the applicable Committee.

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Evolution of the Exposure

This section shows the evolution of financial exposure, the VaR calculated by our internal model and its backtesting, stress analysis, and sensitivity analysis.

Financial Exposure – Trading Portfolio

We have presented below the table showing the financial exposure of the trading Portfolio, including the derivatives, of the Organization:

Risk Factors	R\$ thousand			
	December 31			
	2011		2010	
	Assets	Liabilities	Assets	Liabilities
Fixed rate	170,794,858	172,613,428	158,957,548	141,780,124
IGP-M (General Index of market pricing)	2,893,004	2,872,458	837,646	919,757
IPCA (Consumer price index)	21,534,602	13,679,603	19,175,480	16,086,132
Forex Coupon	6,087,770	9,962,956	4,904,025	4,726,962
Foreign Currency	10,841,088	12,762,036	5,403,007	5,232,001
Variable Income	1,036,939	361,491	226,471	207,437