



**BES Investimento do Brasil S.A. – Banco de Investimento**

*(incorporated in the Federative Republic of Brazil with limited liability),*

*acting through its principal office in Brazil or through its Grand Cayman Branch*

**U.S.\$1,000,000,000**

**Global Medium Term Note Programme**

Under the Global Medium Term Note Programme described in this Offering Memorandum, or the Programme, we, BES Investimento do Brasil S.A. – Banco de Investimento acting either through our principal office in Brazil or through our Grand Cayman Branch, subject to compliance with all relevant laws, regulations and directives, may from time to time issue Medium Term Notes, or Notes. The aggregate nominal amount of Notes outstanding will not at any time exceed U.S.\$1,000,000,000 (or the equivalent in other currencies).

Application has been made to the Irish Stock Exchange for Notes issued under the Programme for the period of 12 months from the date of this Offering Memorandum to be listed on the Official List of the Irish Stock Exchange and to be admitted to trading on the Global Exchange Market of the Irish Stock Exchange Ltd. References in this Offering Memorandum to Notes being "listed" (and all related references) shall mean that such Notes have been admitted to trading on the Global Exchange Market of the Irish Stock Exchange Ltd.

However, Notes may be issued under the Programme which will not be listed on the Global Exchange Market of the Irish Stock Exchange Ltd. or any other stock exchange, and the Final Terms (as defined herein) applicable to a series will specify whether or not the Notes of such series will be listed on the Global Exchange Market of the Irish Stock Exchange Ltd. or any stock exchange. With respect to the Programme and any listed Notes issued under the Programme, there can be no assurance that a listing on the Global Exchange Market of the Irish Stock Exchange Ltd. or any other stock exchange will be achieved prior to the launch date of the Programme or the issue date of any Notes or otherwise. In addition, in respect of Notes of any series initially listed on the Global Exchange Market of the Irish Stock Exchange Ltd. or any stock exchange in the European Union, we may seek to terminate such listing and list such Notes on an alternative stock exchange outside the European Union in the event that the EU Transparency Directive (Directive 2004/109/EC) imposes excessively onerous obligations on us, such as any requirement to publish financial statements in the European Union prepared in accordance with, or reconciled to, International Financial Reporting Standards.

**Investing in Notes issued under the Programme involves certain risks. The principal risk factors that may affect our ability to fulfil the obligations under the Notes are discussed under "Risk Factors" beginning on page 18.**

The Notes may be offered for sale only (i) in registered form within the United States to qualified institutional buyers, or QIBs (as defined in Rule 144A, or Rule 144A, under the Securities Act of 1933, as amended, or the Securities Act), pursuant to Rule 144A or (ii) in bearer form or registered form outside the United States to non-U.S. persons in reliance on and in accordance with Regulation S under the Securities Act, or Regulation S, and in accordance with applicable laws. For a description of these and certain further restrictions on offers, sales and transfers of Notes, see "Subscription and Sale" and "Transfer Restrictions." The Notes may be offered on a continuous basis through one or more of the Dealers specified under "Summary of the Programme and the Notes" and any additional dealer appointed from time to time by the Issuer, or a Dealer and together the Dealers, which appointment may be for a specific issue or on an ongoing basis. The applicable Final Terms will specify the Dealer, Dealers or syndicate of Dealers through which the Notes of a particular Series (as defined herein) will be offered. Notes may also be sold to a Dealer or Dealers as principal, at negotiated discounts or otherwise, and Notes may be sold to or through syndicates of financial institutions for which a Dealer will act as lead manager.

The Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

We are applying to the Irish Stock Exchange Ltd. for the approval of this Offering Memorandum.

**This Offering Memorandum is valid for 12 months from the date hereof.**

**Arranger and Dealer**

***Espírito Santo Investment Bank***

The date of this Offering Memorandum is April 26, 2012.

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## IMPORTANT NOTICES

This Offering Memorandum comprises base listing particulars for the purposes of the Irish Stock Exchange Guidelines and for the purpose of giving information with regard to us and the Notes which is necessary to enable you to make an informed assessment of our assets and liabilities, financial position, profit and losses and prospects.

We accept responsibility for the information contained in this Offering Memorandum. To the best of our knowledge (having taken all reasonable care to ensure that such is the case) the information contained in this Offering Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information.

Each Tranche (as defined herein) of Notes will be issued on the terms set out herein under "Terms and Conditions of the Notes," or the Conditions, as amended and/or supplemented by a document specific to such Tranche called final terms, or the Final Terms. This Offering Memorandum must be read and construed together with any amendments or supplements hereto and with any information incorporated by reference herein and, in relation to any Tranche of Notes, must be read and construed together with the relevant Final Terms.

We confirm that this Offering Memorandum contains all information which is (in the context of the Programme, the issue, offering and sale of the Notes) material; that such information is true and accurate in all material respects and is not misleading in any material respect; that any opinions, predictions or intentions expressed herein are honestly held or made and are not misleading in any material respect; that this Offering Memorandum does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in the context of the Programme, the issue, offering and sale of the Notes) not misleading in any material respect; and that all proper enquiries have been made to verify the foregoing.

No person has been authorised to give any information or to make any representation not contained in or not consistent with this Offering Memorandum or any other document entered into in relation to the Programme or any information supplied by us or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by us or any Dealer.

Neither the Dealers nor any of their respective affiliates have authorised the whole or any part of this Offering Memorandum and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Memorandum. Neither the delivery of this Offering Memorandum or any Final Terms nor the offering, sale or delivery of any Note shall, in any circumstances, create any implication that the information contained in this Offering Memorandum is true subsequent to the date hereof or the date upon which this Offering Memorandum has been most recently amended or supplemented or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in our prospects or financial or trading position since the date thereof or, if later, the date upon which this Offering Memorandum has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

The distribution of this Offering Memorandum and any Final Terms and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Memorandum or any Final Terms comes are required by us and the Dealers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of this Offering Memorandum or any Final Terms and other offering material relating to the Notes, see "Subscription and Sale" and "Transfer Restrictions."

In particular, the Notes have not been, and will not be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States, and Notes in bearer form are subject to U.S. tax law requirements. The Notes may not be offered, sold or (in the case of Notes in bearer form) delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in certain transactions exempt from the registration requirements of the Securities Act.

NEITHER THE PROGRAMME NOR THE NOTES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, OR THE SEC, ANY STATE SECURITIES

COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

Neither this Offering Memorandum nor any Final Terms constitutes an offer or an invitation to subscribe for or purchase any Notes and should not be considered as a recommendation by us, the Dealers or any of us that any recipient of this Offering Memorandum or any Final Terms should subscribe for or purchase any Notes. Each recipient of this Offering Memorandum or any Final Terms shall be taken to have made its own investigation and appraisal of our condition (financial or otherwise).

The maximum aggregate principal amount of Notes outstanding at any one time under the Programme will not exceed U.S.\$1,000,000,000 (and for this purpose, any Notes denominated in another currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealer Agreement)). The maximum aggregate principal amount of Notes which may be outstanding at any one time under the Programme may be increased from time to time, subject to compliance with the relevant provisions of the Dealer Agreement as defined under "Subscription and Sale."

In this Offering Memorandum, unless otherwise specified or the context otherwise requires, references to "U.S. dollars", "dollars" and "U.S.\$" are to United States dollars, references to "*reais*," "*real*" and "R\$" are to Brazilian *reais*, the Brazilian currency unit, references to "CI\$" are to Cayman Islands dollars, and references to "€" are to the lawful currency of the states participating in the third stage of economic and monetary union, pursuant to the treaty establishing the European Community, as amended from time to time.

References in this Offering Memorandum to "BESI Brasil," the "Bank," "we," "us," and "our" refer to BES Investimento do Brasil S.A. – Banco de Investimento (except when the context clearly indicates otherwise).

This Offering Memorandum has been prepared on the basis that all offers of Notes (other than offers of any series of Notes in a Member State of the European Economic Area, or the EEA, in respect of which a Final Terms accompanied by this Offering Memorandum has been approved or passported by the competent authority in such Member State and published in accordance with the Prospectus Directive as implemented in such Member States of the EEA for the purposes of a non-exempt offer) will be made pursuant to an exemption under the Prospectus Directive (2003/71/EC), as implemented in Member States of the EEA, from the requirement to produce a prospectus for offers of securities. Accordingly any person making or intending to make any offer within the EEA (other than a non-exempt offer) of any series of Notes which are the subject of the placement contemplated in this Offering Memorandum should only do so in circumstances in which no obligation arises for the Issuer or any of the Dealers to produce a prospectus for such offer. None of the Issuer or the Dealers has authorised, nor do they authorise, the making of any offer of any series of Notes through any financial intermediary, other than offers made by Dealers which constitute the final placement of a series of Notes contemplated in this Offering Memorandum.

This Offering Memorandum and any accompanying Final Terms are for distribution only to persons who (i) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or as amended, the Financial Promotion Order, (ii) are persons falling within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Financial Promotion Order, (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) in connection with the issue or sale of any series of Notes may otherwise lawfully be communicated or caused to be communicated (all such persons together being referred to as "relevant persons"). This Offering Memorandum and any accompanying Final Terms is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this Offering Memorandum and any accompanying Final Terms relates is available only to relevant persons and will be engaged in only with relevant persons.

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the Stabilising Manager(s) (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on

or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the Stabilising Manager(s) (or persons acting on behalf of the Stabilising Manager(s)) in accordance with all applicable laws and rules.

We have agreed that, for so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we will, during any period in which we are neither subject to sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended, or the Exchange Act, nor exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, furnish to each holder of such Notes in connection with any resale thereof and to any prospective purchaser of such Notes from such holder, in each case upon request, the information specified in, and meeting the requirements of, Rule 144A(d)(4) under the Securities Act.

No invitation to the public in the Cayman Islands to subscribe for the Notes is permitted to be made.

### **ENFORCEMENT OF CIVIL LIABILITIES**

We are a financial institution organised under the laws of Brazil. All of our executive officers reside in Brazil and substantially all of our directors reside in Portugal or elsewhere outside the United States, and all or a significant portion of the assets of such persons may be, and substantially all of our assets are, located outside the United States. As a result, it may not be possible for you to effect service of process within the United States or other jurisdictions outside Brazil upon such persons or to enforce against them or against us judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions.

We have been advised by Souza, Cescon, Barriau & Flesch Advogados, our Brazilian counsel, that judgments of non-Brazilian courts for civil liabilities predicated upon the securities laws of countries other than Brazil, including the securities laws of the United States, subject to certain requirements described below, may be enforced in Brazil. A judgment against either us (including our Grand Cayman Branch) or any other person described above obtained outside Brazil would be enforceable in Brazil against us or any such person without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Federal Superior Court of Justice – STJ (*Superior Tribunal de Justiça*). That confirmation, generally, will occur if the foreign judgment meets the following conditions:

- it complies with all formalities necessary for its recognition as an enforcement instrument under the laws of the jurisdiction where it was issued;
- it has been rendered by a competent court after proper service of process on the relevant parties is made in accordance with Brazilian legislation;
- it is not the subject of appeal;
- it does not violate Brazilian national sovereignty, public policy or good morals; and
- it has been duly authenticated by a competent Brazilian consulate in the jurisdiction where it was issued and is accompanied by a certified translation in Portuguese (*tradução pública juramentada*).

Notwithstanding the foregoing, the confirmation process may be time consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. No assurance can be given that confirmation will be obtained, that the process described above can be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the securities laws of countries other than Brazil with respect to the Notes. We understand that original actions predicated on the securities laws of countries other than Brazil may be brought in Brazilian courts and that Brazilian courts may enforce civil liabilities in such actions against us, our directors, certain of our officers and the advisers named herein, provided that it does not contravene Brazilian national sovereignty, public policy or morality. A plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that may ensure such payment. This bond must have a value sufficient to

satisfy the payment of court fees and defendant's attorneys' fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments which have been duly confirmed by the STJ.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT NOR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, OR RSA 421-B, WITH THE STATE OF NEW HAMPSHIRE OR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

#### **FORWARD-LOOKING STATEMENTS**

This Offering Memorandum contains certain forward-looking statements. The words "anticipate," "believe," "expect," "plan," "intend," "target," "aim," "estimate," "project," "will," "would," "may," "could," "continue" and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Offering Memorandum, including, without limitation, those regarding our financial position, business strategy, management plans and objectives for future operations are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we expect to operate in the future. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, but are not limited to:

- our ability to implement successfully our principal operating and funding strategies and capital expenditure plans;
- our level of capitalisation;
- the market value of Brazilian government securities;
- increases in defaults by borrowers and other loan delinquencies and increases in the provisions for loan losses;
- credit, market and other risks relating to lending and investment activities;
- the competitive nature of the Brazilian banking industry;
- the cost and availability of funding;
- the performance of the Brazilian economy in general;
- interest rate fluctuations, inflation and fluctuations in the value of the *real* in relation to the U.S. dollar;
- developments in, or changes to, the laws, regulations, tax matters and governmental policies governing or affecting our business;

- adverse legal and administrative disputes or proceedings;
- changes in international business and economic conditions;
- other factors or trends affecting our financial condition or results of operations; and
- the factors discussed under the section entitled "Risk Factors" in this Offering Memorandum.

Forward-looking statements are only our current expectations and are based on our management's beliefs and assumptions and on information currently available our management. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

## **PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

The exchange rate of *real* to U.S. dollars was R\$1.7412 to U.S.\$1.00 as of December 31, 2009, R\$1.6662 to U.S.\$1.00 as of December 31, 2010 and R\$1.8758 to U.S.\$1.00 as of December 31, 2011, in each case based on the Foreign Exchange Market selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or Central Bank. See "Foreign Exchange Rates and Exchange Controls" for further information regarding exchange rates for the Brazilian currency. We maintain our financial books and records in *reais*. For ease of presentation, however, certain financial information for the year ended December 31, 2011 contained in this Offering Memorandum has been presented in U.S. dollars. The exchange rate used for the translation from *reais* to U.S. dollars, when made, was R\$1.8758 to U.S.\$1.00 (the *real* to U.S. dollar exchange rate as of December 31, 2011). The translation of *real* amounts to U.S. dollars is presented solely for the convenience of the reader and should not be construed as a representation that amounts of *reais* represent, have been, could be converted into or settled in U.S. dollars at the rates presented above, or any other. As a result of fluctuations in the *real*/U.S. dollar exchange rate, the exchange rate as of December 31, 2011 may not be indicative of current or future exchange rates.

### **Financial Information**

The financial information related to our individual balance sheets and individual statements of income as of and for the years ended December 31, 2011, 2010 and 2009 included elsewhere in this Offering Memorandum, is derived from our individual financial statements prepared in accordance with accounting practices adopted in Brazil applicable to the institutions authorized to operate by the Central Bank of Brazil, or Brazilian GAAP, and are based on Law No. 6,404/76, as amended by Law No. 11,638/07 and Provisional Measure 449/08 (converted into Law No. 11,941/09, or Brazilian Corporate Law, and the rules and regulations of the National Monetary Council (*Conselho Monetário Nacional*), or CMN, and of the Central Bank. See " - Amendments to the Brazilian Corporate Law" for a description of our implementation of Law No. 11,638/07.

Brazilian GAAP differs in certain significant respects from International Financial Reporting Standards, or IFRS, as set forth by the International Accounting Standards Board, or the IASB. Our financial statements contained in this Offering Memorandum differ from those that would be prepared based upon IFRS. We have made no attempt to identify or quantify the impact of those differences. No reconciliation to IFRS of any of the financial statements presented in this Offering Memorandum has been prepared for the purpose of this Offering Memorandum, or for any other purpose. There can be no assurance that reconciliations would not identify material quantitative differences as well as disclosures and presentation differences between our individual financial statements as prepared in accordance with Brazilian GAAP and financial statements as prepared under IFRS. See "Summary of Differences Between Brazilian GAAP and IFRS" in this Offering Memorandum for a description of certain differences applicable to us. Brazilian GAAP and IFRS also differ in certain significant respects from accounting principles generally accepted in the United States, or U.S. GAAP.

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which, together with Law No. 11,941, amended the Brazilian Corporate Law and introduced the process of conversion of financial statements into IFRS. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Principal Factors Affecting our Financial Condition and Results of Operations - Adoption of Law No. 11,638/07" for more information of the effects of these changes on us.

As a financial institution, we are required to report our individual financial information (*i.e.*, financial information relating only to us on an individual basis (and not to our subsidiaries)) to the Central Bank in accordance with Brazilian GAAP. We are not required to produce and have not produced, consolidated annual financial information. Central Bank rules require us to consolidate only the results of entities defined as "financial conglomerates." Financial conglomerates are defined as the "group of financial entities directly related to each other or not by means of stock holdings or actual operating control, characterized by common administration or management, or by market operation under the same trademark or name," as set forth in Rule No. 21 of the Brazilian Accounting Plan of Institutions of the National Finance System (*Plano Contábil das Instituições do Sistema Financeiro Nacional*), or COSIF. Accordingly, the results of our subsidiaries BES Securities do Brasil S.A. – C.C.V.M., or BES Securities, BESAF - BES Ativos Financeiros Ltda., or BESAF, Espírito Santo Serviços Financeiros DTVM S.A., or Espírito Santo Serviços Financeiros and 2bCapital S.A., or 2bCapital, are included in our financial statements included in this Offering Memorandum using equity method accounting. In our individual financial statements, the income statement line item "equity in earnings of subsidiaries" reflects the results of our subsidiaries. In 2009, 2010 and 2011, BES Securities, a wholly owned subsidiary, sold shares of BM&F Bovespa S.A., or BM&FBOVESPA, resulting in significant extraordinary gains in each of those periods. For a further discussion of these extraordinary gains, and the effect on our results of operation in those periods, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Principal Factors Affecting our Financial Condition and Results of Operations—Equity in Earnings from Subsidiaries."

### **Amendments to the Brazilian Corporate Law**

Law No. 11,638, published on December 28, 2007, or Law No. 11,638/07, which became effective on January 1, 2008, amended some provisions of the Brazilian Corporate Law. Law No. 11,638/07 introduced new accounting rules with respect to the preparation of financial statements in order to facilitate the convergence of Brazilian GAAP with the IFRS, as published by International Accounting Standards Board, or IASB. Further, on December 3, 2008, the Brazilian government also issued Provisional Measure No. 449, later converted into Law No. 11,941/09, which established a Transitional Tax Regime (*Regime Tributário de Transição*) meant to neutralize the tax effects from the implementation of these changes in accounting practices. Moreover, the Brazilian Accounting Pronouncements Committee (*Comitê de Pronunciamentos Contábeis*), or CPC, issued a number of accounting pronouncements which, if approved by the CMN, must be adopted for the preparation of our financial statements in accordance with accounting practices adopted in Brazil.

The accounting standards which have been approved by the CMN include the following: (i) Resolution No. 3566/08 – Impairment of Assets (CPC 01); (ii) Resolution No. 3604/08 – Statement of Cash Flows (CPC 03); (iii) Resolution No. 3750/09 – Related-Party Disclosures (CPC 05); (iv) Resolution No. 3823/09 – Provisions, Contingent Liabilities and Contingent Assets (CPC 25); (v) Resolution No. 3973/11 – Subsequent Events (CPC 24); and (vi) Resolution No. 3989/11 – Share-Based Payments (CPC 10). It is not possible to estimate when the CMN will approve the other CPC accounting standards or whether their adoption, subsequent to approval, will be effective for future periods or will be applicable retroactively. As a result, it is not yet possible to estimate the accounting effects of these standards on our financial statements.

### **Calculation of Core Revenue**

During the financial years 2009, 2010 and 2011 we disposed of shares of BM&F Bovespa S.A., or BM&FBOVESPA, and during the financial years 2009 and 2010 we disposed of shares of CETIP S.A. – Mercados Organizados, or CETIP, that we held in our own portfolio. During these years, the sale of these shares generated a material amount of extraordinary revenue, which we recognised but do not consider to be attributable to our core financial services operations. As a result, throughout this Offering Memorandum, we refer to our Core Revenue, which we define to be our financial operations income and other operating income, excluding extraordinary gains from the sale of such BM&FBOVESPA and CETIP shares.

### **Rounding**

We have made rounding adjustments to reach some of the figures included in this Offering Memorandum. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them and percentage calculations using these adjusted figures may not result in the same percentage values as are shown in this Offering Memorandum.

## **Market Information**

The information contained in this Offering Memorandum relating to Brazil, the Brazilian economy and the market in which the Bank operates is based on information published by the Central Bank and by other government entities and by independent sources, including the Brazilian Association of Financial and Capital Markets Institutions (*Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais*), or ANBIMA, the Brazilian Federation of Banks (*Federação Brasileira de Bancos*), or FEBRABAN, the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, and the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*), or FGV, among others. Although we believe that such sources of information are reliable, we have not independently verified such information.

## SUMMARY

*This summary highlights information contained in detail elsewhere in this Offering Memorandum. You should carefully read this entire Offering Memorandum before investing in the Notes. As this is a summary, it does not contain all the information that you should consider before deciding to invest in the Notes. This summary should be read in conjunction with the more detailed information appearing elsewhere in this Offering Memorandum, including the information contained in "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in our individual financial statements and the respective notes included in this Offering Memorandum.*

### Overview

We are a financial institution organised and existing under the laws of Brazil. We operate as an investment bank providing a wide range of banking and financial services, including treasury, capital markets, mergers and acquisitions, or M&A, project finance and trade finance. To complement these core areas, we also offer brokerage services, asset management, wealth and private banking and private equity through our various subsidiaries. We are the Brazilian investment banking subsidiary of Grupo Banco Espírito Santo, or the Group, a privately held Portuguese financial group that is active in 26 countries on four continents. We are indirectly controlled by Banco Espírito Santo, or BES, the Group's main financial institution and Portugal's largest private sector bank by market capitalisation (US\$2.5 billion as of December 31, 2011), according to Euronext Lisbon, the Portuguese Stock Exchange. Our other principal shareholder is Banco Bradesco S.A., or Bradesco, one of the largest banks in Brazil in terms of total assets as of December 31, 2011.

Since we began our operations in 2000, our total assets have increased consistently from R\$199.0 million at December 31, 2001, to R\$6,631.5 million at December 31, 2011. Consistent with this growth, during the same period our time deposits increased from R\$42.0 million at December 31, 2001, to R\$1,312.1 million at December 31, 2011, and net income increased from R\$7.1 million in 2001 to R\$70.8 million for the year ended December, 31, 2011. We believe these operational results over an extended period reflect a pattern of consistent growth and support our strategy.

Our operations are divided into 12 main business areas:

- treasury and proprietary trading;
- client flow and derivatives flow;
- brokerage and research services;
- capital markets (debt and equity offerings);
- corporate finance and M&A advisory;
- structured trade finance;
- project finance and acquisition finance;
- corporate lending;
- asset management;
- wealth management and private banking;
- private equity; and
- investment advisory services.

Our core business is to provide our clients with traditional and customized financial services, such as advice in connection with domestic and cross border debt and equity capital markets transactions, M&A transactions, project finance, acquisition finance, trade finance, brokerage, asset management and private equity. In addition, we offer our customers a range of credit products, such as bridge loans, corporate loans, foreign exchange facilities and corporate guarantees in order to expand and deepen our client relationships and cross sell our investment banking services.

In providing our investment banking services and credit products such as bridge loans and corporate loans, we work together with other companies within the Group to provide our customers with a comprehensive portfolio of financial services and to generate cross selling opportunities. To this end, the Group maintains a global sales platform, which consists of teams located in Brazil, Europe and the United States. This allows us to leverage the Group's global capabilities with a view to participating in more significant transactions and consequently generating larger fees. Through our investment banking services, we have increased our domestic and international presence, participating extensively in domestic and cross border transactions within the energy, infrastructure, telecommunications, transport and financial sectors, among others.

We also offer a broad range of derivative products for our clients' hedging and risk management needs, which we refer to as our Client Flow business. In addition, in the course of our proprietary trading client related operations, we take positions in a variety of Brazilian and international equity securities, fixed and floating interest rate securities, derivative securities, currencies and commodities, which we refer to as our Global Markets business. Most of the positions we take in our Global Markets business are in Brazilian government bonds, which, while generally having a lower rate of return than other Brazilian fixed income securities, are relatively liquid securities. For the year ended December 31, 2011, 8.0% of our Core Revenue was derived from our Client Flow business and 17.4% of our Core Revenue was derived from our Global Markets activities.

We also focus on growing our private banking business in Brazil, which we have operated through Espírito Santo Serviços Financeiros since the beginning of 2010, offering investment services to high net worth clients. We believe our private banking operations offer synergies with our other business areas, including brokerage and research services, capital markets, M&A, asset management and investment advisory services.

As part of our growth strategy, during recent years we have expanded the scope of our business, with the establishment in 2004 of BESAF, an asset management company dedicated to institutional investors, and in 2008 of our private equity subsidiary 2bCapital (formerly named ES Capital Brasil), and the establishment of a financial investments advisory and asset management company.

Under our operating structure, our commercial department is responsible for maintaining relationships with corporate customers, and our various product departments are responsible for structuring and carrying out our investment banking activities. Our treasury department is responsible for our Global Markets activities and management of our cash positions, our relationships with financial institutions and fund managers, as well as the extension of credit. These departments are supported by our operations, credit, legal, audit, accounting, tax, information technology and human resources personnel, in addition to our bankers that oversee market and credit risk. Each department is headed by a senior officer with over 19 years of relevant experience. The following table sets forth the percentage contribution of our main business areas to our Core Revenue for the following periods:

	Year ended December 31,		
	2009	2010	2011
		<i>(in percentages)</i>	
Treasury .....	54.6%	14.4%	25.4%
Clients flow .....	30.5%	8.6%	8.0%
Global markets .....	24.1%	5.8%	17.4%
Capital Markets .....	3.0%	5.3%	8.0%
Corporate Finance .....	3.0%	14.8%	15.9%
Project Finance .....	25.6%	39.4%	31.3%
Brokerage and Research Services .....	9.6%	18.1%	13.1%
Asset Management .....	3.1%	3.2%	2.3%
Private Equity .....	-	-	-
Wealth Management and Private Banking .....	1.1%	4.9%	4.1%
<b>Total operating income.....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## **Competitive Strengths**

Our principal competitive strengths are:

### ***Relationship with the Group and Bradesco***

We are 80.0% indirectly owned by Banco Espírito Santo de Investimento S.A., or BESI Portugal, an established European investment bank that is wholly owned by BES, a leading Portuguese bank, with a strong retail banking franchise and a strong brand name. In addition, Bradesco, the direct holder of 20.0% of our equity capital, is one of the largest private banks in Brazil by total assets, as of December 31, 2011. We believe that we derive significant benefits from the extensive experience and market reputation of our shareholders, including broad access to knowhow and products as well as access to various clients.

### ***Solid Operational and Financial Performance***

As of and for the year ended December 31, 2011, we had total assets of R\$6,631.5 million and net income of R\$70.8 million. As of and for the year ended December 31, 2010, we had total assets of R\$6,007.8 million and net income of R\$71.1 million. Our Core Revenue was R\$59.7 million and R\$37.4 million during 2011 and 2010, respectively. Our return on equity, or ROE, which we define as net profit as a percentage of average total shareholders' equity based on year-end balance, was 14.2% for the year ended December 31, 2011. This reflects our ability to generate net interest income from treasury and credit activities as well as revenues from financial services. Our capital levels have remained above regulatory requirements, and as of December 31, 2011, our Bank for International Settlements, or BIS, ratio was 15.6%.

### ***Flexibility***

We believe that the depth of our experience in our core investment banking business, as well as our lean and efficient operating structure both in Brazil and within the Group generally allows us to react quickly to opportunities in the market and to manage risks effectively during unfavourable market conditions. Our Global Markets activities are mainly focused on buying extremely liquid securities such as Brazilian government bonds, which allows us to react quickly to market movements.

### ***Experienced and Results Oriented Management Team***

Members of our senior management have an average of 21 years of experience in the financial sector, deep relationships with our main clients and a proven track record of assisting our clients achieve their objectives. Additionally, we are committed to recruiting and training talented and highly qualified professionals in order to maintain and enhance the strong reputation of our team. We believe this experience has helped us to remain profitable while maintaining a conservative approach to risk management.

### **Strategy**

Our objective is to expand our position to become one of the main investment banks in Brazil, delivering investment banking products and services to leading Brazilian companies as well as to the Brazilian subsidiaries of Iberian companies. The principal components of our strategy are discussed below.

#### ***Growing our Lending Operations to Expand our Investment Banking Activities***

We provide our clients with a broad range of investment banking services, ranging from comprehensive advisory services in connection with M&A transactions to capital markets underwriting and distribution. We have significantly increased the size and scope of our investment banking operations during the last five years and plan to grow our banking operations, including acquisition financing, in order to enhance our client relationships and generate recurring income. Our strategy is to continue to develop our areas of expertise, to broaden the range of investment banking services we offer to clients, to leverage the experience and knowhow of the Group, to cross sell investment banking services and products to clients of the Group and to increase our investment banking business while maintaining our levels of profitability.

In November 2009, our shareholders, BES and Bradesco, contributed R\$100 million of capital in order to allow us to expand our investment banking business by increasing our capacity to lend, to promote our investment banking products and services, to develop more sophisticated investment banking products and to increase our ability to underwrite capital markets offerings. This Programme is part of our strategy to accelerate the growth of our investment banking activities and diversify our sources of funding.

***Deploy Group Expertise in Project Finance to Take Advantage of Brazil's Attractive Economic Outlook and Infrastructure Plan***

Since 2005, we have participated in project finance transactions, and we have seen our activity in this area increase significantly since 2009. We believe that the expected growth of Brazil's GDP, the government's growth acceleration programs, the selection of Rio de Janeiro to host the Olympic Games in 2016, the selection of Brazil to host the World Cup in 2014 and the privatizations of three of the most important airports in the country will contribute to the continued growth of the project finance market for the next several years. By expanding our lending operations and also leveraging off of the Group's capabilities, we plan to take advantage of Brazil's attractive economic outlook and ambitious infrastructure plan.

***Develop Private Banking Capabilities in Brazil***

Since the beginning of 2010, we have offered investment services and private banking activities to high net worth clients through our subsidiary Espírito Santo Serviços Financeiros. Espírito Santo Serviços Financeiros focuses on generating cross selling opportunities with our other business areas, particularly M&A and capital markets.

***Benefit from Group's Expertise, Client Base and Broad Range of Products and Services***

The Group is one of the most prominent financial groups in Portugal, offering a broad range of banking and financial services, including deposit taking, credit operations, investment banking and asset management. We intend to continue to take advantage of the Group's expertise, client base and broad range of products and services in order to expand our client relationships in Brazil. By providing products and services such as debt and equity capital markets underwriting and advisory, structured trade financing, export prepayment facilities and letters of credit, we believe that we are well positioned to take advantage of cross selling opportunities both within and outside of Brazil.

***Grow our Client Flow Business by Increasing Range of Risk Management Products***

Our Client Flow business provides our clients with a suite of risk management solutions using a range of structures, including cash and non-cash instruments. We develop our products internally and sell them to our clients through our knowledgeable treasury sales force. Our strategy is to increase the integration of the suite of risk management products that we offer to our investment banking clients, such as derivative instruments in the context of our capital markets or M&A activities. Our Client Flow financial solutions for clients mainly focus on interest rates swaps and foreign currency risk protection.

***Local Funding Sources***

We depend only to a limited extent on funding from the Group and our other shareholders. We fund our activities primarily from sources in Brazil, consisting of time deposits and interbank deposits. We also fund our operations through the issuance of securities in the international capital markets, as well as through interbank loans.

## Corporate Structure

The chart below is a simplified version of our shareholding structure and main subsidiaries as of the date of this Offering Memorandum:



### *Grupo Banco Espírito Santo*

The Group is one of the most prominent private financial groups in Portugal. The Group has been in business for approximately 150 years and has a presence in 26 countries on four continents. Originally founded and currently controlled by the Espírito Santo family, the Group has historically focused its business in the financial sector.

Founded in 1869, BES is the largest Portuguese bank in terms of market capitalisation (US\$2.5 billion as of December 31, 2011), according to Euronext Lisbon. BES, together with its subsidiaries and affiliates that comprise the Group, offers a full range of banking and financial services, including deposit taking, credit operations, asset management, leasing, factoring, investment banking and brokerage services. As of December 31, 2011, BES operated 801 retail branches, 23 private banking centres and 27 corporate banking centres and employed 9,431 people.

In 2011, BES was elected to join the prestigious Dow Jones Sustainability Index, becoming the first Portuguese financial institution to be elected. BES is one of only 15 banks from around the world that appears on this list.

To support its international business strategy, BES seeks to be present in countries with Portuguese emigrant communities, in Portuguese speaking countries and in leading international financial centres, with a particular focus on Brazil, Angola and Spain.

The Noteholders will have the option to redeem the Notes if we cease to be directly or indirectly controlled by BES Portugal. See "Terms and Conditions of the Notes." The Notes are our obligation. Neither BES nor BES Portugal is a guarantor of the Notes offered under the Programme.

## SUMMARY OF THE PROGRAMME AND THE NOTES

*This summary must be read as an introduction to this Offering Memorandum and any decision to invest in the Notes should be based on a consideration of the Offering Memorandum as a whole, including any information incorporated by reference. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Offering Memorandum have the same meanings in this summary.*

<b>Issuer:</b>	BES Investimento do Brasil S.A. – Banco de Investimento, acting through its principal office in Brazil or through its Grand Cayman Branch, as specified in the applicable Final Terms.
<b>Arranger:</b>	Banco Espírito Santo de Investimento, S.A.
<b>Dealer:</b>	Banco Espírito Santo de Investimento, S.A.  We may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Offering Memorandum to "Permanent Dealer" are to Banco Espírito Santo de Investimento, S.A., as Dealer, and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and to "Dealers" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.
<b>Trustee:</b>	The Bank of New York Mellon.
<b>Principal Paying Agent:</b>	The Bank of New York Mellon Trust (Japan), Ltd.
<b>Listing and Trading:</b>	Application has been made for Notes to be admitted, during the period of 12 months after the date hereof, to listing on the Official List of the Irish Stock Exchange and to be admitted to trading on the Global Exchange Market of the Irish Stock Exchange Ltd. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed with us.
<b>Clearing Systems:</b>	Euroclear Bank S.A./N.V., or Euroclear, and/or Clearstream Banking, société anonyme, or Clearstream, and/or The Depository Trust Company, or DTC, and/or, in relation to any Tranche of Notes, any other clearing system as may be specified in the relevant Final Terms.
<b>Initial Programme Amount:</b>	Up to U.S.\$1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate principal amount of Notes outstanding at any one time.
<b>Issuance in Series:</b>	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects save that a Tranche may comprise Notes of different denominations.
<b>Issue Price:</b>	Notes may be issued at their principal amount or at a discount or premium to their principal amount.

**Form of Notes:**

Notes may be issued in bearer form or in registered form. Bearer Notes will be exchangeable for Registered Notes and Registered Notes will not be exchangeable for Bearer Notes. No single Series or Tranche may comprise both Bearer Notes and Registered Notes.

Each Tranche of Bearer Notes will initially be in the form of either a Temporary Global Note or a Permanent Global Note, in each case as specified in the relevant Final Terms. Each Global Note will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. If the TEFRA D Rules are specified in the relevant Final Terms as applicable, certification as to non-U.S. beneficial ownership will be a condition precedent to any exchange of an interest in a Temporary Global Note or receipt of any payment of interest in respect of a Temporary Global Note. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest bearing, have Coupons attached.

Each Tranche of Registered Notes will be represented by either:

- (i) Individual Note Certificates; or
- (ii) one or more Unrestricted Global Note Certificates in the case of Registered Notes sold outside the United States to non-U.S. persons in reliance on Regulation S and/or one or more Restricted Global Note Certificates in the case of Registered Notes sold to QIBs in reliance on Rule 144A,

in each case as specified in the relevant Final Terms.

Each Note represented by a Global Note Certificate will be registered in the name of Cede & Co. (or such other entity as is specified in the applicable Final Terms) as nominee for DTC and the relevant Global Note Certificate will be deposited on or about the issue date with the DTC Custodian.

**Currencies:**

Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between us and the relevant Dealer(s).

**Status of Notes:**

The Notes will constitute our unsecured and unsubordinated obligations and will at all times rank *pari passu* and without any preference among themselves.

**Issue Price:**

Notes may be issued at any price and either on a fully or partly paid basis, as specified in the relevant Final Terms. The price and amount of Notes to be issued under the Programme will be determined by us and the relevant Dealer(s) at the time of issue in accordance with prevailing market conditions

**Maturities:**

Subject to compliance with all relevant laws, regulations and directives, the Notes will have a maturity of between seven calendar days and 30 years, or as may be agreed between us and the relevant Dealer(s).

Where Notes have a maturity of less than one year and either (a) the issue proceeds are received by us in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by us in the

United Kingdom, such Notes must: (i) have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses; or (ii) be issued in other circumstances which do not constitute a contravention of section 19 of the Financial Services and Markets Act 2000, or FSMA, by us.

- Redemption:** Notes may be redeemable at par or at such other Redemption Amount (detailed in a formula, index or otherwise) as may be specified in the relevant Final Terms. Notes may also be redeemable in two or more instalments on such dates and in such manner as may be specified in the relevant Final Terms.
- Optional Redemption:** Notes may be redeemed before their stated maturity at our option (either in whole or in part) and/or the option of the Noteholders to the extent (if at all) specified in the relevant Final Terms.
- Tax Redemption:** Early redemption will be permitted for tax reasons as described in Condition 7(b) (*Redemption and Purchase — Redemption for Tax Reasons*).
- Redemption for Change of Control:** Notes may be redeemed before their stated maturity at the option of a Noteholder if we cease to be directly or indirectly controlled by BESI Portugal as described in Condition 7(f) (*see Redemption and Purchase—Redemption for Change of Control of the Issuer*).
- Interest:** Notes may be interest bearing or non-interest bearing. Interest (if any) may accrue at a fixed rate or a floating rate or other variable rate or be index linked, and the method of calculating interest may vary between the issue date and the maturity date of the relevant Series.
- Denomination:** Notes are in the denomination or denominations (each of which denomination is integrally divisible by each smaller denomination) specified in the Final Terms. Notes of one denomination may not be exchanged for Notes of any other denomination.
- Negative Pledge:** The Notes will have the benefit of a negative pledge as described in Condition 5 (*Negative Pledge*).
- Cross Acceleration:** The Notes will have the benefit of a cross-acceleration as described in Condition 11 (*Events of Default*).
- Taxation:** All payments in respect of Notes will be made free and clear of withholding taxes of Brazil or the Cayman Islands or any political subdivision or any authority thereof or therein having the power to tax, unless the withholding is required by law. In that event, we will (subject as provided in Condition 10 (*Taxation—Gross-up*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
- Interest Periods and Interest Rates:** The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information

will be set out in the relevant Final Terms.

**Certain ERISA and Other U.S. Considerations**

Except as otherwise provided in a supplement, by its purchase and holding of a Note (or any interest in a Note), each purchaser and each transferee will be deemed to have represented and warranted either that (a) it is not and for so long as it holds Notes will not be and is not acquiring the Notes directly or indirectly with the assets of a person who is or while the Notes are held will be an employee benefit plan as described in section 3(3) of the U.S. Employee Retirement Income Security Act of 1974, or ERISA, and subject to ERISA, or a plan subject to Section 4975 of the U.S. Internal Revenue Code of 1986, as amended, or the Code, or a governmental plan or church plan which is subject to any federal, state or local or non-U.S. law that is substantially similar to the provisions of section 406 of ERISA or Section 4975 of the Code, or an entity whose assets are treated as assets of any such plan or (b) its purchase and holding of a Note will not constitute a non-exempt prohibited transaction under section 406 of ERISA or Section 4975 of the Code (or in the case of such a governmental or other employee benefit plan, any substantially similar provisions of any federal, state, local, or non-U.S. law. See "Certain ERISA and Other U.S. Considerations."

**Governing Law:**

English.

**Ratings:**

Tranches of Notes issued under the Programme may be rated or unrated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

**Selling Restrictions:**

For a description of certain restrictions on offers, sales and deliveries of Notes and on the distribution of offering material in the United States, the European Economic Area (in respect of Notes having a denomination of less than €50,000 (or its equivalent in any other currency as at the date of issue of the Notes)), the United Kingdom, Brazil, the Cayman Islands, Portugal, Ireland and Japan, see "Subscription and Sale".

## **RISK FACTORS**

*As a general matter, investing in the securities of Brazilian issuers, such as us may involve a higher degree of risk than investing in securities issued by financial institutions in certain developed countries with more highly developed capital markets. In addition, prospective purchasers of the Notes should carefully consider certain factors regarding us and the Notes. Accordingly, prospective purchasers of the Notes offered hereby should carefully consider, in light of their financial circumstances and investment objectives, all of the information in this Offering Memorandum and, in particular, the risk factors set forth below.*

*Prospective investors should further note that the risk factors described below are not the only risks we face. Rather, these are the risks we currently consider material. There may be additional risks that we currently consider immaterial or of which we are currently unaware, and any of these risks could have similar effects to those set forth below.*

### **Risk Factors Relating to the Current Market Environment**

***Developments and the perception of risk in other countries, especially in Portugal, the European Union, the United States and other Latin American and emerging market countries, may adversely affect our access to financing, results of operations and financial condition.***

Our access to financing, results of operations and financial condition are affected by economic and market conditions in other countries, including the United States and other Latin American and emerging market countries, as well as, in our case, the European Union and Portugal (where BES, our indirect controlling shareholder, is located). Although economic conditions in those countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in those other countries may have an adverse effect on us. Furthermore, crises in other countries may diminish investor interest in securities in Brazilian issuers, such as Notes issued by us. This could adversely affect the market price of the Notes and could also make it more difficult for us to access the capital markets and other sources of funding (including increases in share capital that may be contributed by BES) and finance our operations in the future on favourable terms, or at all.

***The soundness of other financial institutions may adversely affect our results of operations.***

Our exposure to counterparty risk in our normal course of business is particularly significant. This exposure can arise through trading, lending, deposit taking, clearance and settlement as well as through other activities and relationships. These counterparties include brokers, dealers, commercial banks, investment banks, mutual funds and other institutional clients. Many of these relationships expose us to credit risk in the event of default of a counterparty or client. In addition, our credit risk may be exacerbated when the collateral we hold cannot be realized or is liquidated at prices not sufficient to recover the full amount it is due. Many of the hedging and other risk management strategies utilized by us also involve transactions with financial services counterparties. Any weakness or insolvency of these counterparties may impair the effectiveness of our hedging and other risk management strategies.

***Increased regulation could adversely affect us.***

Recent developments in the global markets have led to an increase in the involvement of various governmental and regulatory authorities in the financial sector and in the operations of financial institutions. In particular, governmental and regulatory authorities in France, the United Kingdom, the United States, Belgium and Luxembourg have provided additional capital and funding and are implementing other measures including increased regulatory control in their respective banking sectors such as imposing enhanced capital requirements. It is uncertain how such a rigorous regulatory environment will impact financial institutions including us. It is also uncertain whether further regulatory requirements (including capital adequacy requirements) will be introduced.

## **Risk Factors Relating to Brazil**

***The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This influence, as well as Brazilian political and economic conditions, could adversely affect us.***

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and implement other policies and regulations have involved, among other measures, increases in interest rates, price and wage controls, currency devaluations, restrictions on remittances abroad, limits on imports and freezing of current accounts. We do not have any control over what policies or regulations the Brazilian government may adopt in the future or the ability to anticipate them. Our business, financial condition and results of operations may be materially adversely affected by changes in policy or regulations, as well as economic factors, such as:

- inflation;
- exchange rate policies;
- domestic economic growth;
- social instability;
- reduction in liquidity of domestic capital and credit markets;
- monetary policies;
- interest rates;
- regulation of financial institutions;
- tax policies and changes to tax legislation;
- changes to labour policies and rules;
- the global financial situation, including economic developments in Portugal and the European Union; and
- other political, social and economic developments in or affecting Brazil.

Measures adopted by the Brazilian government or speculation about future governmental actions could lead to uncertainties concerning the Brazilian economy and to significant volatility in the domestic capital markets, which could adversely affect our business, financial condition and results of operations.

***If Brazil experiences substantial inflation in the future, our results of operations and financial condition may be adversely affected.***

Brazil has, in the past, experienced extremely high rates of inflation. More recently, inflation rates in Brazil for the years ended December 31, 2011, 2010 and 2009, as measured by the national consumer price index (*Índice de Preços ao Consumidor Amplo*), or IPCA, were 6.50%, 5.91%, and 4.31%, respectively. Inflation, together with government measures to combat inflation and public speculation about possible future government measures, has in the past had significant negative effects on the Brazilian economy and contributed to increased economic uncertainty in Brazil and heightened volatility in the Brazilian securities markets.

The measures to combat inflation have in the past included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and reducing economic growth. As a result, interest rates, as measured by the Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*), or SELIC, have fluctuated significantly.

Increases in the SELIC rate may have an adverse effect on us by reducing demand for credit, and increasing our cost of funds, our interest expense relating to our domestic debt and the risk of customer default. In addition, our interest expenses may also increase if interest rates related to our interest bearing liabilities increase. Decreases in the SELIC rate may also have an adverse effect on us by decreasing the interest income we earn on our interest earning assets and lowering our revenues and margins.

As of December 31, 2006, the SELIC rate was set at 13.25%. The Central Bank then reduced the SELIC rate to 11.25% as of December 31, 2007. However, in a further attempt to control inflation, the Central Bank consecutively increased the SELIC rate until it reached 13.75% on September 10, 2008. In 2009, in response to the global crisis and its effects in Brazil, the Central Bank reduced the SELIC rate to 12.75%, 11.25%, 10.25%, 9.25% and then to 8.75%, its lowest level since its creation in 1986, on January 21, 2009. However, in April 2010, the Central Bank once more increased the SELIC rate to 9.5% as a mechanism to contain inflationary pressures. The SELIC was increased again on June 9, 2010, to 10.25%, on July 21, 2010, to 10.75%, on January 19, 2011, to 11.25%, on February 3, 2011, to 11.75%, on April 20, 2011, to 12.00%, on June 08, 2011, to 12.25%, and on July 20, 2011, to 12.5%. On August 31, 2011, the Central Bank reduced the SELIC rate again to 12.00%, and then again to 11.50% on October 19, 2011, to 11.0% on November 30, 2011, to 10.5% on January 18, 2012 and finally to 9.75% on March 7, 2012.

The fluctuation of interest rates plays an important role in our business and is directly related to our profitability. Such fluctuations have led us and several other Brazilian banks to reconsider our strategies, including by means of expanding the scope of our operations (including lending operations and services) in order to offset the reduced margins from financial operations and treasury operations.

Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil experiences fluctuations in rates of inflation in the future, our costs and net margins may be affected and, if investor confidence lags, the market price of our securities, including the Notes, may decrease. Inflationary pressures may also affect our ability to access foreign financial markets and may lead to counter-inflationary policies that may harm our business or adversely affect the market price of the Notes.

***Fluctuations in the value of the real against the value of the U.S. dollar may adversely affect our financial results.***

Our business is affected by fluctuations in the value of the *real*. The Brazilian currency has suffered devaluations during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), floating exchange rate systems, exchange controls and dual exchange rate markets. In recent years the *real* has appreciated against the U.S. dollar, sometimes significantly, during certain periods.

There has been volatility in the *real*/U.S. dollar exchange rate in recent years. From June 2004, the *real* gradually increased in value against the U.S. dollar, reaching R\$1.5593 per U.S.\$1.00 as of August 1, 2008. In the second half of 2008, however, the value of the *real* declined sharply against the U.S. dollar, reaching R\$2.3370 per U.S.\$1.00 as of December 31, 2008. The *real* again gradually increased in value against the U.S. dollar during 2009, 2010 and the first half of 2011, reaching R\$1.56 per U.S.\$1.00 as of June 30, 2011, but recently depreciated to R\$1.88 per U.S.\$1.00 as of December 31, 2011, as a result of concerns about the European economy. No assurance can be given that the *real*/U.S. dollar exchange rate will not continue to experience significant fluctuations in the future.

In addition, some of our assets and liabilities are denominated in, or indexed to, foreign currencies, especially the U.S. dollar. If the Brazilian currency is devalued, we would incur gains on our assets denominated in or indexed to foreign currencies, as well as losses on our liabilities denominated in or indexed to foreign currencies. Although we seek to maintain a neutral position in relation to our foreign currency exposure, there can be no assurance that we will be able to do so in the future.

***The Brazilian Government may institute a more restrictive exchange control policy which could affect our ability to meet our foreign currency obligations.***

The purchase and sale of foreign currency in Brazil is subject to governmental control. The Brazilian Government currently restricts the ability of Brazilian and foreign persons or entities to convert Brazilian currency into U.S. dollars or other currencies, other than in connection with certain authorised transactions through the Central Bank including, among others, timely payments by us on the Notes. Mechanisms for the transfer of *reais* and conversion into U.S. dollars or other foreign currencies may not be available at the time we are required to perform our obligations under the Notes. If such financial mechanisms are not available, we will have to rely on a special authorisation from the Central Bank to make payments on the Notes in foreign currency. Such Central Bank approval may not be obtained on a timely basis, or at all.

It is uncertain whether in the future the Brazilian Government will institute a more restrictive exchange control policy. Such a policy could affect the ability of Brazilian debtors (including us) to make payments outside of Brazil to meet foreign currency obligations under foreign currency denominated liabilities, including the Notes, or require that any payments be made in *reais*. Many factors beyond our control may affect the likelihood of the Brazilian Government's imposition of such restrictions at any time. Among such factors are:

- the extent of Brazil's foreign currency reserves;
- the availability of sufficient foreign exchange on the date a payment is due;
- the size of Brazil's debt service burden relative to the economy as a whole;
- Brazil's policy towards the International Monetary Fund; and
- political constraints to which Brazil may be subject.

***Changes in taxes and other fiscal assessments may adversely affect our financial condition or results of operations.***

To maintain its fiscal policies, the Brazilian government regularly enacts reforms to the tax and other assessment regimes. These reforms include the enactment of new taxes or assessments, changes in the bases of calculation or rates of assessments and occasional enactment of temporary taxes for designated governmental purposes. The effects of these changes and any other changes that could result from the enactment of additional tax reforms cannot be quantified. These changes, however, may cause a reduction of our volume of operations, increase our costs or limit our profitability. No assurance can be given that such reforms will not, if implemented, have an adverse effect upon our financial condition or results of operations.

***Differences in corporate disclosure and accounting standards adopted by us in accordance with accounting practices adopted in Brazil may differ significantly from financial statements prepared in accordance with U.S. GAAP or IFRS or accounting standards in other countries.***

Disclosure requirements and standards applicable to Brazilian companies differ from those in the United States in certain respects. In general, there may be substantially less information available about Brazilian companies, including us, than there would be generally available about a publicly traded company in the United States or certain other countries with highly developed capital markets.

We prepare our financial statements in accordance with accounting practices adopted in Brazil applicable to the institutions authorised to operate by the Central Bank of Brazil, which differ in certain significant respects from U.S. GAAP and IFRS. As a result, Brazilian GAAP financial statements may differ significantly from financial statements prepared in accordance with U.S. GAAP or IFRS, and the items appearing on the financial statements of a company in Brazil may not reflect its financial position or results of operations in the way they would be reflected had such financial statements been prepared in accordance with U.S. GAAP or IFRS. Although Law No. 11,638/07 and Law No. 11,941/09 were enacted in order to allow the convergence of accounting practices adopted in Brazil with IFRS, no assurance can be given as to the level of convergence that will ultimately occur for institutions authorised to operate by the Central Bank of Brazil. No reconciliation to U.S. GAAP or IFRS of the

Brazilian GAAP financial statements has been prepared for the purposes of this Offering Memorandum or for any other purposes, and there can be no assurance that our shareholders' equity or net income as of and for the year ended December 31, 2011 and future periods will not be lower when compared to the corresponding amounts in our financial statements as of and for the same periods prepared under IFRS or U.S. GAAP. For further information with respect to the differences between Brazilian GAAP and IFRS in the context of BESI, see "Summary of Differences between Brazilian GAAP and IFRS."

### **Risk Factors Relating to the Brazilian Banking Industry**

***Our business is highly dependent on the prevailing regulatory environment, and changes thereto may adversely affect our business, financial condition or results of operations.***

We are subject to extensive and continuous regulatory review by the Brazilian Government. The Brazilian Government has historically implemented or changed regulations affecting banks to effect economic policy. These regulations are used by the Brazilian Government on a regular basis to control the availability of credit and to reduce or increase consumption. Some of these controls are temporary in nature and are reversed in line with the Brazilian Government's credit policies. Other controls have been introduced and have either remained in place or have been gradually relaxed. As a result of frequent changes in such regulations, our historical results of operations are not necessarily indicative of future results. Regulations that tighten the availability of credit and that increase the levels of interest rates have in the past created a difficult operating environment for many of our customers. It is uncertain whether future regulations of the CMN or the Central Bank will affect our liquidity or the creditworthiness of our clients, alter our funding strategy or constrain the expansion of our credit portfolio. Therefore, we cannot assure that, in future periods, the impact of regulatory developments will not, individually or in the aggregate, have a material adverse effect on our business, financial condition or results of operations. For a description of the CMN, see "Brazilian Banking System and Industry Regulation."

We have no control over the government regulations, which govern all facets of our operations, including regulations that impose:

- minimum capital requirements;
- compulsory reserve requirements;
- lending limits and other credit restrictions; and
- accounting and statistical requirements.

The Brazilian Government through the CMN and the Central Bank has enacted numerous changes to financial institution regulations, including reserve requirements imposed by the Central Bank, credit classifications and provision requirements, regulations requiring financial institutions' securities to be marked-to-market and the implementation of a structure for interbank settlement as described more fully in "Brazilian Banking System and Industry Regulation." These measures and any further regulatory changes may have an adverse impact upon our business, financial condition or results of operations.

***Changes in regulations may negatively affect us.***

Brazilian financial markets are subject to extensive and continuous regulatory review by the Brazilian government, principally the Central Bank and the CVM. We have no control over government regulations, which govern all aspects of our operations, including regulations that impose:

- minimum capital requirements;
- compulsory deposit and/or reserve requirements;
- requirements for investments in fixed rate assets;
- lending limits and other credit restrictions, including compulsory allocations;

- limits and other restrictions on fees;
- limits on the amount of interest banks can charge or the period for capitalising interest;
- accounting and statistical requirements; and
- other requirements or limitations in the context of the global financial crisis.

The regulatory structure governing Brazilian financial institutions is continuously evolving, and the Central Bank has been known to react actively and extensively to developments in our industry. For example, since early 2008, the Central Bank has repeatedly amended the rules relating to compulsory deposit requirements in order to adjust market liquidity in light of financial and economic conditions. The measures of the Central Bank and the amendment of existing laws and regulations, or the adoption of new laws or regulations (such as future implementation of Basel III rules related to regulatory capital) could adversely affect our ability to render financial services, make investments or provide loans.

***Substantial competition in the Brazilian banking industry resulting from consolidation could have a negative effect on our results of operations.***

The markets for financial and banking services in Brazil are highly competitive. We face significant competition in all of our principal areas of operation from other large and medium-sized Brazilian and international banks, public and private. Furthermore, the consolidation of the Brazilian financial sector, with the merger of large banks since 2008 and the privatisation of public banks, has also increased competition in the Brazilian market for banking and financial services. The compression of credit spreads and service fees by some of our competitors, following the public banks which aggressively increased their volume of loans with spreads lower than those charged by private banks in recent years, may adversely affect our business and results of operations.

Additionally, Brazilian regulations raise limited barriers to market entry and do not differentiate between local or foreign commercial and investment banks. As a result, the presence of foreign banks in Brazil, some of which have greater resources than us, has grown and competition in the banking sector generally and in markets for specific products has increased.

We cannot assure you that we will be able to compete successfully against other banks and financial institutions, especially large financial institutions, both Brazilian and foreign, which have greater resources than we have and an extensive network of branches. Increased competition may adversely affect our results of operations by, among other factors, limiting our ability to increase our customer base and expand our operations, resulting in a reduction in our profit margin and increased competition for business opportunities.

#### **Risk Factors Relating to Us**

***We are a member of the Group and are partially owned by Bradesco. If these shareholders cease to control and/or own us, this could potentially have a material adverse effect on our results of operation and financial condition.***

We are a member of the Group and are partially owned by Bradesco. As a result, our business benefits from our association with the Group and Bradesco and from the cross selling of our products to customers of other companies in the Group and Bradesco. There can be no assurance that the Group or Bradesco will continue to directly or indirectly control and/or own us and that we will continue to benefit from our association with either of them. Any such event could potentially have a material adverse effect on our results of operations and financial condition. The Noteholders will have the option to redeem the Notes if we cease to be directly or indirectly controlled by BESI Portugal. See "Terms and Conditions of the Notes."

***Our controlling shareholder could have interests that conflict with those of the holders of the Notes.***

Our controlling shareholder has the sole power to control our business and operations, including the power to elect management and to sell or transfer all or any portion of a controlling stake in us. Certain decisions involving our operations or financial structure may present conflicts of interest among our controlling shareholder,

management and the Noteholders. In addition, our controlling shareholder or management may have an interest in pursuing transactions that, in their judgment, enhance the value of their equity investment in us, even though the transactions may involve increased risks to the Noteholders.

***Any negative fluctuations in the performance of our treasury operations, through which we take positions in the course of our Global Markets activities, could adversely affect our revenues.***

Our treasury division takes positions, in the course of our Global Markets activities, in a variety of Brazilian and international equity, fixed and variable income and derivative products, currencies and commodities. Historically, our Global Markets activities have contributed significantly towards our total operating income (approximately 17.4% for the year ended December 31, 2011). Given the inherent risks involved in our Global Markets activities, our revenues are susceptible to fluctuations in the performance of our Global Markets activity conducted by our treasury division. Furthermore, our business, which is in part dependent on our Global Markets activities, may involve a higher degree of risk than those of Brazilian commercial banks.

***Our Global Markets activities and underwriting businesses are highly cyclical and volatile, which may have a material adverse effect on our business.***

Some of our business activities, including Global Markets, securities brokerage, securities trading and underwriting are, by their nature, subject to volatility, primarily due to fluctuations in volumes and price levels of securities transactions generally, which, in turn, are affected by many national and international economic and political factors that cannot be predicted, including broad trends in business and finance, legislation and regulation affecting the Brazilian and international business and financial communities, currency values, market conditions and the level and volatility of interest rates. As a result, revenues and earnings may vary significantly from quarter to quarter and from year to year. In periods of low transaction volume and decreases in securities prices, as occurred during much of 2008 and 2011, our commission revenue may be adversely affected and margin account balances may be reduced.

Sudden sharp declines in market values of securities and the failure of issuers and counterparties to perform their obligations can result in illiquid markets. In such markets, we may not be able to sell securities and may have difficulty in hedging our securities positions. Such markets, if prolonged, may also lower our revenues because investors may respond to the market conditions by withdrawing entirely from the securities markets or investing in money market funds.

Unfavourable financial or economic conditions would likely reduce the number and size of transactions in which we provide underwriting and other related services, such as fee income in connection with advisory work in the areas of M&A and project finance, among others. Our underwriting commissions are directly related to the number and size of transactions in which we participate and would therefore be adversely affected by a sustained market downturn.

***We have significant fixed operating expenses that may adversely affect our levels of profitability in periods when the volume of securities transactions is low.***

In connection with our routine activities, our information processing systems and other aspects of our business, we incur substantial fixed operating expenses that do not vary directly with fluctuations in securities transaction volumes and revenues. In the event of a material reduction in revenue, we may be unable to reduce these expenses quickly and, as a result, we could experience reduced profitability or loss.

***Our inability to obtain funding may negatively affect our results of operations.***

Our sources of funding represent an important aspect of our business. Our ability to obtain additional funding will depend on, among others, future market conditions in Brazil and in the international capital markets, as well as on our performance. As a member of the Group, our ability to obtain funding will also continue to depend on the performance of the Group, as well actual and perceived risks associated with the ongoing economic difficulties in the European Union, and in Portugal in particular. We cannot assure you that we will remain able to raise funds on favorable terms and at current levels. If we are unable to obtain additional funding, it could have a material adverse effect on our ability to maintain or improve our current funding structure or to respond efficiently

to changes in market conditions and to market pressures. Furthermore, whereas commercial banks can often increase margins in higher interest rate environments by increasing the interest rates on their loan portfolios, we may not be able to do so to the same extent. Therefore, we may be more adversely impacted by increased funding costs than certain of our competitors.

***Our inability to continue obtaining time deposits may negatively affect our results of operations.***

We rely on Bank Certificates of Deposit, or CDBs, Interbank Deposits, or CDIs, and *Letras Financeiras*, or LFs, for a substantial portion of our funding. As of December 31, 2011, CDBs accounted for 23.4% of our total funding. Our ability to obtain additional funding through CDBs, CDIs and LFs depends on our future performance and market conditions, among other factors. We cannot assure you that funding through CDBs, CDIs and LFs will continue to be available on terms favorable to us, or at all. If we are unable to obtain sufficient new funding, we may not be able to continue growing our credit portfolio or to respond effectively to changes in business conditions and competitive pressures, which could have a material adverse effect on our business, financial condition and results of operations.

***Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risks.***

Our hedging strategies and other risk management techniques may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of our methods of managing risk are based upon observed historical market behaviour. As a result, those methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend upon evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by us. This information may not in all cases be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and such policies and procedures may not be fully effective.

***Our credit ratings were recently downgraded. Any further downgrade in our credit rating could affect the availability and costs of our funding.***

Due in significant part to the ongoing debt crisis in the European Union, the credit ratings of several Brazilian subsidiaries of Portuguese banks were lowered during the second half of 2011, including our own. Our long-term foreign currency senior unsecured debt rating, as published by Moody's and Standard & Poor's, were lowered several times from Baa2 to Ba3 and from BBB- to BB-, respectively. Our funding availability and costs are influenced by many factors, some of which are outside of our control, such as global economic conditions (in particular the debt crisis in the European Union), the conditions of Brazil's economy and of other emerging markets and the regulatory environment in Brazil's banking industry. Any unfavourable change in these factors could have a negative impact on our credit rating. Further downgrades in our credit ratings could restrict our ability to borrow, obtain loans or issue securities on acceptable terms, thereby raising our funding costs. In addition, we may be unable to raise funds on acceptable terms, or to raise sufficient funds at a time when additional funding would be most needed.

***Our results of operations could be materially affected if any of our key management personnel were to leave us or our subsidiaries.***

At December 31, 2011, we and our subsidiaries had approximately 200 employees and outsourced service providers. Due to our relatively small size within the Brazilian banking sector, we rely significantly on approximately 51 key professionals and senior management in conducting our operations. Our results of operations could be materially affected if any of our key management personnel were to leave us or our subsidiaries.

***Asset management revenue is subject to variability based on market and economic factors and the amount of assets under management.***

Asset management revenue includes revenues that we receive from management, administrative and performance fees from funds managed by us, revenues from asset management and performance fees we receive from third party managed funds, and investment income from our investment in these funds. These revenues are

dependent upon the amount of assets under management and the performance of the funds. If these funds do not perform as well as our asset management clients expect, our clients may withdraw their assets from these funds, which would reduce our revenues. Even in the absence of a market downturn, below market investment performance by our funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors.

***Exposure to Brazilian Government debt could have an adverse effect on our business.***

Like many other Brazilian banks, we invest in debt securities issued by the Brazilian Government. As of December 31, 2011, 63.7% of our total assets, and 78.1% of our securities portfolio and money market investments, was comprised of debt securities issued by the Brazilian Government. Any failure by the Brazilian Government to make timely payments under the terms of these securities would have a material adverse effect on our financial condition and results of operations. Furthermore, a significant decrease in the market value of Brazilian Government securities and derivatives held by us could have a material adverse effect on our financial condition, results of operations and capitalisation.

***Holding large and concentrated positions may expose us to losses.***

Concentration of risk may reduce revenues or result in losses in our market making, specialist, underwriting, positions in global markets, principal investment and lending businesses in the event of unfavourable market movements even when economic and market conditions are generally favorable for others in the industry. We have committed substantial amounts of capital to these businesses, which might require us to take large positions in the securities of, or make large loans to, a particular issuer or issuers in a particular industry, country or region in investment banking transactions. Moreover, the trend in all major capital markets is towards larger and more frequent commitments of capital in many of these activities, and we expect this trend to continue. For example, large positions of securities are increasingly being sold in block trades rather than on a marketed basis, which could increase the risk that we may be unable to resell the securities at favorable prices. While our activities expose us to many different counterparties, we routinely execute a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment funds and other institutional clients, resulting in significant credit concentration with respect to this industry. In the ordinary course of business, we may also be subject to a concentration of credit risk to a particular counterparty, borrower or issuer. Concentration of risk will increase as we expand our global markets and principal investing activities or commit additional capital to facilitate client driven business.

**Risk Factors Relating to the Notes**

***Our obligations under the Notes are subordinated to certain liabilities.***

Under Brazilian law, our obligations under the Notes are subordinated to certain statutory preferences. In the event of our liquidation, such statutory preferences, such as employees' wage claims up to a certain limit or indemnities for accidents while at work and tax or social security claims, labour related credits up to a certain limit, secured credits up to the amount of the guarantee and taxes credits will have preference over any other unsecured claims, including claims by any holder in respect of the Notes.

***The Programme allows for the issuance of subordinated notes; Brazilian regulations do not expressly provide for different levels of subordination in the event of bankruptcy, liquidation or dissolution.***

Applicable Brazilian regulations do not contain express provisions with respect to the ranking of subordinated capital. Law No. 11,101 dated as of February 9, 2005, as amended (or the Brazilian Bankruptcy Law) came into effect on June 9, 2005 and governs the bankruptcy, liquidation or dissolution of Brazilian companies. Although the Brazilian Bankruptcy Law recognises the principle of contractual subordination of claims, there is a lack of court precedent in Brazil that validates or upholds this principle. At present, the Brazilian Bankruptcy Law does not provide for different levels of subordination. Accordingly, in the event of our bankruptcy, liquidation or dissolution, we cannot assure you that Brazilian bankruptcy courts would recognise and properly enforce the contractual subordination of any of our subordinated notes.

***Judgments of Brazilian courts enforcing our obligations under the Notes are payable only in Brazilian reais.***

If proceedings were brought in the courts of Brazil seeking to enforce our obligations under the Notes, we would not be required to discharge our obligations in a currency other than *reais*. Under the Brazilian exchange control limitations, an obligation in Brazil to pay amounts denominated in a currency other than *reais* may only be satisfied in Brazilian currency at the rate of exchange, as determined by the Central Bank, in effect on the date of payment. We cannot assure that such rate of exchange will afford the full compensation of the amount invested in the Notes plus accrued interest (if any).

***If we are unable to make payments on the Notes from the Cayman Islands and must make payments from Brazil, we may experience delays in obtaining or be unable to obtain the necessary Central Bank approvals, which would delay or prevent us from making payments on the Notes.***

Securities issued through our Grand Cayman Branch do not require approval by, or registration with, the Central Bank. Should we be required to make remittances under the Notes directly from Brazil (whether by reason of a lack of liquidity of our Grand Cayman Branch or imposition of any restriction under the laws of the Cayman Islands), a specific Central Bank approval may be required in case payment under such Notes is made directly from Brazil. If we are unable to obtain the required approvals in connection with the payment of amounts owed through our Grand Cayman Branch through remittances from Brazil, we may have to seek other lawful mechanisms to effect payment of amounts due under the Notes. However, we cannot guarantee that other remittance mechanisms will be available. If we are unable to make payments on the Notes through our Grand Cayman Branch and we are prevented from making the payments from Brazil, we could be forced to suspend payments on the Notes, which could also adversely impact the market value of the Notes.

***There is no assurance that an active market for the Notes will develop.***

Application has been made to list the Notes issued under the Programme on the Irish Stock Exchange. However, the Notes are new securities for which there is currently no established market. We cannot assure you as to the development or liquidity of any market for the Notes.

The liquidity and market price of the Notes may be adversely affected by a general decline in the market for similar securities. Such a decline may adversely affect our liquidity and trading markets independent of our prospects or financial performance.

***We may issue debt instruments that may rank senior or pari passu with the Notes.***

We may issue debt or other instruments that may rank senior or *pari passu* with the Notes. The issuance of any such instruments may reduce the amount recoverable by holders of the Notes upon any bankruptcy or insolvency and would increase the likelihood that we may suspend the payment of interest on the Notes. In case of an eventual subordination of the Notes, in the event of our bankruptcy, liquidation or dissolution under Brazilian law, or similar events, our assets will be available to pay such amounts only after all of our senior debt and other obligations which are preferred by law have been paid in full.

Changes in Brazilian tax laws introduced by Law No. 10,833 of 2003 may have an adverse impact on the taxes applicable to a disposition of the Notes between non-Brazilian residents.

According to Law No. 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by a non-Brazilian resident to either a Brazilian resident or a non-Brazilian resident is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. The responsibility for retaining and collecting the withholding income tax on the capital gain obtained on the disposition of such assets is attributed to the acquirer (in the event it is a Brazilian resident) or to the acquirer's representative (in the event it is a non-Brazilian resident). Because the Notes are issued by a Brazilian company and payments under the Notes derive from a Brazilian source, the disposition of the Notes by a non-Brazilian resident to another non-Brazilian resident, whether or not they are located in Brazil, might be deemed an alienation of an asset located in Brazil for the purposes of Law No. 10,833, although the Notes will be issued, traded and kept in a custodial account abroad. Since the enactment of Law No. 10,833, there has been no judicial guidance as to its application, and therefore we are unable to predict whether

a construction applying such law to dispositions of the Notes between non-Brazilian residents could ultimately prevail in the courts of Brazil.

## FOREIGN EXCHANGE RATES AND EXCHANGE CONTROLS

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures.

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely and, since then, the *real*/U.S. dollar exchange rate has fluctuated considerably. Until early 2003, the value of the *real* declined in relation to the U.S. dollar and then began to stabilize. The *real* appreciated against the U.S. dollar from 2004 to 2007. In 2008, as a result of the worsening of the global economic crisis, the *real* decreased 32.0% against the U.S. dollar, and on December 31, 2008 the exchange rate of the *real* in relation to the U.S. dollar was R\$2.3370 per U.S.\$1.00. In December 31, 2009, the *real*/U.S. dollar exchange rate was R\$1.7412 per U.S.\$1.00, in December 31, 2010 it was R\$1.6662 per U.S.\$1.00 and in December 31, 2011, the *real*/U.S. dollar exchange rate was R\$1.8758 per U.S.\$1.00. In the past, the Central Bank has intervened occasionally to control unstable movements of exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate through a currency band system or otherwise. The *real* may fluctuate against the U.S. dollar substantially in the future. For further information on those risks, see "Risk Factors--Risk Factors Relating to Brazil--Fluctuations in the value of the *real* against the value of the U.S. dollar may adversely affect our financial results."

The average foreign exchange rate is reported by the Central Bank on a daily basis. The following tables set forth the selling rate, expressed in *reais* per U.S. dollar, for the periods and dates indicated.

Year ended December 31,	Closing Selling Rates of <i>reais</i> per U.S.\$1.00			
	Low	High	Average <sup>(1)</sup>	Period End
2006.....	2.0586	2.3711	2.1778	2.1380
2007.....	1.7325	2.1556	1.9491	1.7713
2008.....	1.5593	2.5004	1.8375	2.3370
2009.....	1.6989	2.4473	1.9959	1.7412
2010.....	1.6554	1.8811	1.7593	1.6662
2011.....	1.5345	1.9016	1.6746	1.8758

Month	Closing Selling Rates of <i>reais</i> per U.S.\$1.00			
	Low	High	Average <sup>(2)</sup>	Period End
January 2012.....	1.7389	1.8683	1.7897	1.7391
February 2012.....	1.7024	1.7376	1.7184	1.7092
March 2012.....	1.7152	1.8334	1.7953	1.8221

Source: Central Bank

Note:

- (1) Represents the average of the exchange rates of each trading date.  
(2) Represents the average of the lowest and highest rates in the month.

Brazilian law provides that in the event of a serious imbalance in Brazil's balance of payments, or a foreseeable likelihood of such an imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. There can be no assurance that such measures will not be taken by the Brazilian government in the future. See "Risk Factors—Risk Factors Relating to Brazil."

### **USE OF PROCEEDS**

Except as set forth in the Final Terms for a particular issuance of Notes, the net proceeds of any issue of Notes will be used by us for our general corporate purposes and to expand our investment banking activities.

## CAPITALISATION

The following table presents our capitalisation as of December 31, 2011, as derived from our individual financial information as of the same date. This table should be read in conjunction with "Selected Financial Information," "Selected Statistical Information," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our unaudited individual financial statements included elsewhere in this Offering Memorandum.

	As of December 31, 2011	
	(in millions of reais)	(in millions of U.S.\$) (1)
<b>Current liabilities</b> .....	<b>3,796.4</b>	<b>2,023.9</b>
<b>Deposits</b> .....	<b>745.9</b>	<b>397.7</b>
Interbank deposits.....	331.3	176.6
Time deposits.....	414.6	221.0
<b>Money market repurchase commitment</b> .....	<b>2,238.5</b>	<b>1,193.3</b>
Own portfolio.....	2,238.5	1,193.3
<b>Resources from securities issuance</b> .....	<b>435.7</b>	<b>232.3</b>
Resources from securities issuance.....	100.4	53.5
Securities issued abroad.....	335.4	178.8
<b>Borrowings</b> .....	<b>41.3</b>	<b>22.0</b>
Borrowings abroad.....	41.3	22.0
<b>Repass borrowings from public sector</b> .....	<b>29.9</b>	<b>15.9</b>
BNDES.....	29.9	15.9
<b>Derivative financial instruments</b> .....	<b>150.1</b>	<b>80.0</b>
Derivative financial instruments.....	150.1	80.0
<b>Other liabilities</b> .....	<b>155.1</b>	<b>82.7</b>
Collection of taxes.....	0.9	0.5
Foreign exchange portfolio.....	113.0	60.2
Social and statutory.....	9.4	5.0
Taxes payable.....	14.8	7.9
Securities trading.....	5.9	3.1
Subordinated debt.....	1.5	0.8
Other.....	9.7	5.2
<b>Long-term liabilities</b> .....	<b>2,311.7</b>	<b>1,232.4</b>
<b>Deposits</b> .....	<b>949.4</b>	<b>506.1</b>
Interbank deposits.....	51.8	27.6
Time deposits.....	897.6	478.5
<b>Money market repurchase commitment</b> .....	<b>3.3</b>	<b>1.8</b>
Own portfolio.....	3.3	1.8
<b>Resources from securities issuance</b> .....	<b>921.4</b>	<b>491.2</b>
Resources from securities issuance.....	60.4	32.2
Securities issued abroad.....	860.9	459.0
<b>Repass borrowings from public sector</b> .....	<b>140.5</b>	<b>74.9</b>
BNDES.....	140.5	74.9
<b>Derivative financial instruments</b> .....	<b>116.2</b>	<b>62.0</b>
Derivative financial instruments.....	116.2	62.0
<b>Other liabilities</b> .....	<b>180.9</b>	<b>96.4</b>
Taxes payable.....	89.4	47.7
Subordinated debts.....	90.0	48.0
Other.....	1.5	0.8
<b>Deferred income</b> .....	<b>1.1</b>	<b>0.6</b>
Deferred income.....	1.1	0.6
<b>Shareholders' equity</b> .....	<b>522.2</b>	<b>278.4</b>
Capital – Domestic.....	320.0	170.6
Revenue reserve.....	202.2	107.8
<b>Total liabilities and shareholders' equity</b> .....	<b>6,631.5</b>	<b>3,535.3</b>

Note:

(1): The exchange rate used for the translation from *reais* for the year ended December 31, 2011 was R\$1.8758 to U.S.\$1.00.

## SELECTED FINANCIAL INFORMATION

The following tables set forth our selected financial data on an individual basis as of and for the years ended December 31, 2011, 2010 and 2009. The financial data contained in these tables, and related to our balance sheet and statements of income, except for the financial data presented in U.S. dollars, have been derived from our audited individual financial statements as of and for the years ended December 31, 2011, 2010 and 2009. Our annual financial statements were prepared in accordance with Brazilian GAAP, which differs in certain significant respects from IFRS. See "Summary of Differences Between Brazilian GAAP and IFRS." We are not required to, and have not, produced consolidated annual or interim financial information. For a discussion of the results of our subsidiaries using the equity method, changes in accounting policies and related matters, see "Presentation of Financial and Other Information." The Central Bank's rules and regulations differ in certain aspects from CVM accounting rules applicable to financial institutions which are listed on BM&FBOVESPA. Accordingly, our financial statements may not be comparable to financial statements of such listed banks.

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which, together with Law No. 11,941, amended the Brazilian Corporate Law and introduced the process of conversion of financial statements into IFRS. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Principal Factors Affecting our Financial Condition and Results of Operations - Adoption of Law No. 11,638/07" for more information of the effects of these changes on us.

## Statement of Income

	<b>Individual</b>			
	<b>For the year ended December 31,</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>
	<i>(in millions of reais)</i>			<i>(in millions of U.S.\$)<sup>(1)</sup></i>
<b>Financial operations income</b> .....	<b>352.01</b>	<b>362.9</b>	<b>788.0</b>	<b>420.1</b>
Loans .....	27.3	83.6	136.1	72.5
Securities income.....	311.4	433.0	597.8	318.7
Net income from derivatives financial instruments.....	9.5	(155.9)	52.5	28.0
Trade finance and foreign exchange income .....	3.7	2.2	1.6	0.8
<b>Financial operations expenses</b> .....	<b>(252.0)</b>	<b>(280.1)</b>	<b>(692.9)</b>	<b>(369.4)</b>
Deposits, money market and interbank funds.....	(240.3)	(274.1)	(683.0)	(364.1)
Loans operations, assignments and repass.....	(4.9)	(5.4)	(9.4)	(5.0)
Allowance for losses on doubtful receivable.....	(6.7)	(0.6)	(0.5)	(0.2)
<b>Net income on financial operations</b> .....	<b>100.0</b>	<b>82.8</b>	<b>95.1</b>	<b>50.7</b>
<b>Other operating income (expenses)</b> .....	<b>25.1</b>	<b>5.2</b>	<b>19.1</b>	<b>10.2</b>
Service fee income .....	37.2	44.2	70.0	37.3
Personnel expenses.....	(26.7)	(31.0)	(36.3)	(19.4)
Other administrative expenses.....	(19.0)	(18.9)	(23.5)	(12.5)
Tax expenses.....	(19.8)	(11.8)	(12.5)	(6.7)
Equity in earnings of subsidiaries.....	54.1	37.2	12.0	6.4
Other operating income.....	6.9	2.1	10.4	5.5
Other operating expenses .....	(7.6)	(16.7)	(0.9)	(0.5)
<b>Operating result</b> .....	<b>125.1</b>	<b>88.0</b>	<b>114.2</b>	<b>60.9</b>
<b>Non-operating result</b> .....	<b>0.3</b>	<b>1.3</b>	<b>-</b>	<b>-</b>
<b>Net income before income taxes and profit sharing</b> .....	<b>125.4</b>	<b>89.3</b>	<b>114.2</b>	<b>60.9</b>
<b>Income tax and social contribution</b> .....	<b>(23.6)</b>	<b>(8.6)</b>	<b>(35.2)</b>	<b>(18.7)</b>
Income tax .....	(17.9)	(15.6)	(23.9)	(12.7)
Social contribution.....	(10.3)	(8.8)	(13.9)	(7.4)
Deferred tax assets.....	4.5	15.9	2.6	1.4
<b>Profit sharing</b> .....	<b>(7.6)</b>	<b>(9.6)</b>	<b>(8.2)</b>	<b>(4.4)</b>
<b>Net income</b> .....	<b>94.2</b>	<b>71.1</b>	<b>70.8</b>	<b>37.7</b>

## Balance Sheet

	<b>Individual</b>			
	<b>As of December 31,</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>
	<i>(in millions of reais)</i>			<i>(in millions of U.S.\$)<sup>(1)</sup></i>
<b>Assets</b>				
<b>Current assets</b> .....	<b>2,586.8</b>	<b>3,527.4</b>	<b>5,362.6</b>	<b>2,858.8</b>
<b>Cash and cash equivalents</b> .....	<b>9.3</b>	<b>2.4</b>	<b>14.6</b>	<b>7.8</b>
<b>Interbank funds applied</b> .....	<b>460.1</b>	<b>61.2</b>	<b>273.0</b>	<b>145.6</b>
Money market.....	460.1	61.1	214.1	114.1
Interbank deposits.....	-	0.1	59.0	31.4
<b>Securities and derivative financial instruments</b> .....	<b>1,748.8</b>	<b>3,014.1</b>	<b>4,149.8</b>	<b>2,212.3</b>
Own portfolio.....	1,272.7	1,329.7	1,419.0	756.5
Subject to repurchase commitments.....	403.5	1,395.3	2,227.1	1,187.3
Subject to guarantees.....	4.7	4.9	371.6	198.1
Derivative financial instruments.....	67.9	284.2	132.1	70.4
<b>Loans</b> .....	<b>245.1</b>	<b>333.3</b>	<b>716.0</b>	<b>381.7</b>
Private sector.....	246.8	334.7	717.3	382.4
(Allowances for loans losses) .....	(1.7)	(1.3)	(1.3)	(0.7)
<b>Other receivable</b> .....	<b>122.9</b>	<b>115.4</b>	<b>207.9</b>	<b>110.8</b>
Foreign exchange portfolio .....	0.4	10.1	112.8	60.2
Income receivable.....	15.1	11.7	12.2	6.5
Securities trading .....	-	2.0	1.3	0.7
Other.....	108.1	91.9	82.9	44.2
(Allowances for loans losses) .....	(0.6)	(0.3)	(1.4)	(0.7)
<b>Other assets</b> .....	<b>0.5</b>	<b>1.0</b>	<b>1.3</b>	<b>0.7</b>
Prepaid expenses.....	0.5	1.0	1.3	0.7
<b>Long-term assets</b> .....	<b>1,391.3</b>	<b>2,282.4</b>	<b>1,055.7</b>	<b>562.8</b>

	<b>Individual</b>			
	<b>As of December 31,</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>
	<i>(in millions of reais)</i>			<i>(in millions of U.S.\$)<sup>(1)</sup></i>
<b>Interbank funds applied</b>		<b>36.3</b>	<b>14.9</b>	<b>7.9</b>
Interbank deposits	-	36.3	14.9	7.9
<b>Securities and derivative financial instruments</b>	<b>1,164.3</b>	<b>1,863.4</b>	<b>344.3</b>	<b>183.5</b>
Own portfolio	487.4	1,136.8	150.3	80.1
Subject to repurchase commitments	-	194.8	53.1	28.3
Subject to guarantees	433.7	366.8	2.5	1.3
Derivative financial instruments	243.2	164.9	138.3	73.7
<b>Loans</b>	<b>180.9</b>	<b>303.3</b>	<b>619.7</b>	<b>330.3</b>
Private sector	181.6	304.6	620.4	330.7
(Allowances for loans losses)	(0.6)	(1.3)	(0.8)	(0.4)
<b>Other receivable</b>	<b>45.4</b>	<b>78.3</b>	<b>75.9</b>	<b>40.5</b>
Other	46.6	80.1	77.6	41.4
(Allowances for loans losses)	(1.1)	(1.8)	(1.7)	(0.9)
<b>Other assets</b>	<b>0.6</b>	<b>1.1</b>	<b>1.0</b>	<b>0.5</b>
Prepaid expenses	0.6	1.1	1.0	0.5
<b>Permanent assets</b>	<b>153.8</b>	<b>198.0</b>	<b>213.2</b>	<b>113.7</b>
<b>Investments</b>	<b>148.6</b>	<b>190.7</b>	<b>206.7</b>	<b>110.2</b>
Subsidiaries and affiliates - Domestic	145.7	186.0	200.1	106.7
Other investments	2.9	4.7	6.7	3.5
<b>Premises and equipment</b>	<b>2.9</b>	<b>6.0</b>	<b>5.6</b>	<b>3.0</b>
Other fixed assets for own use	5.1	9.1	9.4	5.0
(Accumulated depreciation)	(2.2)	(3.1)	(3.8)	(2.0)
<b>Intangible assets</b>	<b>0.3</b>	<b>0.2</b>	<b>0.4</b>	<b>0.2</b>
Intangible assets	0.3	0.2	0.5	0.3
(Accumulated amortization)	-	-	(0.1)	-
<b>Deferred charges</b>	<b>1.9</b>	<b>1.1</b>	<b>0.5</b>	<b>0.3</b>
Deferred charges	4.3	4.0	2.2	1.2
(Accumulated amortization)	(2.4)	(2.9)	(1.7)	(0.9)
<b>Total assets</b>	<b>4,131.9</b>	<b>6,007.8</b>	<b>6,631.5</b>	<b>3,535.3</b>
<b>Liabilities</b>				
<b>Current liabilities</b>	<b>2,168.7</b>	<b>2,659.3</b>	<b>3,796.4</b>	<b>2,023.9</b>
<b>Deposits</b>	<b>1,573.9</b>	<b>721.7</b>	<b>745.9</b>	<b>397.7</b>
Interbank deposits	671.7	215.0	331.3	176.6
Time deposits	902.1	506.7	414.6	221.0
<b>Money market repurchase commitment</b>	<b>392.6</b>	<b>1,549.0</b>	<b>2,238.5</b>	<b>1,193.3</b>
Own portfolio	392.6	1,549.0	2,238.5	1,193.3
<b>Resources from securities issuance</b>	<b>132.9</b>	<b>146.3</b>	<b>435.7</b>	<b>232.3</b>
Resources from securities issuance	-	128.5	100.4	53.5
Securities issued abroad	132.9	17.8	335.4	178.8
<b>Interbranch accounts</b>	<b>1.6</b>	<b>-</b>	<b>-</b>	<b>-</b>
Third-party funds in transit	1.6	-	-	-
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>41.3</b>	<b>22.0</b>
Borrowings abroad	-	-	41.3	22.0
<b>Repass borrowings from public sector</b>	<b>2.8</b>	<b>2.0</b>	<b>29.9</b>	<b>15.9</b>
BNDES	2.8	2.0	29.9	15.9
<b>Derivative financial instruments</b>	<b>5.7</b>	<b>161.8</b>	<b>150.1</b>	<b>80.0</b>
Derivative financial instruments	5.7	161.8	150.1	80.0
<b>Other liabilities</b>	<b>59.3</b>	<b>78.3</b>	<b>155.1</b>	<b>82.7</b>
Collection of taxes	0.3	1.1	0.9	0.5
Foreign exchange portfolio	0.4	8.7	113.0	60.2
Social and statutory	16.5	10.7	9.4	5.0
Taxes payable	14.5	39.6	14.8	7.9
Securities clearing accounts	6.2	10.5	5.9	3.1
Subordinated debt	1.2	1.4	1.5	0.8
Other	20.2	6.4	9.7	5.2
<b>Long-term liabilities</b>	<b>1,541.3</b>	<b>2,871.4</b>	<b>2,311.7</b>	<b>1,232.4</b>
<b>Deposits</b>	<b>1,056.7</b>	<b>1,423.8</b>	<b>949.4</b>	<b>506.1</b>
Interbank deposits	1,030.4	1,379.3	51.8	27.6
Time deposits	26.3	44.5	897.6	478.5
<b>Money market repurchase commitments</b>	<b>1.5</b>	<b>3.0</b>	<b>3.3</b>	<b>1.8</b>
Own portfolio	1.5	3.0	3.3	1.8

	<b>Individual</b>			
	<b>As of December 31,</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2011</b>
	<i>(in millions of reais)</i>			<i>(in millions of U.S.\$)<sup>(1)</sup></i>
<b>Resources from securities issuance</b>	<b>295.7</b>	<b>1,066.9</b>	<b>921.4</b>	<b>491.2</b>
Resources from securities issuance	295.7	1,107.9	60.4	32.2
Securities issued abroad	-	41.0	860.9	459.0
<b>Repass borrowings from public sector</b> .....	<b>72.2</b>	<b>115.5</b>	<b>140.5</b>	<b>74.9</b>
BNDES .....	72.2	115.5	140.5	74.9
<b>Derivative financial instruments</b> .....	<b>16.9</b>	<b>139.0</b>	<b>116.2</b>	<b>62.0</b>
Derivative financial instruments .....	16.9	139.0	116.2	62.0
<b>Other liabilities</b> .....	<b>124.6</b>	<b>126.8</b>	<b>180.9</b>	<b>96.4</b>
Taxes payable .....	33.0	35.0	89.4	47.7
Subordinated debts .....	90.0	90.0	90.0	48.0
Other .....	1.5	1.8	1.5	0.8
<b>Deferred income</b> .....	<b>0.3</b>	<b>0.7</b>	<b>1.1</b>	<b>0.6</b>
Deferred income .....	0.3	0.7	1.1	0.6
<b>Shareholders' equity</b> .....	<b>421.5</b>	<b>476.4</b>	<b>522.2</b>	<b>278.4</b>
Capital – Domestic .....	300.0	320.0	320.0	170.6
Capital reserve .....	121.5	156.4	-	-
Revenue reserve – Legal .....	-	-	202.2	107.8
<b>Total Liabilities</b> .....	<b>4,131.9</b>	<b>6,007.8</b>	<b>6,631.5</b>	<b>3,535.3</b>

## SELECTED STATISTICAL INFORMATION

The information below has been included for analytical purposes only and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our individual financial statements and related notes thereto included elsewhere in this Offering Memorandum. The financial information included in this section derives from our accounting records maintained by our significant operating units.

Except where otherwise indicated, average annual volume and balance sheet data has been calculated based upon the average of the sum of balances at the end of each of the four quarters during each year. Data for average annual rates and average returns have been calculated based upon the income and expenses for the periods divided by the average balance or volume computed as stated above. Within interest income and interest expense are included the gains or losses on foreign currency and securities and related differences in market prices.

Our income statement and average balance sheet data has been prepared on an individual basis. See "Presentation of Financial and Other Information--Financial Information."

We believe that the balances herein properly reflect, in all material respects, our financial condition and operating results on the dates and for the periods indicated.

### Average Balance Sheet and Other Financial Data

The table below presents our average balances for assets, liabilities and equity, which has been calculated from the monthly balances of the financial statements.

The table below demonstrates our selected financial information as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	<i>(in millions of reais, except percentages)</i>		
<b>Averages</b>			
Average total assets <sup>(1)</sup> .....	3,704.6	5,357.7	6,801.6
Average interest earning assets <sup>(2)</sup> .....	3,153.1	4,704.1	6,152.0
Average interest bearing liabilities <sup>(3)</sup> .....	3,071.0	4,627.1	5,423.0
Average shareholders' equity .....	326.3	456.4	500.7
<b>Profitability and efficiency</b>			
Net interest margin <sup>(4)</sup> .....	3.4%	1.8%	1.6%
Net interest spread <sup>(5)</sup> .....	102.7%	101.7%	113.4%
Return on average interest earning assets <sup>(6)</sup> .....	3.0%	1.5%	1.2%
Average yield on average interest earning assets <sup>(7)</sup> .....	11.2%	7.7%	12.8%
Average yield on average interest bearing liabilities <sup>(8)</sup> .....	8.0%	6.0%	(12.8)%
Efficiency index <sup>(9)</sup> .....	30.8%	37.7%	34.3%

*Notes:—*

- (1) The average balances are calculated based upon the average of the sum of balances for the four quarters of each year period.
- (2) Average interest earning assets are assets generating income from financial operations and were calculated based upon the average of the sum of balances for the four quarters of each year period. Interest earning assets are composed by loans, securities, derivatives and trade finance transactions.
- (3) Average interest bearing liabilities are liabilities generating expenses from financial operations and were calculated based upon the average of the sum of balances for the four quarters of each year period. Interest bearing liabilities are composed by deposits, money market, interbank funds, loan operations and repass operations.
- (4) Net income on financial operations before allowance for loan losses as a percentage of average interest earning assets. For a discussion of the calculation of "allowance for loan losses," see "—Allowance for Loan Losses."
- (5) The difference between the average total interest earning assets and the average total interest bearing liabilities.
- (6) Net income as a percentage of average interest earning assets.
- (7) Financial operations income as a percentage of average interest earning assets.

- (8) Financial operations expenses before allowance for loan losses as a percentage of average interest bearing liabilities.
- (9) Efficiency index is defined as the ratio, expressed as a percentage, of (a) the sum of “personnel expenses” and “other administrative expenses” less depreciation and amortization (included within other administrative expenses) and (b) the sum of net income on financial operations before allowance for loan losses and “income from services provided.” Efficiency index is not a measure under Brazilian GAAP or any other GAAP and must not be considered alone as an alternative measure for operating performance or cash flow from operations, nor as a liquidity measure. Efficiency index does not have a standardized meaning, and accordingly, our definition of it may not be comparable to the definition of efficiency ratio as used by other companies. We use efficiency index to evaluate the impact of expenses on our gross profit.

### Average Balances and Rates of Interest Earning Assets and Interest Bearing Liabilities

	As of and for the year ended December 31,								
	2009			2010			2011		
	Average Balance	Income (Expense)	Average Rate	Average Balance	Income (Expense)	Average Rate	Average Balance	Income (Expense)	Average Rate
	(in thousands of R\$, except percentages)								
<b>Interest earning assets</b>									
Loans .....	397,637.9	27,272	6.9%	697,790.3	83,592	12.0%	1,111,607.5	136,090	12.2%
Securities income and Net income from derivatives financial instruments.....	2,710,547.8	321,000	11.8%	3,993,223.0	277,138	6.9%	4,593,085.5	650,331	14.2%
Trade finance and foreign exchange income.....	44,960.0	3,739	8.3%	13,135.0	2,169	16.5%	447,303.3	1,561	0.3%
Compulsory loans .....	-	-	-	-	-	-	-	-	-
<b>Total interest earning assets .....</b>	<b>3,153,145.7</b>	<b>352,011</b>	<b>11.2%</b>	<b>4,704,148.3</b>	<b>362,899</b>	<b>7.7%</b>	<b>6,151,996.3</b>	<b>787,982</b>	<b>12.8%</b>
<b>Interest bearing liabilities</b>									
<b>Funding operations</b>									
Deposits, money market and interbank funds.....	3,026,184.3	(240,356)	(7.9)%	4,535,654.8	(274,094)	(6.0)%	5,265,055.0	(682,995)	(13.0)%
Loan operations, assignments and repass.....	44,890.0	(4,896)	(10.9)%	91,396.0	(5,410)	(5.9)%	157,967.0	(9,452)	(6.0)%
<b>Total interest bearing liabilities</b>	<b>3,071,074.3</b>	<b>(245,252)</b>	<b>(8.0)%</b>	<b>4,627,050.8</b>	<b>(279,504)</b>	<b>(6.0)%</b>	<b>5,423,022.0</b>	<b>(692,447)</b>	<b>(12.8)%</b>
<b>Gross profit from financial operations (before provisions).....</b>		<b>106,759</b>	<b>3.4%</b>		<b>83,395</b>	<b>1.8%</b>		<b>95,535</b>	<b>1.6%</b>

### Changes in Interest Income and Expense: Volume and Rate Analysis

The following table allocates changes in our net interest income between changes in volume and changes in rates for the periods indicated. Volume and rate variances have been calculated based on movements in average balances over the period and changes in nominal interest rates on average interest earning assets and average interest bearing liabilities. The net change attributable to changes in both volume and rate has been allocated to the change due to volume and the change due to rates on a proportional basis.

	Year ended December 31,					
	2009/2010			2010/2011		
	Increase (Decrease) Due to Changes in:			Increase (Decrease) Due to Changes in:		
	Volume	Rate	Net change	Volume	Rate	Net change
<b>Interest earning assets</b>						
Loans.....	300,152.4	56,320.0	356,472.4	413,817.2	52,498.0	466,315.2
Securities income and Net income from derivatives financial instruments.....	1,282,675.2	(43,862.0)	1,238,813.2	599,862.5	373,193.0	973,055.5
Trade finance and foreign exchange income.....	(31,825.0)	(1,570.0)	(33,395.0)	434,168.3	(608.0)	433,560.3
Compulsory loans.....	-	-	-	-	-	-
<b>Total interest earning assets .....</b>	<b>1,551,002.6</b>	<b>10,888.0</b>	<b>1,561,890.6</b>	<b>1,447,848.0</b>	<b>425,083.0</b>	<b>1,872,931.0</b>

**Interest bearing liabilities****Funding operations**

Deposits, money market and interbank funds.....	1,509,470.5	(33,738.0)	1,475,732.5	729,400.2	(408,901.0)	320,499.2
Loan operations, assignments and repass.....	46,506.0	(514.0)	45,992.0	66,571.0	(4,042.0)	62,529.0
<b>Total interest bearing liabilities.....</b>	<b>1,555,976.5</b>	<b>(34,252.0)</b>	<b>1,521,724.5</b>	<b>795,971.2</b>	<b>(412,943.0)</b>	<b>383,028.2</b>

**Return on Shareholders' Equity and on Assets**

The table below sets forth certain selected financial information as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	<i>(in millions of reais, except percentages)</i>		
Average total assets <sup>(1)</sup> .....	3,704.6	5,357.7	6,801.6
Average shareholders' equity <sup>(1)</sup> .....	326.2	456.4	500.7
Net income.....	94.2	71.1	70.8
Interest on own capital plus dividends.....	24.8	25.1	25.0
Return on Assets (ROA) <sup>(1)(2)</sup> .....	2.5%	1.4%	1.1%
Return on Equity (ROE) <sup>(1)(3)</sup> .....	28.0%	15.8%	14.2%
Total equity on average assets.....	8.8%	8.5%	7.4%
Income distribution.....	26.3%	35.3%	35.3%
Basel Index.....	22.9%	15.6%	15.6%

*Note:*

- (1) The average balances are calculated based upon the average of the sum of balances for the four quarters of each year period.  
(2) Net profit as a percentage of average total assets based on year-end balance.  
(3) Net profit as a percentage of average total shareholders' equity based on year-end balance.

**Securities**

As of December 31, 2009, 2010 and 2011, the total book value of our securities portfolio, its percentage of Brazilian government bonds and percentage of total assets over the total book value of our securities portfolio were as shown in the tables below.

**Composition of Securities**

Categories/securities	As of December 31, 2011		
	Unpledged	Pledged	Total
	<i>(in millions of reais)</i>		
Public securities – L.F.T. ...	5.8	–	5.8
Public securities – L.T.N. ...	66.1	748.7	814.8
Public securities – N.T.N.B.	3.9	2.5	6.4
Public securities – N.T.N.F..	569.3	1,903.1	2,472.4
Debentures.....	348.5	–	348.5
Promissory Notes.....	129.9	–	129.9
Investment fund quotas .....	101.9	–	101.9
Quotas of Credit Assignment Investment Funds (FDICs) .	118.0	–	118.0
Shares of publicly held companies.....	7.8	–	7.8
Eurobond.....	158.4	–	158.4
Other Securities - CEPAC....	59.7	–	59.7
<b>TOTAL .....</b>	<b>1,569.3</b>	<b>2,654.3</b>	<b>4,223.7</b>

Categories/securities	As of December 31, 2010		
	Unpledged	Pledged	Total
		<i>(in millions of reais)</i>	
Public securities – L.F.T. ...	16.9	74.0	90.9
Public securities – L.T.N. ...	779.3	194.8	974.0
Public securities – N.T.N.B.	6.0	–	6.0
Public securities – N.T.N.F..	434.7	1,693.1	2,127.7
Debentures.....	365.9	–	365.9
Promissory Notes.....	293.6	–	293.6
Investment fund quotas .....	196.0	–	196.0
Quotas of Credit Assignment Investment Funds (FDICs) .	154.3	–	154.3
Shares of publicly held companies.....	8.2	–	8.2
Eurobond .....	152.0	–	152.0
Other Securities - CEPAC...	59.7	–	59.7
<b>TOTAL .....</b>	<b>2,466.5</b>	<b>1,961.8</b>	<b>4,428.3</b>

Categories/securities	As of December 31, 2009		
	Unpledged	Pledged	Total
		<i>(in millions of reais)</i>	
Public securities – L.F.T. ...	72.8	–	72.8
Public securities – L.T.N. ...	105.3	–	105.3
Public securities – N.T.N.B.	1,226.9	841.9	2,068.7
Public securities – N.T.N.F..	5.8	–	5.8
Debentures.....	149.4	–	149.4
Promissory Notes.....	40.9	–	40.9
Investment fund quotas .....	89.6	–	89.6
Quotas of Credit Assignment Investment Funds (FDICs) .	49.5	–	49.5
Shares of publicly held companies.....	19.9	–	19.9
Eurobond .....	–	–	–
Other Securities - CEPAC...	–	–	–
<b>TOTAL .....</b>	<b>1,760.0</b>	<b>841.9</b>	<b>2,601.9</b>

### Securities Portfolio per Category and Maturity

Categories/securities	As of December 31, 2011							Actualised Cost Value
	Unpaid	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Book Value	
				<i>(in millions of reais)</i>				
Public securities – L.F.T. ...	–	–	–	0.8	5.0	–	5.8	5.8
Public securities – L.T.N. ...	–	–	1.5	0.3	–	–	1.8	1.9
Public securities – N.T.N.B.	–	–	0.5	0.1	3.3	–	3.9	3.7
Public securities – N.T.N.F..	–	34.1	–	19.5	–	1,649.4	1,703.0	1,597.2
Debentures.....	–	–	5.2	43.8	260.6	38.8	348.4	348.5
Promissory Notes.....	–	–	129.9	–	–	–	129.9	129.9
Investment fund quotas .....	1.3	–	–	–	–	–	1.3	1.3
Eurobond .....	–	0.1	3.8	154.1	–	0.4	158.4	152.8
Shares of publicly held companies.....	7.8	–	–	–	–	–	7.8	7.9
<b>TOTAL Trading Securities .</b>	<b>9.1</b>	<b>34.2</b>	<b>140.9</b>	<b>218.5</b>	<b>268.9</b>	<b>1,688.6</b>	<b>2,360.4</b>	<b>2,248.9</b>
Debentures.....	100.6	–	–	–	–	–	100.6	100.6
Quotas of Credit Assignment Investment Funds (FDICs) .	–	0.5	–	12.6	93.0	11.8	117.9	118.0
Other Securities - CEPAC...	59.7	–	–	–	–	–	59.7	59.7
<b>TOTAL Available for Sale...</b>	<b>160.3</b>	<b>0.5</b>	<b>–</b>	<b>12.6</b>	<b>93.0</b>	<b>11.8</b>	<b>278.3</b>	<b>278.3</b>
Public securities – L.T.N. ...	–	–	727.1	85.9	–	–	813.0	813.0
Public securities – N.T.N.B.	–	–	–	–	2.5	–	2.5	2.5
Public securities – N.T.N.F..	–	769.4	–	–	–	–	769.4	769.4
<b>TOTAL Held to maturity.....</b>	<b>–</b>	<b>769.4</b>	<b>727.1</b>	<b>85.9</b>	<b>2.5</b>	<b>–</b>	<b>1,584.9</b>	<b>1,584.9</b>
<b>TOTAL - Securities.....</b>	<b>169.5</b>	<b>804.0</b>	<b>868.0</b>	<b>317.1</b>	<b>364.5</b>	<b>1,700.5</b>	<b>4,223.6</b>	<b>4,112.2</b>
– % Concentration at 2011 .	<b>4.0%</b>	<b>19.0%</b>	<b>20.6%</b>	<b>7.5%</b>	<b>8.6%</b>	<b>40.3%</b>	<b>100.0%</b>	–

Categories/securities	As of December 31, 2010							Actualised Cost Value
	Unpaid	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Book Value	
	(in millions of reais)							
Public securities – L.F.T. ...	-	-	90.0	0.9	-	-	90.9	90.8
Public securities – L.T.N. ...	-	324.8	0.5	1.3	-	-	326.6	326.6
Public securities – N.T.N.B.	-	-	0.1	0.5	3.0	-	3.6	3.6
Public securities – N.T.N.F.	-	2.7	-	197.4	19.5	1,154.3	1,373.9	1,345.4
Debentures.....	-	-	3.5	40.1	127.0	43.7	214.4	214.4
Promissory Notes.....	-	-	71.6	-	-	-	71.6	71.6
Investment fund quotas .....	104.7	-	-	-	-	-	104.7	104.7
Eurobond .....	-	41.1	110.9	-	-	-	152.0	152.0
Shares of publicly held companies.....	8.2	-	-	-	-	-	8.2	8.2
<b>TOTAL Trading Securities .</b>	<b>112.9</b>	<b>368.6</b>	<b>276.6</b>	<b>240.3</b>	<b>149.5</b>	<b>1,198.1</b>	<b>2,346.0</b>	<b>2,317.3</b>
Debentures.....	-	2.7	-	47.6	59.3	33.7	151.5	151.5
Promissory Notes.....	-	-	222.0	-	-	-	222.0	222.0
Investment fund quotas .....	91.3	-	-	-	-	-	91.3	91.3
Quotas of Credit Assignment	-	-	-	-	-	-	-	-
Investment Funds (FDICs) .	-	-	-	8.4	130.6	15.2	154.3	154.3
Other Securities - CEPAC...	59.7	-	-	-	-	-	59.7	59.7
<b>TOTAL Available for Sale...</b>	<b>151.0</b>	<b>2.7</b>	<b>230.2</b>	<b>56.0</b>	<b>189.9</b>	<b>48.9</b>	<b>678.7</b>	<b>678.7</b>
Public securities – L.T.N. ...	-	-	-	647.4	-	-	647.4	647.4
Public securities – N.T.N.B.	-	-	-	-	2.3	-	2.3	2.3
Public securities – N.T.N.F.	-	-	-	753.8	-	-	753.8	753.8
<b>TOTAL Held to maturity.....</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,401.3</b>	<b>2.3</b>	<b>-</b>	<b>1,403.6</b>	<b>1,403.6</b>
<b>TOTAL - Securities.....</b>	<b>263.8</b>	<b>371.3</b>	<b>506.8</b>	<b>1,697.6</b>	<b>341.7</b>	<b>1,247.0</b>	<b>4,428.3</b>	<b>4,399.7</b>
<b>– % Concentration at 2010 .</b>	<b>6.0%</b>	<b>8.4%</b>	<b>11.4%</b>	<b>38.3%</b>	<b>7.7%</b>	<b>28.2%</b>	<b>100.0%</b>	<b>-</b>

Categories/securities	As of December 31, 2009							Actualised Cost Value
	Unpaid	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Book Value	
	(in millions of reais)							
Public securities – L.F.T. ...	-	3.4	-	68.4	1.1	-	72.9	72.7
Public securities – L.T.N. ...	-	9.8	-	1.9	-	-	11.7	11.7
Public securities – N.T.N.B.	-	-	-	0.5	-	3.1	3.6	3.7
Public securities – N.T.N.F.	-	-	1.9	2.8	267.4	1,056.5	1,328.6	1,309.3
Investment fund quotas .....	6.6	-	-	-	-	-	6.6	6.6
Shares of publicly held companies.....	19.9	-	-	-	-	-	19.9	19.6
<b>TOTAL Trading Securities .</b>	<b>26.5</b>	<b>13.2</b>	<b>1.9</b>	<b>73.6</b>	<b>268.5</b>	<b>1,059.6</b>	<b>1,443.2</b>	<b>1,423.6</b>
Debentures.....	-	-	-	67.5	76.4	5.5	149.4	149.4
Promissory Notes.....	-	-	40.9	-	-	-	40.9	40.9
Investment fund quotas .....	82.9	-	-	-	-	-	82.9	82.9
Quotas of Credit Assignment	-	-	-	-	-	-	-	-
Investment Funds (FDICs) .	15.3	-	4.9	13.9	3.9	11.5	49.5	49.5
<b>TOTAL Available for Sale...</b>	<b>98.3</b>	<b>-</b>	<b>45.8</b>	<b>81.5</b>	<b>80.2</b>	<b>17.0</b>	<b>322.8</b>	<b>322.8</b>
Public securities – L.T.N. ...	-	-	93.6	-	-	-	93.6	93.6
Public securities – N.T.N.B.	-	-	-	-	2.3	-	2.3	2.2
Public securities – N.T.N.F.	-	-	-	740.2	-	-	740.2	740.2
<b>TOTAL Held to maturity.....</b>	<b>-</b>	<b>-</b>	<b>93.6</b>	<b>740.2</b>	<b>2.3</b>	<b>-</b>	<b>836.1</b>	<b>835.9</b>
<b>TOTAL - Securities.....</b>	<b>124.7</b>	<b>13.2</b>	<b>141.2</b>	<b>895.2</b>	<b>351.1</b>	<b>1,076.6</b>	<b>2,602.1</b>	<b>2,582.3</b>
<b>– % Concentration at 2009 .</b>	<b>4.8%</b>	<b>0.5%</b>	<b>5.4%</b>	<b>34.4%</b>	<b>13.5%</b>	<b>41.4%</b>	<b>100.0%</b>	<b>-</b>

### Securities Portfolio by Currency

Our securities portfolio totalled R\$4,223.6 million, R\$4,428.3 million, and R\$2,602.1 million as of December 31, 2011, 2010 and 2009, respectively. Of this portfolio, R\$158.4 million and R\$152.0 million at the end of 2011 and 2010, respectively, were denominated in a currency other than *reais*.



### Allowance for Doubtful Loans

The balance of the allowance for loan losses amounted to R\$5.1 million as of December 31, 2011, compared to R\$4.6 million as of December 31, 2010 and 4.0 million as of December 31, 2009, above the minimum required by Central Bank Resolution 2,682. These allowances correspond to 0.36%, 0.6% and 0.8% of our loan portfolio as of December 31, 2011, 2010 and 2009, respectively, in each case.

### Foreign Exchange Portfolio

Our foreign exchange portfolio consists primarily of funds due to us pursuant to outstanding foreign exchange contracts. Generally, our foreign exchange contracts result in the creation of a receivable (currency to be delivered to us at a future date) and a liability (currency to be delivered by us on a future date).

	Other receivables		Other liabilities			
	As of December 31,					
	2009	2010	2011	2009	2010	2011
	<i>(in millions of reais)</i>					
Exchange purchases pending settlement .....	0.2	7.8	56.6	—	—	—
Exchange sales pending settlement .....	—	—	—	0.1	2.3	56.5
Exchange sale receivables .....	0.1	2.3	56.3	—	—	—
(-) Advances received in local currency .....	—	—	(0.1)	—	—	—
Exchange purchase payables .....	—	—	—	0.2	7.8	56.4
(-) ACC - Financial Exchange	—	—	—	—	(1.3)	—
<b>TOTAL</b> .....	<b>0.4</b>	<b>10.0</b>	<b>112.8</b>	<b>0.4</b>	<b>8.7</b>	<b>113.0</b>

### Rating of the Loan Portfolio per Risk Level

Central Bank Resolution No. 2,682 of December 21, 1999 introduced the criteria for the rating of loans and lease operations and for the recording of allowance for loan losses. These allowances are now based on an analysis of the client and transaction risk.

The following table shows the composition of our loan portfolio and the recording of allowances for loan losses at their corresponding risk levels, in accordance with Central Bank Resolution No. 2,682. As of December 31, 2011 we had no past due or renegotiated loans.

Risk Level	As of December 31, 2011					
	Loan portfolio				Provision	
	To Mature	Past Due	Total	%	Minimum	Accounting
	<i>(in millions of reais, except percentages)</i>					
AA .....	1,316.4	—	1,316.4	92.4%	—	—
A .....	44.4	—	44.4	3.1%	0.2	0.2
B .....	8.2	—	8.2	0.6%	0.1	0.1
C .....	41.3	—	41.3	2.9%	1.2	2.4
D .....	13.9	—	13.9	1.0%	1.4	2.4
<b>Total</b> .....	<b>1,424.2</b>	<b>—</b>	<b>1,424.2</b>	<b>100%</b>	<b>2.9</b>	<b>5.1</b>

  

Risk Level	As of December 31, 2010					
	Loan portfolio				Provision	
	To Mature	Past Due	Total	%	Minimum	Accounting
	<i>(in millions of reais, except percentages)</i>					
AA .....	598.8	—	598.8	80.8%	—	—
A .....	69.7	—	69.7	9.4%	0.3	0.3
B .....	8.8	—	8.8	1.2%	0.1	0.1
C .....	47.5	—	47.5	6.4%	1.4	2.5
D .....	16.6	—	16.6	2.2%	1.7	1.7
<b>Total</b> .....	<b>741.4</b>	<b>—</b>	<b>741.4</b>	<b>100%</b>	<b>3.5</b>	<b>4.6</b>

Risk Level	As of December 31, 2009					
	Loan portfolio				Provision	
	To Mature	Past Due	Total	%	Minimum	Accounting
	<i>(in millions of reais, except percentages)</i>					
AA .....	431.1	-	431.1	81.6	-	-
A .....	17.9	-	17.9	3.4	0.1	0.1
B.....	10.8	-	10.8	2.0	0.1	0.1
C.....	57.3	-	57.3	10.9	1.7	2.7
D .....	11.3	-	11.3	2.1	1.1	1.1
<b>Total.....</b>	<b>528.4</b>	<b>-</b>	<b>528.4</b>	<b>100%</b>	<b>3.0</b>	<b>4.0</b>

## Funds Raised

The following tables set forth our funds raised and respective maturities as of the dates indicated.

Accounts	As of December 31, 2011					
	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
	<i>(in millions of reais, except percentages)</i>					
Interbank deposits.....	331.3	—	23.9	27.9	—	383.2
Time deposits.....	99.1	315.5	837.2	18.3	42.1	1,312.2
<b>Total - Deposits .....</b>	<b>430.4</b>	<b>315.5</b>	<b>861.1</b>	<b>46.2</b>	<b>42.1</b>	<b>1,695.3</b>
Money market repurchase commitments	2,238.4	—	3.3	—	—	2,241.7
Letters of credit for agribusiness .....	94.6	2.7	—	—	—	97.3
Financial letters.....	—	3.0	60.4	—	—	63.5
Securities issued abroad.....	16.4	319.0	1.2	859.7	—	1,196.3
Borrowings.....	—	41.3	—	—	—	41.3
Repass borrowings from BNDES.....	0.8	29.1	34.9	16.6	88.9	170.4
Subordinated debts .....	1.3	0.1	60.0	30.0	—	91.4
<b>Total Funds Raised – December 31, 2011</b>	<b>2,782.0</b>	<b>710.8</b>	<b>1,021.0</b>	<b>952.5</b>	<b>131.0</b>	<b>5,597.3</b>
<b>- % Concentration at December 31, 2011 .....</b>	<b>49.7%</b>	<b>12.7%</b>	<b>18.2%</b>	<b>17.0%</b>	<b>2.3%</b>	<b>100.0%</b>

Accounts	As of December 31, 2010					
	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
	<i>(in millions of reais, except percentages)</i>					
Interbank deposits.....	79.7	135.3	28.9	—	15.6	259.5
Time deposits.....	141.4	365.2	1,105.7	223.9	5.1	1,841.3
<b>Total - Deposits .....</b>	<b>221.1</b>	<b>500.5</b>	<b>1,134.6</b>	<b>223.9</b>	<b>20.7</b>	<b>2,101.0</b>
Money market repurchase commitments	1,549.0	—	3.0	—	—	1,552.0
Letters of credit for agribusiness .....	93.3	35.2	—	—	—	128.5
Financial letters.....	—	—	41.0	—	—	41.0
Securities issued abroad.....	16.8	1.0	274.8	792.1	—	1,084.7
Repass borrowings from BNDES.....	0.6	1.4	33.6	12.9	68.9	117.5
Subordinated debts .....	1.2	0.2	5.0	85.0	—	91.4
<b>Total Funds Raised – December 31, 2010</b>	<b>1,882.1</b>	<b>538.4</b>	<b>1,492.0</b>	<b>1,113.9</b>	<b>89.6</b>	<b>5,116.1</b>
<b>- % Concentration at December 31, 2010 .....</b>	<b>36.8%</b>	<b>10.5%</b>	<b>29.2%</b>	<b>21.8%</b>	<b>1.8%</b>	<b>100.0%</b>

Accounts	As of December 31, 2009					
	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
	<i>(in millions of reais, except percentages)</i>					
Interbank deposits.....	268.3	403.5	26.3	—	—	698.1
Time deposits.....	322.0	580.1	968.1	27.7	8.2	1,906.2
<b>Total - Deposits .....</b>	<b>590.3</b>	<b>983.6</b>	<b>994.4</b>	<b>27.7</b>	<b>8.2</b>	<b>2,604.3</b>
Money market repurchase commitments	392.6	—	1.5	—	—	394.1
Securities issued abroad.....	113.7	19.2	295.7	—	—	428.6
Repass borrowings from BNDES.....	2.2	0.6	24.0	4.8	43.7	75.0

Subordinated debts .....	1.1	0.1	—	60.0	30.0	91.2
<b>Total Funds Raised – December 31, 2009</b>	<b>1,099.8</b>	<b>1,003.6</b>	<b>1,315.7</b>	<b>92.2</b>	<b>81.9</b>	<b>3,593.2</b>
<b>- % Concentration at December 31, 2009 .....</b>	<b>30.6%</b>	<b>27.9%</b>	<b>36.6%</b>	<b>2.6%</b>	<b>2.3%</b>	<b>100.0%</b>

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*The following discussion of our financial condition and results of operations is based on, and should be read in conjunction with, our audited individual financial statements as of and for the years ended December 31, 2009, 2010 and 2011 and related notes, included elsewhere in this Offering Memorandum, as well as the information in the section "Selected Financial Information."*

*The following discussion contains future estimates and statements that involve risks and uncertainties. The actual results may differ substantially from those discussed in forward-looking statements as a result of various factors, including, without limitation, those set forth in the sections "Forward-Looking Statements" and "Risk Factors."*

### Overview

We are a financial institution organized and existing under the laws of Brazil. We operate as an investment bank providing a wide range of banking and financial services, including treasury, capital markets, M&A, project finance and trade finance. To complement these core areas, we also offer brokerage services, asset management, wealth and private banking and private equity through our various subsidiaries. We are the Brazilian investment banking subsidiary of Grupo Banco Espírito Santo, a privately held Portuguese financial group that is active in 26 countries on four continents. We are indirectly controlled by BES, the Group's main financial institution and Portugal's largest private sector bank by market capitalisation (U.S.\$2.5 billion as of December 31, 2011), according to Euronext Lisbon, the Portuguese Stock Exchange. Our other principal shareholder is Bradesco, one of the largest banks in Brazil in terms of total assets as of December 31, 2011.

Since we began our operations in 2000, our total assets have increased consistently from R\$199.0 million at December 31, 2001, to R\$6,631.5 million at December 31, 2011. Consistent with this growth, during the same period our time deposits increased from R\$42.0 million at December 31, 2001, to R\$1,312.2 million at December 31, 2011, and net income increased from R\$7.1 million in 2001 to R\$70.8 million for the year ended December 31, 2011. We believe these operational results over an extended period reflect a pattern of consistent growth and support our strategy.

Our core business is to provide our clients with traditional and customized financial services, such as advice in connection with domestic and cross border debt and equity capital markets transactions, M&A transactions, project finance, acquisition finance, trade finance, brokerage, asset management and private equity. In addition, we offer our customers a range of credit products, such as bridge loans, corporate loans, foreign exchange facilities and corporate guarantees in order to expand and deepen our client relationships and cross sell our investment banking services.

As of and for the year ended December 31, 2011, we had total assets of R\$6,631.5 million and net income of R\$70.8 million. As of and for the year ended December 31, 2010, we had total assets of R\$6,007.8 million and net income of R\$71.1 million. As of and for the year ended December 31, 2009, we had total assets of R\$4,131.9 million and net income of R\$94.2 million. Our Core Revenue was R\$59.7 million, R\$37.4 million and R\$59.8 million during 2011, 2010 and 2009, respectively. Our ROE, on an annualized basis was 14.2%, 15.8% and 27.9% for the years ended December 31, 2011, 2010 and 2009, respectively, which reflects our ability to generate net interest income from treasury and credit activities as well as revenues from financial services. Our capital levels have remained above regulatory requirements, and as of December 31, 2011, our Bank for International Settlements, or BIS, ratio was 15.6%.

### Brazilian Economic Environment

We operate in Brazil, an environment characterized by strong governmental influence over the economy. The Brazilian government's policies have included in the past, among others, changes in interest rates, changes in tax policies, price controls, devaluation of the currency, capital controls, import restrictions and the freezing of bank accounts. These policies affect the confidence in the economy and disposable income of consumers, as well as the general business and investment climate.

The direct effects of the global financial markets crisis affected Brazil primarily in the last quarter of 2008. However, since then, the financial markets globally have stabilised to a certain degree. Since mid-2008, the asset value of financial institutions, including major commercial and investment banks, have suffered significant write-offs, but given the 5.1% increase in the Brazilian GDP in 2008, large Brazilian financial institutions were not as significantly affected by the crisis as foreign banks.

In 2009, Brazil's GDP decreased 0.64% in real terms. Nonetheless, the *real* appreciated 25.49% against the U.S. dollar, in large part due to Brazil's trade balance, which recorded a surplus of U.S.\$89.0 billion. During 2009, the Central Bank continued to reduce the SELIC rate, which declined to 8.75% by the end of 2009. The average unemployment rate in the main metropolitan regions of Brazil as of December 31, 2009 was 8.4%, the same rate as of December 31, 2008, according to estimates by IBGE. In 2009, inflation, as measured by the IPCA, was 4.31%.

In 2010, Brazilian economic growth accelerated, with GDP growth of 7.49%, which was supported by an increase in consumption that eventually had to be addressed by the Central Bank. As a result, the SELIC rate was increased once again, reaching 10.75% in December 2010. Brazil's trade surplus in 2010 was U.S.\$99.6 billion. As of December 31, 2010, Brazil's international reserves reached U.S.\$288.6 billion. According to IBGE, the average unemployment rate decreased to 5.3% as of December 31, 2010 in the main metropolitan regions of Brazil. In 2010, inflation, as measured by the IPCA, was 5.9%, and the average long-term interest rate published on a quarterly basis by the Central Bank was 6.0%.

In 2011, total Brazilian GDP increased by 2.9% compared to 2010. The SELIC rate was 11.0% as of December 31, 2011. Domestic inflation, as measured by the IPCA, increased from 5.9% as of December 31, 2010 to 6.5% as of December 31, 2011 due to increased levels of consumer purchases. Unemployment in the main metropolitan areas decreased to 4.7% as of December 31, 2011 from 5.3% as of December 31, 2010.

The table below sets forth certain macroeconomic data for the periods indicated:

	Year ended December 31,		
	2009	2010	2011
GDP growth .....	(0.64%)	7.49%	2.90%
Inflation (IGP-M) <sup>(1)</sup> .....	(1.71%)	11.32%	5.10%
Inflation (IPCA) <sup>(2)</sup> .....	4.3%	5.9%	6.50%
INPC <sup>(3)</sup> .....	4.11%	6.47%	6.08%
CDI <sup>(4)</sup> .....	9.84%	9.71%	10.87%
TJLP <sup>(5)</sup> .....	6%	6%	6%
Appreciation (devaluation) of the <i>real</i> vs. U.S. dollar in the period	25.26%	3.35%	12.58%
Exchange rate at period end – R\$ per U.S.\$1.00 .....	1.7412	1.6662	1.875
Average exchange rate – R\$ per U.S.\$1.00 <sup>(6)</sup> .....	2.0621	1.7682	1.675

Sources: Fundação Getúlio Vargas, Ipea Data, Central Bank and Bloomberg.

(1) Inflation (IGP-M) is the general market price index measured by FGV.

(2) Inflation (IPCA) is the broad consumer price index as measured by IBGE.

(3) The INPC, or National Consumer Price Index, is published by IBGE and measures inflation for families with incomes of between one and eight minimum salaries in the nine largest metropolitan areas of Brazil, as well as Brasília and the city of Goiânia.

(4) The CDI interest rate is the average of the fixed rates of interbank deposits for one business day as registered with and settled by the CETIP system.

(5) The TJLP is the long-term interest rate published every quarter by the Central Bank. The figures correspond to the average of the period indicated.

(6) Represents the average of the highest and lowest rates during the period indicated.

## Principal Factors Affecting our Financial Condition and Results of Operations

Our financial condition and results of operations are affected by several factors, the most important of which are described below.

### Interest Rates

Changes in interest rates can affect the value of our securities portfolio, particularly the Brazilian government bonds which we hold and which are indexed to SELIC rate. Therefore, fluctuations in interest rates impact our income from securities. Furthermore, notwithstanding the fact that lending is not our core business, fluctuations in interest rates do affect the lending operations that we engage in.

Fluctuations in Brazilian interest rates affected our results of operations for the years ended December 31, 2009, 2010 and 2011. The following table sets forth the low, high, average and period-end SELIC rate, as reported by the Central Bank, for the years ended December 31, 2009, 2010 and 2011.

<b>Year/Period</b>	<b>Low</b>	<b>High</b>	<b>Average</b>	<b>Period-End</b>
2009.....	8.64%	13.67%	10.03%	8.65%
2010.....	8.64%	10.67%	9.82%	10.67
2011.....	10.66%	12.42%	11.67%	10.91%

### ***Exchange Rates***

The *real* has experienced significant fluctuation vis-à-vis the dollar over the past several years. The *real*/U.S. dollar exchange rate was R\$1.7412 to U.S.\$1.00 as of December 31, 2009, R\$1.6662 to U.S.\$1.00 as of December 31, 2010 and R\$1.8758 to U.S.\$1.00 as of December 31, 2011, in each case based on the Foreign Exchange Market selling rate as reported by the Central Bank. See "Foreign Exchange Rates and Exchange Controls" for further information regarding exchange rates for the Brazilian currency.

In the past, our financial results have not been significantly affected by fluctuations in exchange rates, particularly because our policy is to match assets and liabilities denominated in foreign currencies, thus achieving a natural currency hedge in connection with our operations, and to use derivative financial instruments to hedge all funds raised in foreign currencies in an effort to mitigate negative effects from exchange rates fluctuations. Although we seek to maintain a neutral position in relation to our foreign currency exposure, there can be no assurance that we will be able to do so in the future.

### ***GDP Growth***

Historically, GDP growth rates have had an impact on our business due to their effect on increased capital markets activity, commodity trading prices and currency volatility (which created opportunities for our Global Markets business). GDP growth has also typically led to an increase in infrastructure investments in Brazil, which has increased our project finance related activities.

GDP growth rates also directly affect our results of operations. Strong periods of economic growth stimulate greater investment banking activity, as companies increase their demand for our products and services and therefore need to obtain more funding and conduct more treasury operations, among other transactions.

### ***Inflation***

Historically, inflation in Brazil has been characterized by extreme volatility. Since 2002, however, inflation rates have fluctuated less than in previous periods and have, overall, been relatively low by Brazilian historical standards. The decline in inflation rates was largely a result of the Brazilian government's monetary policy, including periodic changes in interest rates. A relatively low level of inflation has contributed to the reduction in economic uncertainty in Brazil, as well as in volatility in the Brazilian securities markets. However, a number of factors, such as the rise in global food prices and increases in the price of oil and other industrial commodities, led average inflation, as measured by the IPCA, to reach 5.90% for 2008. Nevertheless, as a consequence of lower consumption and the global financial crisis, inflation, as measured by the IPCA, decreased in 2009, and as of December 31, 2009, the inflation rate, as measured by the IPCA, was 4.31%. During the year of 2010, an increase in consumption caused the IPCA to reach 5.90% once again. In 2011, the IPCA increased further to 6.50%. Our exposure to variations in inflation is mostly related to our positions in nominal interest rates through our portfolio of securities, the value of which fluctuate in response to changes in inflation rates.

As of the date of this Offering Memorandum, we believe that our direct exposure to inflation risk is not material. Notwithstanding this, however, government measures to combat any future inflation could have an adverse effect on us by reducing demand for credit, and increasing our costs of funds, our interest expense relating to our domestic debt and the risk of customer default.

### ***Defaults Related to our Loan Portfolio***

Since 2008, we have increased our lending operations in order to increase cross selling opportunities for our core investment banking business. Certain factors beyond our control, such as an economic recession or an increase in unemployment rates, may affect the level of loan defaults in the Brazilian financial markets. Increases in the default rate of our loan portfolio may result in an increase in losses associated with our lending operations and adversely affect our financial condition and results of operations.

We comply with regulations imposed by the Central Bank regarding the recording of overdue loans. Accordingly, our allowance for loan losses remains in place for a period of 360 days following the loan's maturity until it is written off as a loss.

### ***Capital Adequacy***

Brazilian financial institutions, including our own, are required to maintain a regulatory capital equal to at least 11.0% of total risk-weighted assets, calculated according to specific criteria set forth by the Central Bank. As of December 31, 2011, our level of regulatory capital was 15.6% of total risk-weighted assets, which was above the 11.0% level required by the Central Bank. Of that, our Tier I capital was 14.4% as of December 31, 2011 and our Tier II capital was 1.2% at that date. See "Regulatory Overview--Capital Adequacy Guidelines."

### ***Adoption of Law No. 11,638/07***

Law No. 11,638/07, which became effective on January 1, 2008, amended certain provisions of the Brazilian Corporate Law. Law No. 11,638/07 introduced new accounting rules with respect to the preparation of financial statements, in order to facilitate the convergence of Brazilian GAAP with the IFRS as adopted by the IASB. Furthermore, on December 3, 2008, the Brazilian government also issued Provisional Measure No. 449, later converted into Law No. 11,941/09, which established a Transitional Tax Regime (*Regime Tributário de Transição*) meant to neutralize the tax effects from the implementation of these changes in accounting practices. Moreover, the CPC issued a number of accounting pronouncements which, if approved by the CMN, must be adopted in the preparation of the Bank's financial statements in accordance with the accounting practices adopted in Brazil.

The accounting standards which have been approved by the CMN include the following: (i) Resolution No. 3,566/08 – Impairment of Assets (CPC 01); (ii) Resolution No. 3,604/08 – Statement of Cash Flows (CPC 03); (iii) Resolution No. 3,750/09 – Related-Party Disclosures (CPC 05); (iv) Resolution No. 3,823/09 – Provisions, Contingent Liabilities and Contingent Assets (CPC 25); (v) Resolution No. 3,973/11 – Subsequent Events (CPC 24); and (vi) Resolution No. 3,989/11 – Share-Based Payments (CPC 10). It is not possible to estimate when the CMN will approve the other CPC accounting standards or whether their adoption, subsequent to approval, will be effective for future periods or will be applicable retroactively. As a result, it is not yet possible to estimate the accounting effects of these standards on our financial statements.

### ***Equity in Earnings of Subsidiaries***

As a financial institution, we are only required to report our individual financial information (*i.e.*, financial information relating only to us on an individual basis (and not to our subsidiaries) to the Central Bank in accordance with Brazilian GAAP. We are not required to produce consolidated annual or interim financial information. Accordingly, the results of our subsidiaries BES Securities, BESAF, Espírito Santo Serviços Financeiros and 2bCapital, are reflected in our financial statements included in this Offering Memorandum using equity method accounting. In our individual financial statements, the income statement line item "equity in earnings of subsidiaries" includes the results of our subsidiaries.

As was required for certain financial institutions, we have held shares in BM&FBOVESPA through our subsidiary BES Securities since 2007, and have been selling down our stake in BM&FBOVESPA over the last few years. These sales have resulted in extraordinary income for the years ended December 31, 2009, 2010 and 2011, and represented most of the earnings of our subsidiaries. Equity in earnings of subsidiaries totalled R\$54.1 million, R\$37.2 million and R\$12.0 for the years of 2009, 2010 and 2011, respectively, which are reflected in our financial statements under the equity in earnings from subsidiaries line item. These results reflect our gradually decreasing income from the sale of BM&FBOVESPA shares over this period. For a further breakdown of the results of our

subsidiaries, see notes 13, 12 and 9 to our individual financial statements for the years ended December 31, 2009, 2010 and 2011, respectively.

### **Critical Accounting Policies**

Our critical accounting policies: (1) are based on estimates and assumptions that we judge to be reasonable, relevant and reliable; (2) are essential to evaluate our financial condition and results of operations; and (3) are a result of detailed analysis, decisions and judgments of our management, which may be subjective and complex. These judgments involve estimating the uncertain effect of events that are inherent to our business and affect the carrying value of our assets and liabilities, and consequently, our results of operations. Our financial condition and results of operations could be significantly affected if estimates and assumptions used by our management were modified. The following is a brief description of our critical accounting policies.

#### ***Securities and Derivative Financial Instruments***

Under Central Bank Circular No. 3,068 of November 8, 2001, as amended, our securities are classified into three categories: (i) "trading securities," (ii) "securities available for sale" and (iii) "securities held to maturity." Securities classified as "trading securities" are measured at their market value, with the adjustments to market value recognised in an appropriate income or expense account for the period. Securities classified as "securities available for sale" are measured at their market value, with the adjustments to market value recognised in an appropriate account in shareholders' equity, net of tax effects, which are transferred to income in the period in which the securities are sold. Securities classified as "held to maturity" are measured at their cost of acquisition plus interest earned up to the balance sheet dates. Classification in this category is contingent upon the financial capacity of the institution to hold the securities to maturity and management's decision to rule out any possibility of selling these securities.

Under Central Bank Circular No. 3,082 of January 30, 2002, as amended, derivative financial instruments are measured at market value and classified as either hedge or non-hedge. Hedge instruments are classified as either "market risk hedge" or "cash flow hedge." The criteria for recognising them are as follows: for derivative financial instruments which are not intended to be used as a hedge, as well as those classified as market risk hedge, adjustments to market value are recognised against an appropriate income or expense account for the period. For derivative financial instruments classified as "cash flow hedge," the effective portion of the hedge must be recognised and offset in a special account in shareholders' equity, and any ineffectiveness is recognised in an appropriate income or expense account for the period. In the event of derivative financial instruments which are intended to protect securities classified in the category "securities held to maturity," both the security and the derivative financial instrument are measured and recognised in compliance with the intrinsic contracted terms and are not recognised at market value.

#### ***Loans and Allowance for Loan Losses***

We regularly evaluate the quality of our loan portfolio and establish allowances for probable loan losses. The procedures that we use to determine these allowances involve estimates and judgments. Our loans are classified according to their risk level, based on the requirements of CMN Resolution No. 2,682, which requires us to periodically analyze our loan portfolio and classify our loans within nine levels (from AA to H). This analysis requires us to evaluate certain criteria, including the economic environment, past experience, risks related to the debtor's business, the identity of the debtor and the existence of any collateral or guarantors. We recognise interest on loans that are overdue by more than 60 days, independent of their risk level, only when actually received. Any lending operations classified as level H (which requires an allowance equal to the full amount of the loan) must be written off after being so classified for a period of six months. The write-off is taken against the existing allowance and the loan is controlled for five years in an off balance sheet account. Loans that are restructured are maintained in at least the same level in which they are classified at the time of their restructuring. The restructuring of lending operations that had been written off and controlled in off balance sheet accounts are classified as level H upon the restructuring. Any eventual revenue from restructured loans is recognised on a cash basis.

Our management believes that our allowance for loan losses, which has been established in accordance with the requirements of CMN Resolution No. 2,682, is adequate to cover probable losses on our loan portfolio. See

note 7 to our individual financial statements for the years ended December 31, 2009, 2010, and 2011, respectively, included elsewhere in this Offering Memorandum.

### ***Contingencies and Legal Obligations***

We carry out recognition, measurement and disclosure of contingent assets and liabilities in accordance with the criteria defined in CMN Resolution No. 3,823, which came into effect on December 16, 2009.

- ***Contingent liabilities:*** We recognise allowances in the accounting records when, in the opinion of legal counsel and management, the chances of loss are "probable." We disclose cases where the chances of loss are classified as "possible" in a note to the financial statements. These allowances may change during the course of the legal proceedings. If our estimates differ from the amounts actually payable, additional allowances may be required or we may be required to recognise additional expenses. Any changes to the allowances may adversely affect our financial condition, results of operation and future cash flows. Our contingencies involve tax and social security proceedings challenging the legality or constitutionality of certain taxes, as well as labour and civil proceedings, which are not material. See "Business—Litigation." Management reviews the contingencies and evaluates the possibilities of loss, adjusting the provision as it deems necessary; and
- ***Legal obligations:*** We recognise liabilities on the balance sheet, regardless of the probabilities of success of the lawsuit.

### ***Income and Social Contribution Taxes***

Our provision for income and social contribution taxes is accounted for on an accrual basis at prevailing tax rates, based on reported earnings adjusted for certain permanent additions and exclusions. Deferred income and social contribution taxes are computed based on temporary differences and on tax losses and recorded based on the expectation of realization of the particular differences.

We frequently re-evaluate our bases for the calculation of these deferred tax assets. If these estimates and assumptions change in the future, we may be required to recognise provisions for the devaluation of our deferred tax assets, which would result in an additional tax expense in our individual financial statements. Provisions for income and social contribution taxes are calculated at current rates: (i) income tax rates are 15% plus 10% for taxable income in excess of R\$240 thousand per year and includes the portion corresponding to fiscal incentives; and (ii) the provision for social contribution was calculated at a rate of 9% for taxable events occurring from January to April 2008 and 15% for taxable events occurring as from May 1, 2008, in each case on adjusted accounting profit, in accordance with current legislation.

### ***Sources of Income and Expenses***

Our principal sources of income and expenses are:

- ***Financial operations income.*** This includes income (loss) from securities and derivative financial instruments, interest on loans, trade finance and foreign exchange income.
- ***Expenses on financial operations.*** These include expenses incurred by us in respect of deposits, money market and interbank funds, loan operations, assignments and repass and provisions for loan losses.
- ***Other operating income (expenses).*** This is mainly comprised of:
  - service fee income (including fees deriving from our investment banking areas, such as capital markets, M&A and project finance, among others);

- equity in earnings of subsidiaries (for a discussion of our equity in earnings of subsidiaries, see "—Principal Factors Affecting our Financial Condition and Results of Operations—Equity in Earnings of Subsidiaries");
- personnel expenses (consisting mainly of salaries);
- administrative expenses;
- tax expenses consisting of social contribution taxes (*Programa de Integração Social*), or PIS, and social security contribution taxes (*Contribuição para o Financiamento da Seguridade Social*), or COFINS;
- other operating income, mainly composed of income arising from premiums received on the trading of options; and
- other operating expenses, mainly composed of reversal of service fee income and provisions for credit risks on derivative instruments.

## Results of Operations

### *Results of Operations for year ended December 31, 2010 Compared to the year ended December 31, 2011*

The table below sets forth the main components of our net income for the years ended December 31, 2010 and 2011:

	Year ended December 31,		
	2010	2011	% Variation
	<i>(in millions of reais, except percentages)</i>		
Financial operations income.....	362.9	788.0	117.1%
Financial operations expenses.....	(280.1)	(692.9)	147.4%
<b>Net income on financial operations</b> .....	<b>82.8</b>	<b>95.1</b>	<b>14.8%</b>
Other operating income (expenses).....	5.2	19.2	268.1%
<b>Operating result</b> .....	<b>88.0</b>	<b>114.2</b>	<b>29.8%</b>
Non-operating result.....	1.3	(0.001)	(100.1)%
<b>Net income before income taxes and profit sharing</b> .....	<b>89.3</b>	<b>114.2</b>	<b>27.9%</b>
Income tax and social contribution.....	(8.6)	(35.2)	310.5%
Profit sharing.....	(9.6)	(8.2)	(14.5)%
<b>Net income</b> .....	<b>71.1</b>	<b>70.8</b>	<b>(0.4)%</b>

### *Financial Operations Income*

The following table sets forth our financial operations income for the periods indicated.

Financial operations income	Year ended December 31,		
	2010	2011	% Variation
	<i>(in millions of reais, except percentages)</i>		
Loans.....	83.6	136.1	62.8%
Securities income.....	433.0	597.9	38.1%
Net income (loss) from derivatives financial instruments.....	(156.0)	52.5	133.7%
Trade finance and foreign exchange income.....	2.2	1.6	(28.0)%
<b>Total</b> .....	<b>362.9</b>	<b>788.0</b>	<b>117.1%</b>

Financial operations income increased by 117.1%, or R\$425.1 million, from R\$362.9 million for the year ended December 31, 2010 to R\$788.0 million for the year ended December 31, 2011, primarily due to increases in securities income, net income from derivatives financial instruments and income from loans.

### Loans

We engage in lending money primarily to enhance our ability to cross sell our investment banking business. Income from loans increased by 62.8%, or R\$52.5 million, from R\$83.6 million for the year ended December 31, 2010 to R\$136.1 million for the year ended December 31, 2011. The increase in income from loans was primarily due to the substantial 59.3% growth in the average volume of our loan portfolio. These results were in line with our ongoing strategy of increasing our lending operations in order to support more significant cross selling of our core investment banking operations.

### Securities Income

Income from securities increased by 38.1%, or R\$164.8 million, from R\$433.0 million in 2010 to R\$597.9 million in 2011, primarily due to the mark to market valuation of our securities portfolio, mainly reflecting the sale of Brazilian government bonds in our portfolio and the purchase of Brazilian government bonds with a higher spread, thereby resulting in significantly higher average rates in 2011 compared to 2010. The increase was also due to a higher average portfolio balance during 2011, and in particular an increase in the average balance of private securities we hold, which typically pay higher spreads.

### Net Income (Loss) From Derivative Financial Instruments

Net income from derivative financial instruments totalled R\$52.5 million for the year ended December 31, 2011, compared to a loss of R\$156.0 million for the year ended December 31, 2010. This was primarily due to stronger results from investments in U.S. dollar coupon futures and non-deliverable forward positions on foreign currency during 2011.

### Trade Finance and Foreign Exchange Income

Income from trade finance and foreign exchange decreased by 28.0%, or R\$0.6 million, from R\$2.2 million in 2010 to R\$1.6 million in 2011, primarily due to a reduction in our foreign exchange spot exposure in 2011 compared to 2010.

### Financial Operations Expenses

The following table sets forth our financial operations expenses for the periods indicated.

Financial operations expenses	Year ended December 31,		
	2010	2011	% Variation
	<i>(in millions of reais, except percentages)</i>		
Deposits, money market and interbank funds .....	(274.1)	(683.0)	149.%
Loans operations, assignments and repass .....	(5.4)	(9.5)	74.71%
Allowance for losses on doubtful receivables .....	(0.6)	(0.5)	(22.3)%
<b>Total</b> .....	<b>(280.1)</b>	<b>(692.9)</b>	<b>147.4%</b>

Financial operations expenses increased by 147.4%, or R\$412.8 million, from R\$280.1 million for the year ended December 31, 2010 to R\$692.9 million for the year ended December 31, 2011, primarily due to a significant increase in our funding costs related to deposits, money market and interbank funds. Our deposits had an average term of 13 months as of December 31, 2011 and were primarily floating rate linked to the CDI. Accordingly, as interest rates increase, our margins decrease, and as interest rates decrease our margins increase.

### Deposits, Money Market and Interbank Funds

Expenses from deposits, money market and interbank funds increased by 149.2%, or R\$408.9 million, from R\$274.1 million for the year ended December 31, 2010 to R\$683.0 million for the year ended December 31, 2011. This significant increase was primarily related to the increase in average interest rates paid in respect of these funding sources, from 6.0% in 2010 to 13.0% in 2011. Our average balance of deposits money market and interbank funds also increased from R\$4,535.7 million in 2010 to R\$5,265.1 million in 2011. Furthermore, to a

more limited extent, the devaluation of the *real* in 2011 compared to 2010 also increased the cost of our U.S. dollar funding in *real* terms.

#### *Loan Operations, Assignments and Repass*

Expenses from loan operations, assignments and repass increased by 74.7%, or R\$4.1 million, from R\$5.4 million for the year ended December 31, 2010 to R\$9.5 million for the year ended December 31, 2011, primarily due to an increase in the average volume of our loan operations, primarily in repass operations funded by the Brazilian National Development Bank (*Banco Nacional de Desenvolvimento Econômico e Social*), or BNDES.

#### *Allowance for Losses on Doubtful Receivables*

Expenses from allowances for losses on doubtful receivables decreased by 22.3%, or R\$0.1 million, from R\$0.6 million for the year ended December 31, 2010 to R\$0.5 million for the year ended December 31, 2011. This decrease was primarily due to an improvement in the quality of our loan portfolio. As of December 31, 2010, 91.4% of our loan portfolio was rated between AA and B, whereas as of December 31, 2011 this percentage had increased to 96.1%.

#### *Net Income on Financial Operations*

As a result of the foregoing, net income on financial operations increased by 14.8%, or R\$12.3 million, from R\$82.8 million for the year ended December 31, 2010 to R\$95.1 million for the year ended December 31, 2011.

#### *Other Operating Income (Expenses)*

The following table sets forth our other operating income (expenses) for the periods indicated.

<b>Other Operating Income (Expenses)</b>	<b>Year ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>% Variation</b>
	<i>(in millions of reais, except percentages)</i>		
Service fee income .....	44.2	70.0	58.4%
Personnel expenses.....	(31.0)	(36.4)	17.1%
Other administrative expenses.....	(18.9)	(23.5)	24.6%
Tax expenses .....	(11.8)	(12.5)	6.5%
Equity in earnings of subsidiaries .....	37.2	12.0	(67.6)%
Other operating income .....	2.2	10.4	382.0%
Other operating expenses.....	(16.7)	(0.9)	(94.6)%
<b>Total</b> .....	<b>5.2</b>	<b>19.2</b>	<b>268.1%</b>

Other operating income increased by 268.1%, or R\$14.0 million, from R\$5.2 million for the year ended December 31, 2010 to R\$19.2 million for the year ended December 31, 2011, primarily due to an increase in service fee income, which was partially offset by reduced income from equity in earnings of subsidiaries.

#### *Service Fee Income*

Service fee income increased by 58.4%, or R\$25.8 million, from R\$44.2 million for the year ended December 31, 2010 to R\$70.0 million for the year ended December 31, 2011, primarily due to the increase in revenues from our specialized technical advisory services, which grew 118.5% in 2011 due to our participation in deals such as the merger between Drogaria Pacheco and Drogaria São Paulo, one of the most important deals in Brazil in 2011. We also registered growth of 27.4% in revenues generated by fees we charge for providing guarantees and letters of credit to clients.

### *Equity in Earnings of Subsidiaries*

Equity in earnings of subsidiaries decreased by 67.6%, or R\$25.1 million, from R\$37.2 million for the year ended December 31, 2010 to R\$12.0 million for the year ended December 31, 2011, primarily due to our equity in the income of BES Securities, which represented R\$38.9 million and R\$14.7 million of equity in earnings of subsidiaries for the years ended December 31, 2010 and 2011, respectively. These amounts reflect extraordinary gains from the sale by BES Securities of some of its shares in BM&FBOVESPA. In conformity with our strategy of disposing of our holdings in BM&FBOVESPA, BES Securities continued to dispose of these shares in 2011, though in reduced amounts when compared to 2010. As of December 31, 2011, we held no shares in BM&FBOVESPA.

### *Personnel Expenses*

Personnel expenses increased by 17.1%, or R\$5.3 million, from R\$31.0 million for the year ended December 31, 2010 to R\$36.4 million for the year ended December 31, 2011, primarily due to growth of the number of our employees.

### *Other Administrative Expenses*

Other administrative expenses increased by 24.6%, or R\$4.6 million, from R\$18.9 million for the year ended December 31, 2010 to R\$23.5 million for the year ended December 31, 2011, primarily due to higher expenses related to depreciation and amortization, communications, rent and information technology.

### *Tax Expenses*

Tax expenses increased by 6.5%, or R\$0.8 million, from R\$11.8 million for the year ended December 31, 2010 to R\$12.5 million for the year ended December 31, 2011, primarily due to an increase in revenues associated with fees for services, as well as those associated with our securities and derivatives portfolio.

### *Other Operating Income*

Other operating income increased by 382.0%, or R\$8.2 million, from R\$2.2 million for the year ended December 31, 2010 to R\$10.4 million for the year ended December 31, 2011, primarily due to “premiums receivable” from the trading of options.

### *Other Operating Expenses*

Other operating expenses decreased by 94.6%, or R\$15.8 million, from R\$16.7 million for the year ended December 31, 2010 to R\$0.9 million for the year ended December 31, 2011. This was primarily due to a significant decrease in expenses linked to foreign exchange. In 2010 the devaluation of the *real* against the U.S. dollar resulted in expenses of \$15.2 million, calculated on the balances of cash and foreign currency held abroad. In 2011 there were no such expenses.

### *Operating Result*

As a result of the factors discussed above, our operating result increased by 29.8%, or R\$26.2 million, from R\$88.0 million for the year ended December 31, 2010 to R\$114.2 million for the year ended December 31, 2011.

### *Non-Operating Result*

Non-operating results decreased by 100.1%, or R\$1.3 million, from R\$1.3 million for the year ended December 31, 2010 to a loss of R\$1,000.0 for the year ended December 31, 2011. This decrease related to an extraordinary sale of shares of CETIP S.A., or CETIP, that we made in 2010, which was not repeated in 2011.

### *Income Tax and Social Contribution*

The following table sets forth information regarding income tax and social contribution for the periods indicated.

<b>Income tax and social contribution</b>	<b>Year ended December 31,</b>		
	<b>2010</b>	<b>2011</b>	<b>% Variation</b>
	<i>(in millions of reais, except percentages)</i>		
Income tax .....	(15.6)	(23.9)	53.2%
Social contribution .....	(8.8)	(13.9)	57.3%
Deferred tax assets .....	15.9	2.6	(83.5)%
<b>Total</b> .....	<b>(8.6)</b>	<b>(35.2)</b>	<b>310.5%</b>

Income tax and social contribution increased by 54.9%, or R\$13.4 million, from R\$24.4 million for the year ended December 31, 2010 to R\$37.8 million for the year ended December 31, 2011, primarily due to increases in income from loans, securities income and service fee income, which increased our net income before taxes and profit sharing. The increase observed in the period reflects tax charges over earnings before taxes, adjusted by applicable additions and exclusions. Current income tax is levied at a rate of 25.0%. The rate of social contribution for companies in the financial and insurance sectors increased from 9.0% to 15.0% on May 1, 2008. Our deferred tax assets decreased by R\$13.3 million, from R\$15.9 million for the year ended December 31, 2010 to R\$2.6 million for the year ended December 31, 2011, mainly as a result of adjustments at market value for securities and derivatives.

#### *Profit Sharing*

Profit sharing decreased by 14.5%, or R\$1.4 million, from R\$9.6 million for the year ended December 31, 2010 to R\$8.2 million for the year ended December 31, 2011, primarily due to our net income being lower than expected for 2011.

#### *Net Income*

As a result of the foregoing, our net income decreased by 0.4%, or R\$0.3 million, from R\$71.1 million for the year ended December 31, 2010 to R\$70.8 million for the year ended December 31, 2011.

#### ***Results of Operations for the year ended December 31, 2009 compared to the year ended December 31, 2010***

The table below sets forth the main components of our net income for the years ended December 31, 2009 and 2010:

	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>% Variation</b>
	<i>(in millions of reais, except percentages)</i>		
Financial operations income.....	352.0	362.9	3.1
Financial operations expenses .....	(252.0)	(280.1)	11.2
<b>Net income on financial operations</b> .....	<b>100.0</b>	<b>82.8</b>	<b>(17.2)</b>
Other operating income (expenses).....	25.1	5.2	(79.3)
<b>Operating result</b> .....	<b>125.1</b>	<b>88.0</b>	<b>(29.7)</b>
Non-operating result .....	0.3	1.3	336.7
<b>Net income before income taxes and profit sharing</b> .....	<b>125.4</b>	<b>89.3</b>	<b>(28.8)</b>
Income tax and social contribution .....	(23.6)	(8.6)	(63.7)
Profit sharing .....	(7.6)	(9.6)	26.8
<b>Net income</b> .....	<b>94.2</b>	<b>71.1</b>	<b>(24.6)</b>

#### *Financial Operations Income*

The following table sets forth our financial operations income for the periods indicated.

<b>Financial operations income</b>	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>% Variation</b>
	<i>(in millions of reais, except percentages)</i>		

<b>Financial operations income</b>	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>% Variation</b>
	<i>(in millions of reais, except percentages)</i>		
Loans .....	27.3	83.6	206.5
Securities income .....	311.5	433.0	39.0
Net income from derivatives financial instruments .....	9.6	(155.9)	(1,732.4)
Trade finance and foreign exchange income .....	3.7	2.2	(42.0)
<b>Total</b> .....	<b>352.0</b>	<b>362.9</b>	<b>3.1</b>

Financial operations income increased by 3.1%, or R\$10.9 million, from R\$352.0 million for the year ended December 31, 2009 to R\$362.9 million for the year ended December 31, 2010, primarily due to increases in income from loans and securities, which was partially offset by a significant net loss related to derivatives financial instruments in 2010.

#### *Income from Loans*

Income from loans increased by 206.5%, or R\$56.3 million, from R\$27.3 million for the year ended December 31, 2009 to R\$83.6 million for the year ended December 31, 2010, primarily due to the significant growth of 75.5% in the average balance of our loan portfolio and an increase in average interest rates from 6.9% in 2010 to 12.0% in 2011. These results were in line with our ongoing strategy of increasing our lending operations in order to support more significant cross selling of our core investment banking operations.

#### *Securities Income*

Income from securities increased by 39.0%, or R\$121.6 million, from R\$311.5 million for the year ended December 31, 2009 to R\$433.0 million for the year ended December 31, 2010, primarily due to a 47.3% increase in the average balance of our securities portfolio (which consists of both private and public securities), which was partially offset by a decrease in average rates earned on our portfolio from 11.8% in 2010 to 6.9% in 2011.

#### *Net Income from Derivatives Financial Instruments*

Net income from derivative financial instruments decreased by R\$165.4 million, from income of R\$9.6 million for the year ended December 31, 2009 to a loss of R\$155.9 million for the year ended December 31, 2010. Our securities portfolio is hedged to the CDI rate. Accordingly, a gain in our securities portfolio would generally cause a corresponding decrease in income from derivative financial instruments. The 39.0% increase in income from securities during this period resulted in a decrease in net income from derivative financial instruments. The result in 2010 was primarily due to losses in transactions involving non-deliverable forward positions on foreign currency and a decrease in our results from swap transactions.

#### *Trade Finance and Foreign Exchange Income*

Income from trade finance and foreign exchange decreased by 42.0%, or R\$1.6 million, from R\$3.7 million for the year ended December 31, 2009 to R\$2.2 million for the year ended December 31, 2010, primarily due to lower income from our spot foreign exchange positions.

#### *Financial Operations Expenses*

The following table sets forth our financial operations expenses for the periods indicated.

<b>Financial operations expenses</b>	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>% Variation</b>
	<i>(in millions of reais, except percentages)</i>		
Deposits, money market and interbank funds .....	(240.4)	(274.1)	14.0
Loan operations, assignments and repass .....	(4.9)	(5.4)	10.4
Allowance for losses on doubtful receivables .....	(6.7)	(0.6)	(90.9)
<b>Total</b> .....	<b>(252.0)</b>	<b>(280.1)</b>	<b>11.2</b>

Financial operations expenses increased by 11.2%, or R\$28.1 million, from R\$252.0 million for the year ended December 31, 2009 to R\$280.1 million for the year ended December 31, 2010, primarily due to the increase in our total funding position, and in particular to increased expenses from deposits, money market and interbank funds. Our deposits had an average term of 13 months as of December 31, 2010 and were primarily floating rate linked to the CDI. Accordingly, as interest rates increase, our margins decrease, and as interest rates decrease our margins increase.

#### *Deposits, Money Market and Interbank Funds*

Expenses from deposits, money market and interbank funds increased by 14.0%, or R\$33.7 million, from R\$240.4 million for the year ended December 31, 2009 to R\$274.1 million for the year ended December 31, 2010, primarily due to the increase in our total funding, and the issuance of notes under our MTN programme in early 2010. The average volume of our deposits, money market and interbank funds increased by 49.9% in 2010 compared to 2009, which resulted in increased funding expenses which were only partially offset by the decrease in average rates from 7.9% in 2009 to 6.0% in 2010.

#### *Loan Operations, Assignments and Repass*

Expenses from loan operations, assignments and repass increased by 10.4%, or R\$0.5 million, from R\$4.9 million for the year ended December 31, 2009 to R\$5.4 million for the year ended December 31, 2010, primarily due to an increase in the average volume of our loan operations, primarily in repass operations funded by BNDES, which was only partially offset by the decrease in average interest rates in 2010 compared to 2009.

#### *Allowance for Losses on Doubtful Receivables*

Expenses from allowances for losses on doubtful receivables decreased by 90.9%, or R\$6.1 million, from R\$6.7 million of provisions for loan losses for the year ended December 31, 2009 to R\$0.6 million for the year ended December 31, 2010. This decrease was primarily due to an improvement in the quality of our loan portfolio. As of December 31, 2009, 79.8% of our loan portfolio was rated between AA and B, whereas as of December 31, 2010 this percentage had increased to 91.4%.

#### *Net Income on Financial Operations*

As a result of the foregoing, net income on financial operations decreased by 17.2%, or R\$17.3 million, from R\$100.0 million for the year ended December 31, 2009 to R\$82.8 million for the year ended December 31, 2010.

#### *Other Operating Income (Expenses)*

The following table sets forth our other operating income (expenses) for the periods indicated.

<b>Other operating income (expenses)</b>	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>% Variation</b>
	<i>(in millions of reais, except percentages)</i>		
Service fee income .....	37.2	44.2	18.8
Personnel expenses.....	(26.7)	(31.0)	16.2
Other administrative expenses.....	(19.0)	(18.9)	(1.0)
Tax expenses .....	(19.8)	(11.8)	(40.6)
Equity in earnings of subsidiaries .....	54.1	37.2	(31.3)
Other operating income .....	6.9	2.2	(68.9)
Other operating expenses.....	(7.6)	(16.7)	120.5
<b>Total.....</b>	<b>25.1</b>	<b>5.2</b>	<b>(79.3)</b>

Other operating income decreased by 79.3%, or R\$19.9 million, from R\$25.1 million for the year ended December 31, 2009 to R\$5.2 million for the year ended December 31, 2010, primarily due to a significant decrease in equity in earnings of subsidiaries, and despite an increase in income from service fees.

#### *Service Fee Income*

Service fee income increased by 18.8%, or R\$7.0 million, from R\$37.2 million for the year ended December 31, 2009 to R\$44.2 million for the year ended December 31, 2010, primarily due to an increase in our income from advising on M&A transactions, as well as our acquisition finance area, which we established in early 2010.

#### *Equity in Earnings of Subsidiaries*

Equity in earnings of subsidiaries decreased by 31.3%, or R\$16.9 million, from R\$54.1 for the year ended December 31, 2009 to R\$37.2 million for the year ended December 31, 2010, primarily due to our equity in the income of BES Securities, which represented R\$55.0 million and R\$38.9 million for the years ended December 31, 2009 and 2010, respectively. These amounts reflect extraordinary gains from the sale by BES Securities of certain its shares in BM&FBOVESPA. In conformity with our strategy of disposing of our holdings in BM&FBOVESPA, BES Securities disposed of a reduced amount of shares during 2010 compared to 2009.

#### *Personnel Expenses*

Personnel expenses increased by 16.2%, or R\$4.3 million, from R\$26.7 million for the year ended December 31, 2009 to R\$31.0 million for the year ended December 31, 2010, primarily due to an increase in the number of our employees.

#### *Other Administrative Expenses*

Other administrative expenses remained relatively stable at R\$18.9 million in 2010, compared to R\$19.0 million in 2009.

#### *Tax Expenses*

Tax expenses decreased by 40.6%, or R\$8.0 million, from R\$19.8 million for the year ended December 31, 2009 to R\$11.8 million for the year ended December 31, 2010, primarily due to the reduction in our operating result in 2010 compared to 2009, which resulted in a decrease in our tax expenses.

#### *Other Operating Income*

Other operating income decreased by 68.9%, or R\$4.8 million, from R\$6.9 million for the year ended December 31, 2009 to R\$2.2 million for the year ended December 31, 2010. This decrease was primarily related to a decrease in reversals of provisions for credit risks on derivative instruments, in addition to certain other factors.

#### *Other Operating Expenses*

Other operating expenses increased by 120.5%, or R\$9.1 million, from R\$7.6 million for the year ended December 31, 2009 to R\$16.7 million for the year ended December 31, 2010. This was primarily due to a significant increase in expenses linked to foreign exchange. In 2010 the devaluation of the *real* against the U.S. dollar resulted in expenses of \$15.2 million, calculated based on the balances of cash and foreign currency held abroad. In 2009 there were no such expenses.

#### *Operating Result*

As a result of the factors discussed above, our operating result decreased by 29.7%, or R\$37.1 million, from R\$125.1 million for the year ended December 31, 2009 to R\$88.0 million for the year ended December 31, 2010.

#### *Non-Operating Result*

Non-operating result increased by 336.7%, or R\$1.0 million, from R\$0.3 million for the year ended December 31, 2009 to R\$1.3 million for the year ended December 31, 2010. Non-operating result for the year

ended December 31, 2010 was attributable to the sale of CETIP shares held by us in 2010, an extraordinary event which did not occur in 2009.

#### *Income Tax and Social Contribution*

The following table sets forth information regarding income tax and social contribution for the periods indicated.

<b>Income tax and social contribution</b>	<b>Year ended December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>% Variation</b>
	<i>(in millions of reais, except percentages)</i>		
Income tax .....	(17.8)	(15.6)	(12.4)
Social contribution .....	(10.3)	(8.8)	(14.0)
Deferred tax assets .....	4.5	15.9	(253.5)
<b>TOTAL</b> .....	<b>(23.6)</b>	<b>(8.6)</b>	<b>(63.7)</b>

Income tax and social contribution decreased by 63.7%, or R\$15.0 million, from R\$23.6 million for the year ended December 31, 2009 to R\$8.6 million for the year ended December 31, 2010, primarily due to decrease in net income from derivative financial instruments, which decreased our net income before taxes and profit sharing. Current income tax is levied at a rate of 25.0%. The rate of social contribution for companies in the financial and insurance sectors increased from 9.0% to 15.0% on May 1, 2008. Deferred tax assets increased R\$11.4 million, from R\$4.5 million for the year ended December 31, 2009 to R\$15.9 million for the year ended December 31, 2010, mainly as a result of the increase in market value for securities and derivatives.

#### *Profit Sharing*

Profit sharing increased by 26.8%, or R\$2.0 million, from R\$7.6 million for the year ended December 31, 2009 to R\$9.6 million for the year ended December 31, 2010, primarily due to an increase in our net income.

#### *Net Income*

As a result of the foregoing, our net income decreased by 24.6%, or R\$23.1 million, from R\$94.2 million for the year ended December 31, 2009 to R\$71.1 million for the year ended December 31, 2010.

### **Liquidity and Capital Resources**

#### *Asset and Liability Management Policy*

Our policy for managing our assets and liabilities is aimed at maximizing our income from financial operations and return on our capital, in order to ensure adequate levels of liquidity and capitalisation in accordance with our risk profile, while observing applicable risk management rules and guidelines. Through this policy, we aim to reduce our risk exposure from mismatches of maturity dates, currencies and interest rates of our sources of funds and the loans we originate.

Our management is responsible for determining our targets for diversification of our funding sources, funding management and control of maturity dates, interest rates and currencies. We follow the policy established by our management, which meets periodically to discuss these policies and evaluate their implementation. Our senior management, in conjunction with the senior management of BESI Portugal, periodically meets as an Assets and Liabilities Committee, or ALCO, to evaluate our local liquidity risk by analyzing the appropriate allocation of assets and liabilities, considering different economic and financial scenarios and determining our asset allocation strategy. The ALCO evaluates our liquidity risk by considering our short-, medium- and long-term funding sources and prevailing interest rates. The ALCO is entitled to establish, review and approve liquidity management policies and premises, contingency funding plans and liquidity ratios.

#### *Credit Policy*

Our credit approval process is directly linked to an internal credit rating assigned by the CRC, in cooperation with the planning, control, management and risks committee, or DPCGR. All transactions must be

approved by the CRC. The CRC is primarily responsible for the assignment of internal credit ratings, credit analysis and the approval of new loans which exceed the scope of the relevant rating and the monitoring of outstanding loans. The quality of our credit portfolio is annually reviewed by the CRC.

The CRC is composed of members from our credit, commercial, project finance, legal and treasury departments. Approval by the CRC requires a minimum quorum of three voting directors and a majority of votes, with our president having veto power. A credit rating issued by the CRC is valid until the last day of the year following the date of the financial statements (for rating attribution, we use annual individual financial statements, if available). Once a rating has been allocated and/or approval has been given, any advances may be made up to that limit and within the parameters set out in the approval, whether for a specific product or a range of products.

Credit limits exceeding determined amounts and terms (related to the risk rating of the economic group) are discussed and evaluated by the credit committee of BESI Portugal.

#### *Credit Criteria*

The credit limit we extend to a client is based on a rating prepared by the DPCGR. In order to determine creditworthiness, the rating contains an analysis of the client's financial condition, profitability, management, strategy, expertise and track record, industry trends, market position, cash flow and projections. The analysis also involves carrying out verifications with other banks on outstanding lines and credit limits in addition to a review of publicly available information from databases such as SERASA (a database of publicly available information on credit restrictions). We also have our own internal database which records information about our clients and credit analyses of each client. We apply the same credit criteria to all credit operations we carry out.

#### *Frequency of Credit Review*

Once a credit rating has been allocated or a credit limit has been set, the information is recorded in our risk management system through which all transactions are monitored by reference to the borrower's industry sector and other relevant criteria and which is updated daily. Any counterparty with outstanding positions must be reviewed at least annually, depending on the client's industry.

#### *Credit Limits*

We typically set an overall credit limit for a company or for a group of companies, although in some cases approval might be granted in connection with a specific transaction. The credit limit applies to any credit granted by us or any of our subsidiaries to a single borrower, although specific limits for each product being offered are specified within that limit. We do not currently establish credit limits based on geographic area, but do so for economic sectors. At December 31, 2011, our largest single customer had borrowings equivalent to 6.1% of our loan portfolio compared to 8.6% at December 31, 2010. The current legal lending limit set by the Central Bank is 25% of the Tier I plus Tier II Capital. There is also a formal restrictive policy with regard to the concentration of credits by economic sector and by the maturity of the transaction, and we closely monitor all outstanding credits to avoid concentration in any one economic sector.

#### *Liquidity*

It is our policy to maintain a liquidity position that we believe will enable us to meet our present and future financial obligations and to take advantage of business opportunities as they arise. We had 63.5%, 66.9% and 67.3% as of December 31, 2009, 2010 and 2011, respectively, of our total principal sources of funding invested in interbank investments and securities.

We manage our liquidity position by making interbank investments, entering into overnight operations with other financial institutions, generally for a one-business-day term and maintaining a portfolio of freely tradable securities that are highly liquid in the market, comprising public securities issued by the Brazilian Government and private securities. These transactions represent an important instrument in the management of our liquidity. As of December 31, 2009, 2010 and 2011, we had R\$1,903.3 million, R\$2,443.4 million and R\$2,648.3 million, respectively, in interbank investments and our portfolio of freely tradable securities.

A contribution of R\$100.0 million of capital was made in November 2009 by our shareholders at the time to expand our investment banking business by increasing our capacity to lend, to promote our investment banking products and services, to develop sophisticated investment banking products and to increase our ability to underwrite capital markets offerings.

### **Sources of Funds**

Our principal sources of funds are deposits, money market repurchase commitments and borrowings abroad. The table below shows the balances of our sources of funds as of the dates indicated:

	<b>As of December 31,</b>		
	<b>2009</b>	<b>2010</b>	<b>2011</b>
		<i>(in millions of reais)</i>	
Interbank deposits .....	698.1	259.5	383.2
Time deposits.....	1,906.2	1,841.5	1,312.2
Money market repurchase commitments	394.1	1,552.0	2,241.8
Subordinated debt.....	91.2	91.4	91.5
Borrowings abroad.....	428.7	1,084.7	1,196.3
Repass borrowings .....	75.0	117.5	170.4

### **Time Deposits**

We believe that we have successfully obtained funding from time deposits as a result of the quality of our ratings. We use the funding we obtain from time deposits mainly to fund our securities and loan portfolios. Most of our time deposits carry floating interest rates, indexed to the CDI interest rate.

As of December 31, 2009, we had R\$1,906.2 million in time deposits, of which 3.2% were held by individuals, 39.2% by companies, 57.5% by investment funds and institutional investors and 0.1% by financial institutions. As of December 31, 2010, we had R\$1,841.5 million in time deposits, of which 2.0% were held by individuals, 55.8% by companies, 40.6% by investment funds and institutional investors and 1.6% by financial institutions. As of December 31, 2011, we had R\$1,312.1 million in time deposits, of which 1.5% were held by individuals, 57.6% by companies, 40.3% by investment funds and institutional investors and 0.5% by financial institutions. The average maturity of our time deposits as of December 31, 2011 was 24 months.

### **Interbank Deposits and Funding Operations**

Interbank deposits and funding operations are usually short-term funds raised from financial institutions, with maturities of typically between 30 and 180 days.

### **Additional Sources of Funds**

As a result of our conservative credit policy, we believe we have sufficient amounts of credit available in the market. Our treasury department verifies the terms and conditions (volumes, costs and tenors) of available credit among banks on a weekly basis, companies and institutional investors in order to monitor the availability of additional sources of funds.

There are certain rediscount operations pursuant to which funds can be raised with the Central Bank, normally carried out in situations of reduced liquidity. As of the date of this Offering Memorandum, we have never carried out such operations. The "rediscount" is a line of credit granted by the Central Bank to financial institutions as an additional source of liquidity. Rediscount operations are guaranteed by federal public bonds held by the borrower. The amount of federal public bonds held by the financial institution restricts the value of rediscount operations that it may carry out.

### **Use of Funds**

We use our funds mainly to buy public and private securities, to cover margin deposits required by the clearing and settlement system and periodic adjustments, as deposit in order to operate in the BM&FBOVESPA and

for providing credit products that are ancillary to our core financial services and for obligations arising from risk management operations.

### Capital Expenditures

From 2009 to 2011, we incurred capital expenditures related to the reorganisation and expansion of our data processing systems, as well as the expansion and maintenance of our facilities. Our capital expenditures totalled R\$1.3 million in 2009, R\$4.1 million in 2010 and R\$2.3 million in 2011.

### Capital Adequacy

The Central Bank subjects financial institutions to capital adequacy regulations that are similar to those required by the Basel II Agreement. According to Central Bank regulations, the minimum Basel index rate is 11.0%, which represents the ratio of our total capital to risk weighted assets. The minimum Basel index rate of 11.0% currently applied by the Central Bank is more stringent than the 8.0% rate required by the Basel II Agreement. The capital adequacy requirements are calculated on a consolidated basis to include all components of a financial conglomerate, according to CMN Resolution No. 2,099/94, as amended and Circular 3,360/07.

The Central Bank treats us and our subsidiaries and affiliates, including BES Securities and Espírito Santo Serviços Financeiros, as a single financial institution for regulatory purposes. As a consequence, capital adequacy and other regulatory limits apply to us and our subsidiaries and affiliates as a whole. Our management is free to allocate and re-allocate capital among our subsidiaries, including BES Securities, BESAF Espírito Santo Serviços Financeiros and 2bCapital, to reflect recognised needs and opportunities. At December 31, 2011, our regulatory capital represented 15.6% of risk weighted assets.

The following table shows some of our capital positions in relation to the total risk weighted assets, as well as the minimum capital requirements determined by the Central Bank rules as of the dates indicated:

	As of December 31,		
	2009	2010	2011
	<i>(in millions of reais, except percentages)</i>		
Tier I.....	421.9	476.0	522.0
Tier II .....	78.1	60.0	41.8
<b>Adjusted shareholders' equity</b> .....	<b>500.0</b>	<b>536.0</b>	<b>563.8</b>
Required shareholders' equity <sup>(1)</sup> .....	240.4	377.9	398.5
<b>Required shareholders' equity margin</b> .....	<b>259.6</b>	<b>158.1</b>	<b>165.3</b>
<b>Basel index (Tier I)</b> .....	<b>19.3%</b>	<b>13.9%</b>	<b>14.4%</b>
<b>Basel index (Tier I + Tier II)</b> .....	<b>22.9%</b>	<b>15.6%</b>	<b>15.6%</b>

Note:

(1) Required shareholders' equity is measured by the compatibility of adjusted shareholders' equity with the degree of risk of the structure of a financial institution's assets, as defined in accordance with the rules of the Central Bank.

The evolution of our capital position mainly reflects an increase of capital resulting from our capitalisation of retained earnings and issuance of subordinated CDBs. During the same period, however, our risk weighted assets also increased as we expanded our credit operations to support our investment banking activities, as well as our securities portfolio.

In November 2009, our shareholders contributed R\$100 million in capital. Our shareholders contributed to the capital increase in the same proportion to maintain their respective participation in our share capital.

### Interest Rate Sensitivity

The management of interest rate sensitivity is a fundamental element of our asset and liability management policy. Sensitivity to interest rates is derived from exposure to the risk of variation between the interest rates we charge and market interest rates. For any period, we consider our pricing structure to be balanced whenever the same volume of assets and liabilities become due or are renewed simultaneously. Any mismatch between income

from assets and the cost of liabilities represents a gap in position. Sensitivity to exposure to interest rates stems from the structure of a portfolio and its different risk factors. Significant changes may happen on a daily basis as a result of market forces.

Our interest rate sensitivity strategy takes into account the following:

- rate of return;
- total interest rate risk exposure; and
- liquidity and capital requirements.

Our positions are reviewed on a daily basis and are quickly modified as market conditions change.

The following table shows the maturity dates of our assets and liabilities as of December 31, 2011. The information below does not reflect position gaps which may be verified on other dates. In addition, variations in interest rate sensitivity can occur within the periods of price changes shown, due to different price change dates. Variations can also occur between the various currencies in which the interest positions are maintained.

	As of December 31, 2011			Total
	Up to 90 days	91 to 360 days	More than 360 days	
	<i>(in millions of reais, except percentages)</i>			
<b>Interest earning assets</b>				
Interbank funds applied .....	214.1	58.9	14.9	287.9
Securities - Trading .....	2,360.4	-	-	2,360.4
Securities - AFS and HTM .....	930.2	727.1	206.0	1,863.2
Loans .....	145.9	638.0	640.3	1,424.2
<b>Total</b> .....	<b>3,650.6</b>	<b>1,423.9</b>	<b>861.2</b>	<b>5,935.7</b>
<b>Interest bearing liabilities</b>				
Interbank deposits .....	331.3	-	51.8	383.2
Time deposits.....	99.1	315.5	897.6	1,312.2
<b>Total - Deposits</b> .....	<b>430.4</b>	<b>315.5</b>	<b>949.4</b>	<b>1,695.3</b>
Money market repo commitments .....	2,238.5	-	3.3	2,241.8
Letters of credit for agribusiness .....	94.6	2.7	-	97.3
Financial letters .....	-	3.0	60.4	63.5
Securities issued abroad.....	16.4	319.0	860.9	1,196.3
Borrowings .....	-	41.3	-	41.3
Repass borrowings from BNDES .....	0.8	29.1	140.5	170.4
Subordinated Debts .....	1.3	0.1	90.0	91.5
<b>Total</b> .....	<b>2,782.0</b>	<b>710.8</b>	<b>2,104.6</b>	<b>5,597.3</b>
<b>Gap between assets and liabilities</b> .....	<b>131.2%</b>	<b>200.3%</b>	<b>40.9%</b>	<b>106.0%</b>

### Exchange Rate Sensitivity

Most of our transactions are denominated in *reais*. However, we have obligations denominated in, or indexed to, the U.S. dollar and other currencies. The Central Bank requires that we maintain consolidated exposure in assets and liabilities indexed to exchange variations and gold not greater than 30.0% of our adjusted shareholders' equity. As of December 31, 2009, 2010 and 2011, we did not have any net exchange exposure, due to the fact that we entered into swap agreements and other derivative instruments to hedge the payment flow of principal and interest of all our foreign currency denominated obligations. As of the date of the respective payments, the amount will be converted at pre-established rates into *reais*.

The following table shows the composition of our assets and liabilities indexed to foreign currency and our consolidated exchange exposure, as of the date indicated:

	<b>As of December 31, 2011</b>
	<i>(in millions of reais, except percentages)</i>
<b>Interest earning assets</b>	
Asset exposure to foreign currency.....	2,892.9
Liabilities indexed to foreign currency.....	2,893.6
<b>Total.....</b>	<b>(0.68)</b>
<b>Consolidated exchange exposure</b>	
Adjusted shareholders' equity.....	522.2
Consolidated exchange exposure as a percentage of adjusted shareholders' equity.....	0.1%

We enter into derivative transactions to manage our foreign exchange exposure by means of currency swap agreements. As of December 31, 2011, our notional amount of derivative instruments related to foreign exchange exposure was R\$1,046.0 million.

### **Off-Balance Sheet Arrangements**

As of the date of this Offering Memorandum, we had no off-balance sheet arrangements.

### **Quantitative and Qualitative Disclosure of Market Risks**

#### **Risk Management**

Our business and operations are subject to a variety of risks which, as a member of the Group, need to be managed and controlled on both a group-wide and individual bank basis. Within the Group, policies are determined for the group as a whole by the specialized committees discussed below, although the policies may be tailored to reflect differences in the business and operations of the various units comprising the Group. Control and compliance systems have been established by both BES and, as appropriate, the separate units of the Group, including us.

The DPCGR is responsible for the management, monitoring and reporting of market, liquidity and credit risks, and maintains an integrated and independent structure to meet guidelines established by our management.

The current Central Bank's regulations related to financial institution risk management operations are based on the principles and rules provided for in the Basel II Agreement. These regulations contain methodology to calculate the minimum regulatory capital requirements for financial institutions and takes into account the particular risk factors assumed by each of them.

The Central Bank has announced its intention to implement changes in these regulations in the near future. These changes will be based on the rules and principles provided for in the Basel III Agreement, which strengthens minimum capital requirements and introduces new requirements related to bank liquidity and leverage.

We have developed proprietary risk management systems in compliance with the current Central Bank's regulations and with international practices and procedures. The models are based on the following elements:

- economic, financial and statistical analyses, which enable the evaluation of the effects of adverse events on the institution's liquidity, credit and market positions;
- quantification of market risks by value at risk, or VaR, and stress scenarios analysis; credit risks by the use of portfolio management models, credit scoring and proprietary rating models; and operational risks by the use of internal standard models;
- daily monitoring of positions in relation to pre-established market risk limits; and
- simulations of alternatives for protection of any liquidity losses and contingency plans for crisis situations.

The proprietary portfolio risk management limits are defined by the CRC established by us and confirmed by BESI Portugal. Such limits are monitored by the DPCGR, which immediately reports excesses and demands adjustments in portfolio positions.

### ***Market and Liquidity Risk Management***

Market risk refers to the probability of a portfolio including losses due to the fluctuation in rates or mismatches in the terms, currencies and indices of the asset and liability portfolio. We carry out market risk management through daily monitoring of the exposure levels in comparison with established limits, using instruments such as VaR, sensitivity analysis and stress testing.

We manage liquidity both for ourselves and our subsidiaries by monitoring and analyzing it through statistical and financial projection models, which enable analysis of the variables that affect cash flows and liquidity levels.

The capital requirement for the coverage of risks — supplementing the tracking, control and market risk management structure — is calculated daily in compliance with the regulations of the Central Bank.

We establish minimum liquidity reserve limits based on analysis of the volatility of certain variables and of political and economic scenarios. These limits are periodically reviewed in light of guidelines set by the risk management and control department, or as a result of new market conditions and strategic and commercial decisions.

Under Resolution No. 2,804 issued by the Central Bank, the following information is periodically submitted to the risk management and control department for monitoring:

- different scenarios of liquidity projections;
- contingency plans for crisis situations; and
- reports that allow the monitoring of risk positions for a period of up to one year.

In order to manage and control market risk, we have implemented internal risk management and valuation models. These models employ statistical and historical information relating to commodities, equities and bond prices, interest and foreign exchange rates, volatilities and trends, and seek to avoid adverse market movements, and have been implemented throughout the Group. Our VaR model analyses volatility and correlation of market rates on an overnight basis. The methodology is based on the parametric model and has a 98% confidence interval for the time range of five days. Simultaneously, we apply stress scenarios analysis to measure potential risk in crisis situations. The existence of the two models, the statistical VaR and the stress scenario analysis, covers the entire environment for potential market risk in which we and the other units of the Group participate. To complete the framework of market risk control and to manage effective losses, we also have stop-loss measures in place with established limits controlled in a daily frequency.

Our risk management and control department analyses the statement of income and risk information on a regular basis and establishes limits for risk exposures, interest rate positions and foreign currency risk positions. It takes into account correlations across different markets. Depending on prevailing macroeconomic and microeconomic conditions, the department may also propose that particular scenarios be considered in risk models. In addition, the department analyses and approves criteria and rules for internal pricing of resources.

Our control and liquidity strategy is decided by our treasury department, which meets daily before we begin our activities, aiming to evaluate the various interest, dollar and stock exchange, domestic and overseas market behaviours, as well as to establish the strategies for the day. We manage our liquidity risk by concentrating our portfolios on high quality and highly liquid assets, and by monitoring these portfolios carefully, in order to reach a balanced management with respect to the exposure to currency and terms. In addition, we use projected cash flow for liquidity risk control in compliance with Central Bank Resolution No. 2,804, adopting the assumptions of maturity flow of financial operations, payment flow of debts and the level of defaults in the portfolios, if any.

Our senior management, in conjunction with the senior management of BESI Portugal, periodically meet in an Assets and Liabilities Committee, or ALCO, to evaluate our local liquidity risk by analyzing the appropriate allocation of assets and liabilities, See "—Liquidity and Capital Resources—Asset and Liability Management Policy."

### ***Credit Risk Management***

Credit risk refers to the risk related to potential losses resulting from the default of loans (principal and interest) by a client with whom we have a direct or indirect financial relationship.

Credit risk management is carried out through the monitoring of the level of risk in our portfolios, which includes a high level of control of the analyses and transactions effected, therefore preserving the integrity and independence of the processes. Our credit policy is approved by management, with a view to safeguarding the security, quality and liquidity in the application of funds as well as the flexibility and profitability of our business.

The Group's risk management and control department defines the credit policies of the different units, including in relation to us. Separate credit committees, including ours (the CRC), establish standards and limits, fix risk classifications and oversee the credit operation approval process, models and policies applicable to the particular unit. In the case of very large credit operations, the credit committee must also consult with risk management and control department.

### ***Operational Risk Management***

Operational failures can arise in different ways, including processing errors, improper behaviour of employees, fraud and interruption of activities, among others. We follow the Group's policies and control mechanisms that are intended to create an adequate control environment, which is capable of monitoring operational risk consistently, and guaranteeing its mitigation. The Group's area of compliance is responsible for the management of operational risk. It maintains an independent structure which is able to identify, assess and monitor the relevant risks.

We believe our operational risk management processes are compliant with the rules defined by regulatory agencies, both local and international (including the Central Bank and the Basel II Agreement).

Our operational risk management is based on the framework and incorporates the following processes: (a) establishment of an internal control environment; (b) identification of risk events; (c) risk evaluation; (d) risk response; (e) control activities; (f) information and communication; and (g) monitoring.

The implementation and accompaniment of these processes are the responsibility of a department of operational risk. Each business unit of the Group, including us, is supported by this department.

## BUSINESS

We are a financial institution organised and existing under the laws of Brazil. We operate as an investment bank providing a wide range of banking and financial services, including treasury, capital markets, M&A, project finance and trade finance. To complement these core areas, we also offer brokerage services, asset management, wealth and private banking and private equity through our various subsidiaries. We are the Brazilian investment banking subsidiary of Grupo Banco Espírito Santo, a privately held Portuguese financial group that is active in 26 countries on four continents. We are indirectly controlled by BES, the Group's main financial institution and Portugal's largest private sector bank by market capitalisation (US\$2.5 billion as of December 31, 2011), according to Euronext Lisbon, the Portuguese Stock Exchange. Our other principal shareholder is Bradesco, one of the largest banks in Brazil in terms of total assets as of December 31, 2011.

Since we began our operations in 2000, our total assets have increased consistently from R\$199.0 million at December 31, 2001, to R\$6,631.5 million at December 31, 2011. Consistent with this growth, during the same period our time deposits increased from R\$42.0 million at December 31, 2001, to R\$1,312.1 million at December 31, 2011, and net income increased from R\$7.1 million in 2001 to R\$70.8 million for the year ended December, 31, 2011. We believe these operational results over an extended period reflect a pattern of consistent growth and support our strategy.

Our operations are divided into 12 main business areas:

- treasury and proprietary trading;
- client flow and derivatives flow;
- brokerage and research services;
- capital markets (debt and equity offerings);
- corporate finance and M&A advisory;
- structured trade finance;
- project finance and acquisition finance;
- corporate lending;
- asset management;
- wealth management and private banking;
- private equity; and
- investment advisory services.

Our core business is to provide our clients with traditional and customized financial services, such as advice in connection with domestic and cross border debt and equity capital markets transactions, M&A transactions, project finance, acquisition finance, trade finance, brokerage, asset management and private equity. In addition, we offer our customers a range of credit products, such as bridge loans, corporate loans, foreign exchange facilities and corporate guarantees in order to expand and deepen our client relationships and cross sell our investment banking services.

In providing our investment banking services and credit products such as bridge loans and corporate loans, we work together with other companies within the Group to provide our customers with a comprehensive portfolio of financial services and to generate cross selling opportunities. To this end, the Group maintains a global sales platform, which consists of teams located in Brazil, Europe and the United States. This allows us to leverage the Group's global capabilities with a view to participating in more significant transactions and consequently generating

larger fees. Through our investment banking services, we have increased our domestic and international presence, participating extensively in domestic and cross border transactions within the energy, infrastructure, telecommunications, transport and financial sectors, among others.

We also offer a broad range of derivative products for our clients' hedging and risk management needs, which we refer to as our Client Flow business. In addition, in the course of our proprietary trading client related operations, we take positions in a variety of Brazilian and international equity securities, fixed and floating interest rate securities, derivative securities, currencies and commodities, which we refer to as our Global Markets business. Most of the positions we take in our Global Markets business are in Brazilian government bonds, which, while generally having a lower rate of return than other Brazilian fixed income securities, are relatively liquid securities. For the year ended December 31, 2011, 8.0% of our Core Revenue was derived from our Client Flow business and 17.4% of our Core Revenue was derived from our Global Markets activities.

We also focus on growing our private banking business in Brazil, which we have operated through Espírito Santo Serviços Financeiros since the beginning of 2010, offering investment services to high net worth clients. We believe our private banking operations offer synergies with our other business areas, including brokerage and research services, capital markets, M&A, asset management and investment advisory services.

As part of our growth strategy, during recent years we have expanded the scope of our business, with the establishment in 2004 of BESAF, an asset management company dedicated to institutional investors, and in 2008 of our private equity subsidiary 2bCapital (formerly named ES Capital Brasil), and the establishment of a financial investments advisory and asset management company.

Under our operating structure, our commercial department is responsible for maintaining relationships with corporate customers, and our various product departments are responsible for structuring and carrying out our investment banking activities. Our treasury department is responsible for our Global Markets activities and management of our cash positions, our relationships with financial institutions and fund managers, as well as the extension of credit. These departments are supported by our operations, credit, legal, audit, accounting, tax, information technology and human resources personnel, in addition to our bankers that oversee market and credit risk. Each department is headed by a senior officer with over 19 years of relevant experience. The following table sets forth the percentage contribution of our main business areas to our Core Revenue for the following periods:

	Year ended December 31,		
	2009	2010	2011
		<i>(in percentages)</i>	
Treasury .....	54.6%	14.4%	25.4%
Clients flow .....	30.5%	8.6%	8.0%
Global markets .....	24.1%	5.8%	17.4%
Capital Markets .....	3.0%	5.3%	8.0%
Corporate Finance .....	3.0%	14.8%	15.9%
Project Finance .....	25.6%	39.4%	31.3%
Brokerage and Research Services .....	9.6%	18.1%	13.1%
Asset Management .....	3.1%	3.2%	2.3%
Private Equity .....	-	-	-
Wealth Management and Private Banking .....	1.1%	4.9%	4.1%
<b>Total operating income.....</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

## Competitive Strengths

Our principal competitive strengths are:

### *Relationship with the Group and Bradesco*

We are 80.0% indirectly owned by Banco Espírito Santo de Investimento S.A., or BESI Portugal, an established European investment bank that is wholly owned by BES, a leading Portuguese bank, with a strong retail banking franchise and a strong brand name. In addition, Bradesco, the direct holder of 20.0% of our equity capital, is one of the largest private banks in Brazil by total assets, as of December 31, 2011. We believe that we derive

significant benefits from the extensive experience and market reputation of our shareholders, including broad access to knowhow and products as well as access to various clients.

### ***Solid Operational and Financial Performance***

As of and for the year ended December 31, 2011, we had total assets of R\$6,631.5 million and net income of R\$70.8 million. As of and for the year ended December 31, 2010, we had total assets of R\$6,007.8 million and net income of R\$71.1 million. Our Core Revenue was R\$59.7 million and R\$37.4 million during 2011 and 2010, respectively. Our return on equity, or ROE, which we define as net profit as a percentage of average total shareholders' equity based on year-end balance, was 14.2% for the year ended December 31, 2011. This reflects our ability to generate net interest income from treasury and credit activities as well as revenues from financial services. Our capital levels have remained above regulatory requirements, and as of December 31, 2011, our Bank for International Settlements, or BIS, ratio was 15.6%.

### ***Flexibility***

We believe that the depth of our experience in our core investment banking business, as well as our lean and efficient operating structure both in Brazil and within the Group generally allows us to react quickly to opportunities in the market and to manage risks effectively during unfavourable market conditions. Our Global Markets activities are mainly focused on buying extremely liquid securities such as Brazilian government bonds, which allows us to react quickly to market movements.

### ***Experienced and Results Oriented Management Team***

Members of our senior management have an average of 21 years of experience in the financial sector, deep relationships with our main clients and a proven track record of assisting our clients achieve their objectives. Additionally, we are committed to recruiting and training talented and highly qualified professionals in order to maintain and enhance the strong reputation of our team. We believe this experience has helped us to remain profitable while maintaining a conservative approach to risk management.

### ***Strategy***

Our objective is to expand our position to become one of the main investment banks in Brazil, delivering investment banking products and services to leading Brazilian companies as well as to the Brazilian subsidiaries of Iberian companies. The principal components of our strategy are discussed below.

#### ***Growing our Lending Operations to Expand our Investment Banking Activities***

We provide our clients with a broad range of investment banking services, ranging from comprehensive advisory services in connection with M&A transactions to capital markets underwriting and distribution. We have significantly increased the size and scope of our investment banking operations during the last five years and plan to grow our banking operations, including acquisition financing, in order to enhance our client relationships and generate recurring income. Our strategy is to continue to develop our areas of expertise, to broaden the range of investment banking services we offer to clients, to leverage the experience and knowhow of the Group, to cross sell investment banking services and products to clients of the Group and to increase our investment banking business while maintaining our levels of profitability.

In November 2009, our shareholders, BES and Bradesco, contributed R\$100 million of capital in order to allow us to expand our investment banking business by increasing our capacity to lend, to promote our investment banking products and services, to develop more sophisticated investment banking products and to increase our ability to underwrite capital markets offerings. This Programme is part of our strategy to accelerate the growth of our investment banking activities and diversify our sources of funding.

***Deploy Group Expertise in Project Finance to Take Advantage of Brazil's Attractive Economic Outlook and Infrastructure Plan***

Since 2005, we have participated in project finance transactions, and we have seen our activity in this area increase significantly since 2009. We believe that the expected growth of Brazil's GDP, the government's growth acceleration programs, the selection of Rio de Janeiro to host the Olympic Games in 2016, the selection of Brazil to host the World Cup in 2014 and the privatizations of three of the most important airports in the country will contribute to the continued growth of the project finance market for the next several years. By expanding our lending operations and also leveraging off of the Group's capabilities, we plan to take advantage of Brazil's attractive economic outlook and ambitious infrastructure plan.

***Develop Private Banking Capabilities in Brazil***

Since the beginning of 2010, we have offered investment services and private banking activities to high net worth clients through our subsidiary Espírito Santo Serviços Financeiros. Espírito Santo Serviços Financeiros focuses on generating cross selling opportunities with our other business areas, particularly M&A and capital markets.

***Benefit from Group's Expertise, Client Base and Broad Range of Products and Services***

The Group is one of the most prominent financial groups in Portugal, offering a broad range of banking and financial services, including deposit taking, credit operations, investment banking and asset management. We intend to continue to take advantage of the Group's expertise, client base and broad range of products and services in order to expand our client relationships in Brazil. By providing products and services such as debt and equity capital markets underwriting and advisory, structured trade financing, export prepayment facilities and letters of credit, we believe that we are well positioned to take advantage of cross selling opportunities both within and outside of Brazil.

***Grow our Client Flow Business by Increasing Range of Risk Management Products***

Our Client Flow business provides our clients with a suite of risk management solutions using a range of structures, including cash and non-cash instruments. We develop our products internally and sell them to our clients through our knowledgeable treasury sales force. Our strategy is to increase the integration of the suite of risk management products that we offer to our investment banking clients, such as derivative instruments in the context of our capital markets or M&A activities. Our Client Flow financial solutions for clients mainly focus on interest rates swaps and foreign currency risk protection.

***Local Funding Sources***

We depend only to a limited extent on funding from the Group and our other shareholders. We fund our activities primarily from sources in Brazil, consisting of time deposits and interbank deposits. We also fund our operations through the issuance of securities in the international capital markets, as well as through interbank loans.

## Corporate Structure

The chart below is a simplified version of our shareholding structure and main subsidiaries as of the date of this Offering Memorandum:



### Grupo Banco Espírito Santo

The Group is one of the most prominent private financial groups in Portugal. The Group has been in business for approximately 150 years and has a presence in 26 countries on four continents. Originally founded and currently controlled by the Espírito Santo family, the Group has historically focused its business in the financial sector.

Founded in 1869, BES is the largest Portuguese bank in terms of market capitalisation (US\$2.5 billion as of December 31, 2011), according to Euronext Lisbon. BES, together with its subsidiaries and affiliates that comprise the Group, offers a full range of banking and financial services, including deposit taking, credit operations, asset management, leasing, factoring, investment banking and brokerage services. As of December 31, 2011, BES operated 801 retail branches, 23 private banking centres and 27 corporate banking centres and employed 9,431 people.

In 2011, BES was elected to join the prestigious Dow Jones Sustainability Index, becoming the first Portuguese financial institution to be elected. BES is one of only 15 banks from around the world that appears on this list.

To support its international business strategy, BES seeks to be present in countries with Portuguese emigrant communities, in Portuguese speaking countries and in leading international financial centres, with a particular focus on Brazil, Angola and Spain.

The Noteholders will have the option to redeem the Notes if we cease to be directly or indirectly controlled by BES Portugal. See "Terms and Conditions of the Notes." The Notes are our obligation. Neither BES nor BES Portugal is a guarantor of the Notes offered under the Programme.

## **Business Segments**

### ***Treasury Operations and Proprietary Trading***

Our treasury department's primary functions consist of managing our *reais* and other currency resources and cash flow, maintaining adequate liquidity, determining rates applicable to extensions of credit and taking positions, in the course of our Global Markets activities, in debt and equity securities in the domestic and international markets, principally seeking to benefit from market opportunities and to match our exposures to financial assets and liabilities. We seek to maintain high levels of liquidity by investing mainly in Brazilian government bonds, which, while generally having a lower rate of return than other financial instruments, are relatively liquid securities characterized by low levels of risk. To a lesser extent, we also engage in derivative transactions, foreign exchange transactions and managing our equity portfolio.

By maintaining relationships with fund managers and financial institutions, the treasury department also sells, distributes and trades domestic fixed income securities, such as debentures, promissory notes and investment fund shares. It is also responsible for diversifying our sources of funds, principally through certificates of deposit and repo transactions. In connection with its activities, our treasury department may request the commercial support of our relationship managers.

Our treasury department conducts transactions with the following products:

- fixed income (manages the pricing and booking of domestic fixed income instruments, Brazilian government bonds and swaps);
- derivatives (manages the pricing and booking of a broad range of derivatives instruments);
- foreign exchange (manages the pricing and booking of *real*/foreign exchange instruments);
- equities (manages our Brazilian equities portfolio); and
- quantitative desk (responsible for providing technical support and models to the other desks).

The treasury department's activities are closely monitored by our management. The treasury committee meets daily to discuss the strategy for the day and to fix guidelines for matched and mismatched funding. It also meets weekly to discuss specified matters in greater depth, such as economic events and macroeconomic scenarios. The treasury committee consists of the head of the treasury department, a representative from the trading desks and a representative from each of the risk management department, the sales and derivatives desk and the economic and sales divisions.

For the year ended December 31, 2011, 17.4% of our Core Revenue was from our Global Markets activities.

### ***Client Flow and Derivatives Flow***

In addition to Global Markets activities, our treasury department offers a range of risk management products to our clients such as derivatives and structured securities, which produces an important source of financial services revenue for us. We refer to these activities on behalf of our clients as our Client Flow business. Revenues from our Client Flow business totalled R\$43.7 million for the year ended December 31, 2011.

Through our Client Flow business, we are able to offer our clients the product and services that we have developed through Global Markets activities, in particular fixed income, derivatives instruments, foreign exchange, equity portfolio services and access to our quantitative desk. Our treasury department assists our clients in managing their expenses, as well as identifying opportunities related to various market factors. Our treasury department is principally responsible for determining interest rates applicable to any extension of credit to a client, and determining spreads taking into consideration our cost of capital as well as prevailing interest rates and the client's creditworthiness. The commercial department may, on a case by case basis, increase the spread over the rate established by the treasury department.

For the year ended December 31, 2011, 8.0% of our Core Revenue was from our Client Flow business.

### ***Brokerage and Research Services***

We provide securities brokerage and research services through BES Securities. BES Securities provides brokerage services to our clients for equities, futures and options traded on the BM&FBOVESPA, and our fees are calculated based on the amount of the transactions that we execute for our clients. BES Securities has been recognised by the BM&FBOVESPA operational qualifying program as a proficient carrying broker, a qualification that reflects our solid operational performance. BES Securities has a skilled research team covering Brazil's largest listed companies, issuing daily and periodic reports and projections.

Our brokerage and research services represented 13.1% of our Core Revenue for the year ended December 31, 2011.

### ***Capital Markets***

We are involved in arranging debt and equity securities transactions in both the domestic and international capital markets. On the equity side, we are active in structuring primary offerings and secondary market block trades, as well as voluntary and mandatory share tender offers. On the debt side, we structure issuances of fixed income instruments in the local and international markets and securitization, including the creation of securitization vehicles. We have been active in underwriting medium-term notes for both financial institutions and corporate issuers and, as a result of the continued growth of our global sales team, we plan to become a more frequent lead manager of debt deals, including medium-term note transactions.

In the Brazilian equity market, from 2009 through 2011, we were involved in four initial public offerings totalling R\$22.6 billion and six follow-on offerings totalling R\$132.0 billion. In the international debt markets, from 2009 through 2011, we participated in 19 bond issues, with an aggregate principal amount of U.S.\$7.7 billion. Additionally, in the domestic debt markets, from 2009 through 2011, we participated in 30 local offerings of debentures, promissory notes and securitization funds, totalling R\$17.0 billion. More recently, in 2012, we acted as one of the bookrunners of the Brasil Telecom U.S.\$1.5 billion 10-year Eurobond, which was offered both in the U.S. pursuant to Rule 144A and internationally pursuant to Regulation S. We also acted as one of the bookrunners of the Sabesp R\$771million dual tranche debenture.

Our fees in debt and equity capital markets transactions are calculated as a percentage of the total principal amount of the offering.

Our capital markets activities represented 8.0% of our Core Revenue for the year ended December 31, 2011.

### ***Corporate Finance and M&A Advisory***

We provide a full range of M&A and corporate finance advisory services, including advising on the execution of mergers, acquisitions and corporate restructurings, as well as structuring in respect of investments and divestitures and providing access to strategic investors and alternative sources of capital. We advise clients on significant transactions in diversified segments of the Brazilian economy, including energy, telecommunications, construction and retail. During 2011, we concluded seven significant transactions, which in aggregate principal amount totalled over R\$13.4 billion, and provided advisory services on acquisitions, divestitures, fairness opinions and valuation reports. In addition, we have consistently been among the top largest investment banks in M&A advisory services in Brazil, ranked fifth by value of completed transactions in 2010 and 2011, according to the league tables prepared by ANBIMA.

Our corporate finance advisory activities represented 15.9% of our Core Revenue for the year ended December 31, 2011.

### ***Structured Trade Finance***

We have participated in several structured trade finance transactions and international and local loan facilities for some of the most important companies in Brazil, such as Companhia Vale do Rio Doce, Banco Itaú S.A., Petróleo Brasileiro S.A., or Petrobras, and Usinas Siderúrgicas de Minas Gerais S.A., or Usiminas. From 2009 through 2011, we participated in nine trade finance transactions, totalling R\$3.6 billion.

Our structured trade finance activities represented 0.4% of our Core Revenue for the year ended December 31, 2011.

### ***Project Finance and Acquisition Finance***

Since 2005, we have participated in project finance transactions and we saw activity in this area increase significantly since 2009. Although we expect project finance to be less affected by recent financial events, this increase in activity will depend to a large extent on government planning. However, the expected growth of Brazil's GDP, the Government's growth acceleration program and the selection of Rio de Janeiro to host the Olympic Games in 2016 and Brazil to host the World Cup in 2014 will likely contribute to the continued growth of the project finance market for the next several years. Our project finance unit is equipped to provide structuring and coordination services in connection with projects in the Brazilian electricity, transportation, telecommunications and construction sectors. These projects, including the construction of roads, hydroelectric plants and transmission lines which, in certain cases, also present opportunities for us to participate in the local underwriting for the funding of such projects.

We typically charge a monthly retainer fee and a success fee over financial structuring. If we participate on the deal as a lender, the remuneration also includes a spread over the total amount being lent. We have also acted as agent to BNDES and as a B Lender on IADB and IFC deals.

During the year ended December 31, 2011, we acted as mandated lead arranger, joint lead manager or arranger in eight deals for clients such as through syndicated loans, letters of credit, BNDES repass operations, BNDES export financing facilities and as financial advisor on the public tender of new transmission lines and road concession auctions. These projects totalled more than R\$1.6 billion.

Additionally, we have participated in certain acquisition finance transactions in recent years, where we have financed stock purchases and stock exchange transactions in a wide range of business sectors. As a result of our connections to Portugal, we have the ability to play an important role in transactions involving Portuguese companies.

Our project and acquisition finance activities represented 18.1% of our Core Revenue for the year ended December 31, 2011.

### ***Corporate Lending***

We do not provide loans as a core part of our business, but rather engage in lending activities only in connection with the other services we provide to our investment banking clients. Our credit portfolio can be broken down into loans and other receivables. See "--Credit Portfolio" below.

### ***Asset Management***

We provide asset management services to a number of corporate and individual clients and manage twenty-seven different investment funds through our subsidiary, BESAF. We hold a 50% stake in BESAF. The remaining 50% stake in BESAF is owned by ESAF. BESAF was created in May 2004 and had approximately R\$776 million of assets under management as of December 31, 2011. In order to comply with Central Bank regulations, BESAF's activities are fully segregated from our activities, pursuant to CMN Resolution No. 2,451 of November 27, 1997, as amended.

BESAF manages fourteen different pooled funds, including three leveraged hedge funds, four fixed income funds, four offshore fund focused on foreign investors, two equity fund and one fund of funds.

Our fees are based on a management fee plus, in some funds, a fee which varies depending on the performance of the funds.

Our asset management services represented 2.3% of our Core Revenue for the year ended December 31, 2011.

### ***Wealth Management and Private Banking***

We are also focused on growing our wealth management and private banking business in Brazil, and on November 2009, the Central Bank of Brazil authorised the operations of Espírito Santo Serviços Financeiros, a securities dealer through which we are able to offer investment services to high net worth clients.

We believe that our private banking operations offer strong synergies with our other business areas, including brokerage and research services, asset management, M&A and capital markets. We also seek to leverage off of the Group's experience and tradition in the private banking area.

Our wealth management and private banking activities represented 4.1% of our Core Revenue for the year ended December 31, 2011.

### ***Private Equity***

Currently, we provide private equity services through our subsidiary 2bCapital. Together with our shareholders, we recently established 2bCapital, in which we hold a 25.0% stake. 2bCapital is expected to become our main private equity vehicle. We develop our relationships and transactions in the domestic market by capitalising upon the Group's international experience in private equity and our institutional connection with our shareholder, Bradesco, which holds a 50.0% stake in 2bCapital. The remaining 25.0% stake in 2bCapital is held by ES Capital Portugal. 2bCapital focuses on acquiring minority equity participations in Brazilian companies with annual revenues in excess of R\$100 million, that are active in sectors with high growth potential and that are well positioned to take advantage of the growth of the Brazilian economy. The investments of 2bCapital are expected to range from R\$50.0 million to R\$100.0 million, and we expect to prioritize making capital increases in target companies that are directed at financing specific growth opportunities. For the year ended December 31, 2011, our private equity activities did not represent a material portion of our Core Revenue.

### ***Investment Advisory Services***

We provide investment advisory services through Espírito Santo Serviços Financeiros, a financial investment advisory and asset planning boutique. As of December 31, 2011, we had 246 clients, with assets under management of R\$950 million. We pro-actively provide our clients with various investment options, according to their individual investment profiles and strategies, through our "open architecture" platform.

Our investment advisory services represented 4.1% of our Core Revenue for the year ended December 31, 2011.

## Credit Portfolio

We do not provide loans as a core part of our business, but rather engage in lending activities only in connection with the other services we provide to our investment banking clients. Our credit portfolio can be broken down into loans and other receivables. As of December 31, 2011, our credit portfolio totalled R\$1,424.2 million, an increase of 92.1% from R\$741.4 million as of December 31, 2010. The increase in our credit portfolio since 2010 mainly reflects an increase in the volume of the loans granted in connection with our investment banking activities.

Our credit operations are conducted by our treasury department, and comply with the risk levels established in CMN Resolution No. 2,682 of December 21, 1999, as amended, which requires periodic analysis of the portfolio and its classification. Our loans are classified in accordance with management's judgment of the risk level, taking into account the economic situation, past experience and specific risks in relation to the transactions, the debtors and the guarantors.

### Loan Portfolio by Product

The following table sets forth our credit portfolio by principal type of product as of December 31, 2011 and 2010.

	As of December 31,	
	2010	2011
	<i>(in millions of reais)</i>	
Loans .....	639.3	1,337.7
Other receivables .....	102.1	86.4
<b>Total</b> .....	<b>741.4</b>	<b>1,424.2</b>

### Loans

Loans are comprised of loans to manufacturing industries, agribusiness and other services. As of December 31, 2011, our loans consisted of loans to manufacturers and corporate companies, principally through CCBs, or banking credit certificates, as well as NCEs, or export credit notes, given to sugar and ethanol producing companies and renewable energy plants, and totalled R\$1,337.7 million as of December 31, 2011, an increase of 109.3% from R\$639.3 million as of December 31, 2010. This increase resulted mainly from the expansion of our investment banking activities.

### Other Receivables

Other receivables are comprised principally of receivables arising from export contracts to manufacturers and other corporations, mainly export credit notes. As of December 31, 2011, other receivables totalled R\$86.4 million, a decrease of 15.3% from R\$102.1 million as of December 31, 2010. This decrease in other receivables is mainly consequence of the reduction of our trade finance activity and our primary focus in developing our investment banking franchise.

### Credit Support

We may request or consider taking a security interest in collateral to secure certain loans, including personal guarantees from the directors or owners of companies, as well as mortgages. We perform an in-depth analysis for each loan involving collateral, on a case by case basis.

### Credit Policy

For information on our Credit Policy, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

## **Information Technology**

We continually work to upgrade our computer systems and technology. We currently have a central computer system located in São Paulo in addition to our 38 servers connected with the data storage with capacity of over 15 terabytes.

Computer equipment is replaced approximately every two to three years. There is a daily data back-up routine that produces copies of tapes connected with tape library with all of the information existing in the network server. One copy remains in our data centre and the other is sent to a specialized company that stores the tape in a fire-proof safe. Except for pre-programmed network maintenance, the up-time of the network has been continuous since it was installed. We are in compliance with Central Bank rules in relation to our information technology and have a contingency site with full data replication.

## **Regulatory Environment**

The Brazilian financial system is highly regulated by the Central Bank. We are required to follow the regulations set by the Central Bank and applicable tax legislation. See "Brazilian Banking System and Industry Regulation."

2bCapital's and BESAF's activities are regulated by the CVM, while BES Securities' and Espírito Santo Serviços Financeiros' activities are regulated by both the CVM and the Central Bank. CVM and Central Bank representatives visit us, independently and in accordance with their own policies, on a regular basis, to monitor our activities and review documentation and information provided by us. We have met all regulatory requirements and complied with all other limitations imposed by the Central Bank within the relevant time periods allowed for compliance.

## **Anti-Money Laundering Practices**

We have specific policies, processes and systems to prevent and detect the use of our structure, products and services for money laundering and terrorism financing. See "Brazilian Banking System and Industry Regulation—Anti-Money Laundering and Banking Secrecy." We make significant investments in programs to train employees in several formats such as leaflets, videos, e-learning courses and on-site lectures. The Compliance department evaluates the existence of suspicious or atypical cases identified to the authorities, regardless of whether the transaction has been carried out or not. Our compliance department meets whenever necessary to evaluate the actions taken and the need to adopt new measures to align our program to the rules issued by regulatory bodies and to the best international practices.

## **Properties**

Our head office is located in the city of São Paulo, Brazil, at Avenida Brigadeiro Faria Lima, 3729 – 6th floor. In addition, our subsidiaries BES Securities, BESAF, Espírito Santo Serviços Financeiros and 2bCapital have offices in the city of São Paulo, Brazil, at Avenida Brigadeiro Faria Lima, 3,729 – Mezanino. BES Securities and Espírito Santo Serviços Financeiros also have one other office, located in the city of Rio de Janeiro, Brazil, at Avenida Rio Branco, 89 – 14<sup>th</sup> floor. We lease all of our workspace. The majority of our leased property is leased under renewable contracts with an average term of five years.

## **Intellectual Property**

### ***Trademarks***

In Brazil, a trademark must be officially registered with the National Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*), or INPI, which is responsible for registration of trademarks and patents, so as to be legally restricted to the use of the owner or manufacturer all over the national territory for a certain period of time, subject to renewals. During the registration process the applicant has the right, subject to final approval, to use the trademarks under registration application to identify its products or services.

All of our normative trademarks are registered with the INPI to ensure that we have their use and exclusive benefit in Brazil and to protect the consumer from misunderstandings or unfair competition that may induce error or confusion with our activities.

BESI Portugal is the responsible for all BESI trademarks registered before the INPI.

### **Seasonality**

We do not experience effects of seasonality with respect to our results of operations.

### **Personnel**

As of December 31, 2011, we had 182 employees, compared to 185 and 162 employees as of December 31, 2010 and 2009, respectively.

We generally hire our employees at a junior level, and encourage them to remain with us throughout their careers. In filling all positions, we give preference to candidates from within our organisation, including middle management and senior positions. We also hire laterally from the marketplace, but to a lesser extent.

Our employees are members of the *Sindicato dos Bancários e Financiários de São Paulo, Osasco e Região*, or the *Sindicato*, a labour union which represents bank employees. For each of the past several years, representatives of the *Sindicato* and each bank that has employees affiliated with such union have reached collective bargaining agreements setting forth minimum wage and benefit levels applicable to bank employees. In September 2011, we entered into the most recent collective bargaining agreement with our employees, which will expire in August 2012. Pursuant to the terms of the new collective bargaining agreement, salary levels paid to our employees increased by 9%.

We consider our relations with our employees, as well as with the union, to be good, which we believe is due in large part to our philosophy of internal recruiting and open communication.

We offer our employees benefits that include a health plan which permits beneficiaries to choose their doctors, hospitals and dentists throughout the country, supplementary retirement and pension plans, and subsidized life and accident insurance. These benefits apply regardless of the employee's position. We also offer a profit sharing plan that is registered with the union.

We also offer professional training to our employees on a case by case basis such as special financing trainings such as valuation and capital markets, general management and leadership courses. During the year ended December 31, 2011, we invested approximately R\$210,000 in training and skills improvement courses. In 2010, we invested approximately R\$195,000 in training and skills improvement courses. Our professional training department prepares and delivers personnel training courses in operating, technical and behavioural areas.

### **Competition**

As part of a global investment bank, all aspects of our and the Group's business are intensely competitive. We compete directly with numerous domestic and international competitors, including firms listed on the BM&FBOVESPA and with other brokers and dealers, investment banking firms, investment advisors, mutual funds, hedge funds, commercial banks and bank holding companies. Many of our competitors have substantially greater capital and resources than we do. We believe that the principal factors affecting competition involve market focus, reputation, the abilities of professional personnel, the ability to execute transactions, the relative price of the services and products being offered, bundling of products and services and the quality of service.

In order to increase our market size in terms of credit portfolio in each of our areas, we have implemented several measures over the last three years, including: (i) constituting a global sales team to participate in more significant transactions and increasing our capitalisation to increase our capacity to provide investment banking services; and (ii) cross selling investment banking services and products to our clients.

Our largest competitors, depending on the area of activity, include Banco Santander (Brasil) S.A., Itaú BBA S.A., JP Morgan S.A., Credit Suisse Brasil S.A., BTG Pactual S.A., HSBC Bank Brasil Banco Múltiplo S.A., Banco do Brasil S.A, Morgan Stanley S.A and Bank of America Merrill Lynch.

### **Insurance**

We are covered by a multi-risk insurance policy, which includes coverage for losses to property and equipment sustained as a result of fire, flood, natural disasters, and theft and liability to third parties. We also carry business insurance covering losses arising from our directors' and officers' responsibilities.

We believe our insurance coverage is adequate.

### **Litigation**

We are involved in certain administrative and judicial proceedings for which we have made provisions in an amount considered by us to be adequate in light of the assessment of such litigation made by our outside legal counsel. We do not foresee material effects in our financial conditions in case such final judgement on such claims are unfavourable. We do not believe that such claims, either individually or in the aggregate, if determined adversely to us, would have a material adverse effect in our financial condition or results of operations. As of December 31, 2011, we had provisioned a total of R\$34.5 million in connection with these judicial matters, and had made corresponding judicial deposits in such total amount with the relevant courts.

### **Grand Cayman Branch**

We have a branch in Grand Cayman, Cayman Islands, which was established on March 18, 2011 and has its own staff and representative officers. BES Investimento do Brasil S./A. - Banco de Investimento, or the Grand Cayman Branch, is licensed under the Banks and Trust Companies Law (2009 Revision) as a Category "B" Bank, and is duly registered as a Foreign Company with the Registrar of Companies of Grand Cayman, Cayman Islands. The registered office of the Grand Cayman Branch is located at Grand Pavilion Commercial Centre, 802 West Bay Road, PO Box 10507, Grand Cayman, KY1-1005, Cayman Islands, Phone: +1345 949 3128 and Fax: +1345 949 6911.

Our Grand Cayman Branch is currently engaged in the business of treasury and loans. We recognise the results of the Grand Cayman Branch in our individual financial statements through the equity method of accounting, as is the case with our other subsidiaries. As of December 31, 2011, the Grand Cayman Branch had total assets of U.S.\$28.1 million (R\$52.8 million) and shareholders' equity of U.S.\$5.1 million (R\$9.7 million).

## MANAGEMENT

Pursuant to our by-laws, we are managed by a board of directors (*conselho de administração*) and a board of executive officers (*diretoria*). Additionally, our by-laws provide for the establishment of a non-permanent fiscal council (*conselho fiscal*).

### Board of Directors

The board of directors is responsible for establishing our overall business guidelines, including long-term strategies. Moreover, it is responsible, among other obligations, for electing and removing members of the board of executive officers, determining their attributions and supervising their activities and performance.

According to the Brazilian Corporate Law, our board of directors must be composed of a minimum of three members, and, according to our by-laws, they must be shareholders (with no minimum equity requirement) but are not required to be Brazilian residents. Furthermore, our by-laws establish that our board of directors should be composed of a minimum of five and a maximum of nine members. All members must be elected at a shareholders' meeting for a two year term, with re-election permitted. Our shareholders may remove or elect members of the board of directors at any time, during a shareholders' meeting.

Our board of directors is currently composed of eight members. The term of office of the members of the board of directors will extend through the annual shareholders' meeting to be held in 2012.

The table below shows the names, titles and business addresses of the current members of the Bank's board of directors:

<u>Name</u>	<u>Position</u>	<u>Business Address</u>
José Maria Espírito Santo Silva Ricciardi	Chairman	Av. da Liberdade, 195 – 9º andar 1250-142 Lisbon – Portugal
Francisco Ravara Cary	Vice-Chairman	Av. da Liberdade, 195 – 9º andar 1250-142 Lisbon – Portugal
Rafael Caldeira de Castel-Branco Valverde	Member	Av. da Liberdade, 195 – 9º andar 1250-142 Lisbon – Portugal
Ricardo Abecassis Espírito Santo Silva	Member	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil
Frederico dos Reis de Arrochela Alegria	Member	Av. da Liberdade, 195 – 9º andar 1250-142 Lisbon – Portugal
Tiago Vaz Pinto Cyrne de Castro	Member	Av. da Liberdade, 195 – 9º andar 1250-142 Lisbon – Portugal
Moses Dodo	Member	340 Madison Avenue, 12th Floor – New York, NY 10173 – USA

We have no agreements with nor obligations to the members of our board of directors. We are not aware of any conflicts, or potential conflicts, between any duties owed to us by any of our directors and their private affairs.

### Biographical Information

Below is brief biographical description of the members of our board of directors:

*José Maria Espírito Santo Silva Ricciardi* is the chairman of our board of directors. Mr. Espírito Santo Silva Ricciardi holds a degree in Applied Economics from the Catholic University of Leuven, Belgium. Mr. Espírito Santo Silva Ricciardi is also the chairman of the executive committee and vice-chairman of the board of directors of BESI Portugal, a member of the executive committee of BES and a member of the board of directors of EDP.

*Francisco Ravara Cary* is a member of our board of directors. Mr. Cary holds an MBA degree from INSEAD (Fontainebleau, France) and a degree in Business Administration from Universidade Católica Portuguesa. Mr. Cary is also the chairman of Espírito Santo Capital, S.A., chairman of SES Iberia Private Equity and executive vice-chairman of Banco Espírito Santo Investimento S.A. (Portugal) in charge of risk, operations, treasury, trading and private equity.

*Rafael Caldeira de Castel-Branco Valverde* is a member of our board of directors. Mr. Valverde holds a degree in Economics from the Faculdade Técnica de Lisboa. Mr. Valverde was nominated vice-chairman of our board of directors and member of our executive committee in 2005.

*Ricardo Abecassis Espírito Santo Silva* is a member of our board of directors. Mr. Espírito Santo Silva holds a degree in Economics from The City University of London and has 32 years of experience in the financial markets working in companies of the Group. Mr. Espírito Santo Silva is also a member of the board of directors of Banco Espírito Santo – Lisboa, chairman of the board of directors of Banco Espírito Santo de Angola S.A., or BES Angola, vice-chairman of the board of directors of Espírito Santo Bank of Florida, chairman of the fiscal council of Banco do Espírito Santo do Oriente (Macau), a member of the board of directors of Monteiro Aranha S.A., a member of the fiscal council of Banco Bradesco S.A., and a member of the board of directors of Brazilian Hospitality Group (BHG).

*Frederico dos Reis de Arrochela Alegria* is a member of our board of directors. Mr. Alegria holds a degree in Business Administration from ICHEC. Mr. Alegria is also the executive director responsible for global markets at BESI Portugal.

*Tiago Vaz Pinto Cyrne de Castro* is a member of our board of directors. Mr. Castro holds a degree in Business Management from ISLA (*Instituto Superior de Línguas e Administração*). Mr. Castro is also an executive board member of Espírito Santo Investment, PLC (Dublin), Cominvest – Sociedade de Gestão e Investimento Imobiliário, S.A., ES Capital Brasil, ESSI Comunicações, S.G.P.S., S.A., ESSI Investimentos, S.G.P.S., S.A., ESSI, Sociedade Gestora de Participações Sociais, S.A., ESSI FIN Sociedade Gestora de Participações Sociais, S.A., Finsolutia - Consultoria e Gestão de Créditos, S.A. and Multiger, Sociedade de Compra, Venda e Administração de Propriedades, S.A.

*Moses Dodo* is a member of our board of directors. Mr. Dodo joined Espírito Santo Investment Bank in early 2008 as a member of the board of directors and of the Bank's executive committee in Lisbon, Portugal after several years at WestLB AG where he had acted in a dual role as General Manager of the New York Branch and Head of WestLB Investment Banking Latin America (IB LatAm). Mr. Dodo was also the local Chairman of the WestLB AG Americas Executive Committee. Mr. Dodo is multi-lingual and holds a degree in Business Administration and Finance from FAAP Business School in São Paulo, Brazil. Mr. Dodo served as a board member at the Brazilian American Chamber of Commerce, the German American Chamber of Commerce and the BAFT (Bankers Association for Finance and Trade) in New York.

### **Board of Executive Officers**

Our executive officers are our legal representatives, responsible for our day to day management and for implementing the policies and general guidelines set by the board of directors.

According to our by-laws, our board of executive officers is composed of a minimum of three and a maximum of eleven members.

Under Brazilian Corporate Law: (i) our executive officers must reside in Brazil, irrespective of whether or not they are shareholders; and (ii) a maximum of one third of our directors may also serve as our executive officers.

Our officers are elected by the board of directors for a two year term. Our executive officers may be elected and removed at any time by our board of directors. In case of temporary absence of any of our executive officers, our chief executive officer shall appoint a substitute officer from among the other officers. In case of vacancy, a meeting of the board of directors shall be called in order to elect a substitute member.

Our board of executive officers is currently composed of eight members, each of whom was elected at the meetings of our board of directors held on April 30, 2010, with a term of office until our annual shareholders' meeting to be held in 2012.

The table below shows the names, titles and business addresses of the current members of our board of executive officers:

<b>Name</b>	<b>Title</b>	<b>Business Address</b>
Ricardo Abecassis Espirito Santo Silva	Chief Executive Officer	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil
Carlos José Caetano Guzzo	Executive Officer	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil
Alan do Amaral Fernandes	Executive Officer	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil
Mércia Carmeline Alves Bruno	Executive Officer	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil
Maria Luiza Hueb Baroni	Executive Officer	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil
Marcelo Cyrillo de Queiroz Telles	Executive Officer	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil
Miguel Guiomar	Executive Officer	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil
Miguel Lins	Executive Officer	Av. Brigadeiro Faria Lima, 3729, 6º andar, CEP 04538-905, São Paulo-SP, Brasil

We have no agreements with nor obligations to the members of our board of executive officers. We are not aware of any conflicts, or potential conflicts, between any duties owed to us by any of the members of our board of executive officers and their private affairs.

### **Biographical Information**

Below is brief biographical description of the members of our board of executive officers:

*Ricardo Abecassis Espirito Santo Silva* is our chief executive officer. See "—Board of Directors" above.

*Carlos José Caetano Guzzo* is the executive officer responsible for the Credit and Risk departments, MIS and market risk. Mr. Guzzo holds dual degrees in Engineering and Economics from Universidade Federal Fluminense. Mr. Guzzo joined us in January 2001. He has 19 years of experience in the financial markets.

*Alan do Amaral Fernandes* is the executive director responsible for our structured finance department (project finance, acquisition finance and other lendings). Mr. Fernandes holds a degree in Engineering from Instituto Tecnológico de Aeronáutica / ITA and Universidade Federal do Rio de Janeiro – UFRJ. Mr. Fernandes joined us in 2007 and has more than 20 years of experience in the financial markets. Since December 2011, Mr. Fernandes has been the Global Head of Project Finance and is a Board Member of Espirito Santo Investment Bank in Portugal.

*Mércia Carmeline Alves Bruno* is the executive officer responsible for our legal, compliance and internal controls (which includes Operational Risks). Ms. Bruno holds a Law degree from Pontifícia Universidade Católica de São Paulo. Ms. Bruno has been working for us since April 2001 and has a total of 25 years of experience acting in the financial markets.

*Maria Luiza Hueb Baroni* is the executive officer responsible for our corporate finance department. Ms. Baroni holds a degree in Business Administration from FGV/SP and a degree in Finance from Harvard University. Ms. Baroni has worked in the financial markets for over 17 years.

*Marcelo Cyrillo de Queiroz Telles* is the executive officer responsible for administrative functions, including operations, information technology, accounting, and facilities management. Mr. Telles holds a degree in Engineering from Escola Politécnica USP and holds an MBA in Finance from FIPE/FEA. Mr. Telles joined us in 2011 and has 21 years of experience in the financial markets.

*Miguel Guiomar* is the executive officer responsible for our capital markets department. Mr. Guiomar holds a degree in Business Administration from Universidade Católica (Lisbon) and a post-graduate degree from INSEAD (Fontainebleau). Mr. Guiomar has worked in the financial markets for over 22 years.

*Miguel Lins* is the executive responsible for our commercial department. Mr. Lins holds a degree in Economics from Faculdade Cândido Mendes in Rio de Janeiro and an MBA in Finance from IBMEC - Instituto Brasileiro de Mercado de Capitais and USP - Universidade de São Paulo. Mr. Lins has worked in the financial markets for over 20 years.

### **Fiscal Council**

According to Article 161 and the Brazilian Corporate Law, the fiscal council is a separate corporate body independent of our management and our independent auditors. Under Brazilian Corporate Law, when the fiscal council is not a permanent body of the company it may be established by a general shareholders' meeting upon request of shareholders representing at least 5% of the company's non-voting shares or 10% of the voting share capital. In this case, members of the fiscal council remain in office until the next general shareholders' meeting. In addition, if the company has a controlling shareholder or group of controlling shareholders, minority shareholders holding 10% of the Company's common shares have the right to separately elect a member of the fiscal council and his or her alternate, whereas the other shareholders may appoint one member more than the total number of members elected by the minority shareholders.

The primary responsibilities of our fiscal council are monitoring our management's activities, reviewing our financial statements and reporting their findings to our shareholders. Under the Brazilian Corporate Law, we are required to pay our fiscal council members, as compensation, an amount equal to at least of 10% of the average annual amount paid to the our executive officers.

Under the Brazilian Corporate Law, our fiscal council may not include members that are (i) on our board of directors, (ii) on our board of executive officers, (iii) employed by us, (iv) employed by a subsidiary or company under our common control or (v) spouses or close family members of any member of our board of directors or board of executive officers.

Our by-laws provide for a non-permanent fiscal council. Currently, we do not have a fiscal council in operation.

### **Compensation**

Under the Brazilian Corporate Law, our shareholders are responsible for establishing, at a shareholders' meeting, the aggregate amount to be paid to the members of our board of executive officers and members of our board of directors.

According to the Shareholders' Meeting held on April 6, 2011, the aggregate direct compensation of the members of our board of executive officers and of our board of directors may not exceed R\$9.0 million to the financial year of 2011. We do not pay any compensation to the members of our board of directors. We do not pay any indirect compensation to the members of our board of executive officers and members of our board of directors.

### **Stock Option Plans**

As of the date of this Offering Memorandum, we did not have a stock option plan for our management or employees.

**Shareholders' Meetings**

Our shareholders decide on all matters related to our corporate purposes and all others deemed convenient to our interests through shareholders' meetings. Our by-laws specify the rules for calling shareholders' meetings and necessary quorum for the approval of certain matters, as determined by the Brazilian Corporate Law.

The rules of our by-laws are the only controls in place to ensure that there is not abuse of control by our shareholders.

## SUBSIDIARIES

The table below contains information relating to our equity interests in our individual subsidiaries as of and for year ended December 31, 2010 and 2011:

	BES Securities do Brasil S.A. – C.C.V.M.	Espírito Santo Serviços Financeiros DTVM S.A.	BESAF-BES Ativos Financeiros Ltda.	2bCapital S.A.	Total
		<i>(in millions of reais, except percentages and number of shares)</i>			
Capital stock .....	75.0	6.3	8.7	6.2	96.2
Shareholders' equity- adjusted.....	189.7	3.5	6.2	2.3	201.7
Net income for the period.....	14.7	(1.8)	(1.3)	(2.1)	9.5
Number of common shares.....	12,809,890	23,774,409	-	10,445,682	-
Number of preferred shares.....	12,528,520	-	-	-	-
Number of quotas.....	-	-	4,325,000	-	-
% Interest.....	100.0%	99.1%	50.0%	25.0%	-
<b>Equity in earnings of subsidiaries: .....</b>					
<b>For the year ended     December 31, 2011</b>	<b>14.7</b>	<b>(1.7)</b>	<b>(0.7)</b>	<b>(0.5)</b>	<b>11.8</b>
<b>For the year ended     December 31, 2010</b>	<b>38.9</b>	<b>(1.1)</b>	<b>(0.6)</b>	<b>(0.5)</b>	<b>36.7</b>
<b>Book value of investment: .....</b>					
<b>As of December 31, 2011</b>	<b>189.7</b>	<b>3.5</b>	<b>3.1</b>	<b>0.6</b>	<b>196.9</b>
<b>As of December 31, 2010</b>	<b>178.5</b>	<b>1.9</b>	<b>1.4</b>	<b>1.1</b>	<b>182.9</b>

### BES Securities do Brasil S.A. – C.C.V.M.

We provide brokerage and research services through BES Securities. BES Securities provides brokerage services to our clients for equities, futures and options traded on the BM&FBOVESPA. BES Securities' fees are calculated based on the amount of the transactions it executes for its clients. BES Securities has been recognised by the BM&FBOVESPA operational qualifying program as a proficient carrying broker, a qualification that its solid operational performance. BES Securities has a skilled research team covering Brazil's largest listed companies, issuing daily and periodic reports and projections. In order to comply with Central Bank regulations, BES Securities' activities are fully segregated from our activities, pursuant to CMN Resolution No. 2,451, dated November 27, 1997, as amended.

### BESAF – BES Ativos Financeiros Ltda.

We provide asset management services to a number of corporate and individual clients and manage twenty nine different investment funds through our subsidiary, BESAF. We hold a 50% stake in BESAF. The remaining 50% stake in BESAF is owned by ESAF. BESAF was created in May 2004 and had approximately R\$775.8 million of assets under management as of December 31, 2011. In order to comply with Central Bank regulations, BESAF's activities are fully segregated from our activities, pursuant to CMN Resolution No. 2,451, dated November 27, 1997, as amended.

### Espírito Santo Serviços Financeiros DTVM S.A.

On September 21, 2009, we established Espírito Santo Serviços Financeiros, a new securities dealer through which we will be able to offer investment services to high net worth clients and increase our private banking activities. On November 24, 2009, the Central bank approved the operation of Espírito Santo Serviços Financeiros as a financial institution. In order to comply with Central Bank regulations, Espírito Santo Serviços Financeiros' activities are fully segregated from our activities, pursuant to CMN Resolution No. 2,451, dated November 27, 1997, as amended.

**2bCapital S.A.**

Currently, we provide private equity services through our subsidiary 2bCapital. Together with our shareholders, we recently established 2bCapital, in which we hold a 25.0% stake. 2bCapital is expected to become our main private equity vehicle. We develop our relationships and transactions in the domestic market by capitalising upon the Group's international experience in private equity and our institutional connection with our shareholder, Bradesco, which holds a 50.0% stake in 2bCapital. The remaining 25.0% stake in 2bCapital is held by ES Capital Portugal. In order to comply with Central Bank regulations, 2bCapital's activities are fully segregated from our activities, pursuant to CMN Resolution No. 2,451, dated November 27, 1997, as amended.

## RELATED PARTY TRANSACTIONS

According to Brazilian law, financial institutions are not allowed to grant loans or make cash advances or guarantee transactions carried out by their controlling shareholders, affiliates, directors, officers or close family members of their directors and officers. For more detailed information on the restrictions to which financial institutions are subject, see "Brazilian Banking System and Industry Regulation." Accordingly, our business is conducted in the context of a group of companies that operates in an integrated manner in the financial and capital markets. Related party transactions are conducted on an arm's-length basis and under conditions and at rates compatible with the average rates applicable to third parties. Our balance of assets and liabilities and income and expenses with related parties were as follows as of and for the periods indicated:

	As of or for the year ended December 31, 2011		As of or for the year ended December 31, 2010	
	Assets/ (Liabilities)	Income/(Expenses)	Assets/ (Liabilities)	Income/(Expenses)
	<i>(in millions of reais)</i>			
<b>Operations</b>				
<b>Interbank deposits.....</b>	<b>(147.0)</b>	<b>(28.9)</b>	<b>(2.6)</b>	<b>(15.4)</b>
BES Securities do Brasil S.A. - C.C.V.M.....	(47.0)	(28.9)	(2.6)	(2.6)
Banco Bradesco S.A.....	(100.0)	-	-	(12.9)
<b>Time deposits</b>	<b>(67.6)</b>	<b>(75.7)</b>	<b>(5.8)</b>	<b>(5.0)</b>
Espírito Santo Investimentos S.A.....	(16.2)	(6.9)	(1.5)	(0.5)
Gespar Participações Ltda.....	(46.6)	(65.3)	(4.0)	(4.2)
Espírito Santo Financial Holding S.A.....	-	-	(0.1)	-
2B Capital S.A.....	-	(2.5)	(0.1)	(0.2)
BES Ativos Financeiros Ltda.....	(4.1)	(1.0)	(0.2)	(0.1)
Espírito Santo Ativos Imobiliários Ltda.....	-	-	-	-
R Consult Participações Ltda.....	(0.4)	-	-	-
BES Investimentos Ltda.....	(0.2)	-	-	-
<b>Money market repurchase commitment.....</b>	<b>99.6</b>	<b>(391.2)</b>	<b>(48.2)</b>	<b>(12.8)</b>
BES Securities do Brasil S.A. - C.C.V.M.....	-	(29.0)	(2.4)	(2.4)
ES Serviços Financeiros DTVM S.A.....	(0.4)	(0.1)	-	(0.1)
Banco Espírito Santo S.A. (Lisboa).....	-	-	-	(6.9)
E.S. Capital - Sociedade de Capital de Risco, S.A. ....	-	(3.0)	-	(0.3)
Avistar - Lisboa.....	-	-	-	(0.2)
Banco Bradesco S.A.....	100.0	(359.0)	(45.8)	(2.8)
<b>Funds applied abroad.....</b>	<b>9.4</b>	<b>8.4</b>	<b>0.1</b>	<b>1.6</b>
Banco Espírito Santo S.A. (Lisboa).....	-	-	-	1.5
BES Investimento New York.....	9.4	8.4	0.1	0.1
<b>Eurobonds.....</b>	<b>152.6</b>	<b>148.4</b>	<b>11.3</b>	<b>3.4</b>
BES Investimento Cayman.....	128.2	106.3	10.6	2.8
BES Finance Ltd Cayman.....	24.3	42.1	0.7	0.6
<b>Swaps.....</b>	<b>(20.7)</b>	<b>(25.3)</b>	<b>(12.9)</b>	<b>(35.7)</b>
Espírito Santo Investment Plc. (Irlanda).....	(8.0)	(5.2)	(8.7)	(11.2)
Banco Espírito Santo de Investimentos S.A. (Lisboa).....	(13.2)	(14.3)	(7.4)	(18.6)
BES Investimento New York.....	(1.4)	(5.8)	1.5	(6.3)
BES Investimento S. A. Madrid.....	1.9	-	1.8	-
BES Securities do Brasil S.A. - C. C. V. M.....	-	-	-	0.3
<b>Dividends and Interest on own capital to be received.....</b>	<b>3.5</b>	<b>-</b>	<b>-</b>	<b>-</b>
BES Securities do Brasil S.A. - C. C. V. M.....	3.5	-	-	-
<b>Payments to be reimbursed.....</b>	<b>1.1</b>	<b>2.0</b>	<b>-</b>	<b>-</b>
Banco Bradesco S.A.....	0.5	2.0	-	-
2B Capital S.A.....	0.6	-	-	-
<b>Exchange purchase payables and receivables.....</b>	<b>(0.2)</b>	<b>(4.2)</b>	<b>-</b>	<b>-</b>
BES Securities do Brasil S.A. - C.C.V.M.....	(0.2)	(4.2)	-	-
<b>Securities issued abroad.....</b>	<b>1.9</b>	<b>-</b>	<b>-</b>	<b>-</b>
BES Investimento do Brasil S.A. - Cayman Branch.....	1.9	-	-	-
<b>Dividends and Interest on own capital to be paid</b>	<b>9.4</b>	<b>(10.7)</b>	<b>-</b>	<b>-</b>
Espírito Santo Investimentos S.A.....	7.5	(8.5)	-	-
Banco Bradesco S.A.....	1.9	(2.1)	-	-
<b>Debtors (Creditors).....</b>	<b>1.3</b>	<b>(8.2)</b>	<b>(1.2)</b>	<b>(1.9)</b>

BES Securities do Brasil S.A. - C.C.V.M .....	1.3	(8.2)	(1.2)	(1.9)
<b>Sundry creditors</b> .....	<b>(1.5)</b>	<b>(1.6)</b>	-	-
Banco Bradesco S.A .....	(1.5)	(1.5)	-	-
Banco Espirito Santo, S.A. (Lisboa).....	-	(0.1)	-	-
<b>Rentals receivable</b> .....	<b>0.1</b>	<b>0.1</b>	-	-
BES Securities do Brasil S.A. - C. C. V. M. ....	0.1	0.1	-	-

On November 19, 2009, our shareholders contributed R\$100.0 million of capital, through the issuance by us of 25,315,815 new shares, of which 12,657,910 were common shares and 12,657,905 were preferred shares. Our shareholders contributed to the capital increase in the same proportion to maintain their respective participation in our capital.

## REGULATORY OVERVIEW

The basic structure of the Brazilian financial system (*Sistema Financeiro Nacional*) was established by Law No. 4,595.

### **Main Regulatory Agencies**

The Brazilian financial system comprises, among others, the following regulatory and fiscal bodies:

- the CMN;
- the Central Bank; and
- the CVM.

Below is a summary of the main attributes and powers of each of these main regulatory bodies.

#### ***The CMN***

Currently, the CMN is the highest authority in the system and is responsible for Brazilian monetary and financial policy and for the overall formulation and supervision of monetary, credit, budgetary, fiscal and public debt policies. The CMN is responsible for adjusting the volume of payments means to the needs of the Brazilian economy; regulating the domestic value of the currency; regulating the value of the currency abroad and the country's balance of payments; directing the investment of the funds of financial institutions, public or private, taking into account different regions of the country and favorable conditions for the harmonious development of the national economy; enabling the improvement of the resources of financial institutions and instruments; monitoring the liquidity and solvency of financial institutions; coordinating monetary, credit, budgetary, fiscal and public debt policies; and establishing the policy used in the organisation and operation of the Brazilian securities market.

#### ***The Central Bank***

Law No. 4,595 granted the Central Bank, a government agency under the Ministry of Finance, powers to implement the monetary and credit policies established by the CMN, as well as to supervise public and private sector financial institutions and to apply the penalties provided for in law, when necessary. The Central Bank is responsible, among other activities, for issuing paper money and coins, controlling credit and foreign capital, receiving mandatory payments and voluntary demand deposits from financial institutions, carrying out rediscount operations and providing loans to banking institutions, regulating the execution of clearing checks and other papers, in addition to functioning as the depositary for official gold and foreign currency reserves. The Central Bank is also responsible for controlling and approving the operations, the transfer of ownership and the corporate reorganisation of financial institutions, as well as setting forth minimum capital requirements, compulsory reserve requirements and operational limits.

#### ***The CVM***

The CVM is a government agency under the Ministry of Finance responsible for implementing the securities policies of the CMN, ensuring public access to information about securities traded and the companies that have issued such securities, and promoting the expansion and regular and efficient operation of the securities market, among other activities. To this end, the CVM is able to regulate, develop, control and supervise the securities market strictly in accordance with Brazilian Corporate Law and securities laws.

CVM's responsibilities include, without limitation, regulating the supervision and inspection of publicly held companies and financial and investment funds, regulating transactions in the securities and derivatives markets, as well as regulating the organisation, functioning and operations of the stock exchanges, the commodities and futures exchanges, the over the counter markets and the custody of securities.

## **Legal Reform of the Brazilian Financial System — Amendment to the Brazilian Constitution**

In May 2003, Constitutional Amendment 40/03, or EC 40/03, was passed to replace all sub sections and paragraphs of Article 192 of the Brazilian Constitution enacted in 1988, including former article 192(3), which established a ceiling of 12% per year on bank loan interest rates (although such rate was never enforced, as the regulation of such provision was pending). EC 40/03 replaced these restrictive constitutional provisions with a general permission to regulate the Brazilian financial system through specific laws, which now allows the Brazilian Congress to vote on several bills dealing with the regulation of the Brazilian financial system.

With the enactment of the Civil Code, unless the parties to a loan have agreed to use a different rate or a different rate is provided for by law, in principle the ceiling of the interest rate has been pegged to the SELIC rate. However, there is presently some uncertainty as to whether the SELIC or the 12% per annum interest rate established in the Brazilian tax code should apply and whether such ceiling should apply to financial institutions.

### **Principal Limitations and Restrictions on Financial Institutions**

The activities carried out by financial institutions are subject to several limitations and restrictions. In general terms, such limitations and restrictions are related to credit granting, risk concentration, investments, sales under repurchase agreements, loans in and trading with foreign currency, investment funds management, micro-credit and payroll deduction credit.

#### ***Restrictions on the Extension of Credit***

Pursuant to Brazilian law, except in some limited circumstances, financial institutions may not grant loans to, or guarantee the transactions of:

- any company or individual that holds more than 10% of the capital stock of the financial institution;
- any entity whose board of executive officers is made up of the same, or substantially the same members as that of the financial institution's board of executive officers;
- any company in which the financial institution holds more than 10% of the capital stock, or which is under common control with the financial institution; or
- the executive officers and directors of the financial institution and their family members, and any company in which these persons hold more than 10% of the capital stock, or in which they are also managers.

The restrictions with respect to transactions with related parties do not apply to transactions entered into with financial institutions in the interbank market.

Moreover, there are currently certain restrictions imposed on financial institutions limiting the extension of credit to public sector entities, such as government subsidiaries and governmental agencies, which are in addition to certain limits on indebtedness to which these public sector entities are already subject.

### **Repurchase Transactions**

Repurchase transactions (*operações compromissadas*) are transactions involving assets that are sold or purchased subject to the occurrence of certain conditions. Upon the occurrence of any such conditions, and depending on the terms of the particular agreement, the seller or the buyer may be required to repurchase, or resell the assets, as the case may be. The conditions triggering the repurchase or resale obligation vary from one transaction to the other, and typically must occur within a particular time frame.

Repurchase transactions executed in Brazil are subject to operational capital limits, based on the financial institution's shareholders' equity, as adjusted in accordance with Central Bank regulations. A financial institution may only hold repurchase transactions in an amount up to 30 times its reference shareholders' equity. Within this

limit, repurchase transactions involving private securities may not exceed five times the amount of the reference shareholders' equity. Limits on repurchase transactions involving securities backed by Brazilian governmental authorities vary in accordance with the type of security involved in the transaction and the perceived risk of the issuer, as established by the Central Bank.

### **Foreign Currency Loans**

Financial institutions may borrow foreign currency denominated funds in the international markets (either through bilateral loans or issuance of debt securities), for repass such funds or other purposes contemplated in the applicable regulation. Banks make those repass transactions through loans payable in Brazilian currency and denominated in such foreign currency. The terms of the repass must mirror the terms of the original transaction. The interest rate charged on the underlying foreign loan must also conform to international market practices. In addition to the original cost of the transaction the financial institution may only charge a repass commission.

The Central Bank may establish limitations on the term, interest rate and general conditions of foreign currency loans. It frequently changes these limitations in accordance with the economic environment and the monetary policy of the Brazilian government.

### **Asset Management Regulation**

Pursuant to Law 10,198, of February 14, 2001, and Law No. 10,303, of October 31, 2001, the regulation and supervision of both financial mutual funds and variable income funds were transferred from the Central Bank to the CVM. The asset management industry is also self-regulated by ANBIMA (*Associação Brasileira das Entidades dos Mercados Financeiros e de Capitais*) which enacts additional rules and policies, especially with respect to marketing and advertising.

Only individuals or entities authorised by the CVM may act as managers of third party assets. Financial institutions must segregate the management of third party assets from their other activities. These institutions must appoint an officer as the agent responsible for the management and supervision of such assets.

The Central Bank, except in very specific circumstances, has prohibited institutions that manage third party assets and their affiliated companies from investing in fixed rate income funds that they also manage. The CVM allows investments in equity funds. There are specific rules regarding mutual fund portfolio diversification and composition, which aim to reduce exposure to certain types of risk.

On August 18, 2004, the CVM enacted Instruction No. 409, as amended, which consolidated the rules applicable to investment funds. Nevertheless, specific types of investment funds, such as FIDCs, are subject to specific regulation.

## **Regulations Aimed at Ensuring the Strength of the Brazilian Financial System**

### ***Restrictions on Risk Concentration***

Brazilian law prohibits financial institutions from extending credit to any person or group of related persons in an aggregate amount equivalent to 25% or more of the financial institution's reference capital. This limitation applies to any transactions involving the extension of credit, including those involving loans and advances, guarantees, and the underwriting, purchase and renegotiation of securities.

### ***Restrictions to Investment***

Financial institutions may not hold, on a consolidated basis, permanent assets that exceed 50% of their reference shareholders' equity, own real property, other than property for its own offices and service outlets, or acquire equity investments in other financial institutions abroad, without prior approval by the Central Bank.

When a bank receives real estate in satisfaction of a debt, such property must be sold within one year. Such one-year limit may be extended for two additional periods of one year, subject to the Central Bank's approval.

### ***Internal Compliance Procedures***

The Compliance Department is responsible for implementing an effective internal control structure and monitoring our internal procedures in order to comply with these controls and applicable law.

### ***Internal Audit Procedures***

The Internal Audit Department reports directly to the Chief Executive Officer of the Bank (member of the board of directors) and is responsible for evaluating the adequacy of our internal control systems, as well as sending reports to the board of executive directors with recommendations for improvement.

### **Independent Auditors and Audit Committee**

Resolution No. 3,198, issued by the CMN on May 27, 2004, as amended, established certain requirements in respect of financial institutions' independent accountants and required some financial institutions to have an audit committee.

Independent accountants must audit the financial statements of all financial institutions. Independent accountants can only be hired if they are registered with the CVM, certified in specialized banking analysis by the Brazilian professional accounting body, or IBRACON, and by the Federal Accounting Board (*Conselho Federal de Contabilidade*), and if they meet several requirements that assure their independence. Moreover, financial institutions must replace the person, officer, manager, supervisor or any of its members responsible for the independent accounting work at least every five consecutive years. Former members can be reengaged only after three complete years have passed since the end of their prior service. The financial institutions must designate a technically qualified senior manager to be responsible for compliance with all regulations regarding financial statements and auditing.

In addition to preparing an audit report covering the financial statements, the independent accountants must prepare a report on the financial institution's internal controls showing all deficiencies found; and a description of the financial institution's non compliance with applicable regulation material to the financial institution's financial statements or activities.

Pursuant to CMN Resolution No. 3,198, all financial institutions which, in the two precedent fiscal years, had (i) a reference capital or a consolidated reference capital equal to or greater than R\$1 billion, (ii) managing third parties assets in an amount equal to or greater than R\$1 billion or (iii) managing third parties assets and deposits in an aggregate amount equal to or greater than R\$5 billion, must create an internal audit committee until March 31 of the fiscal year following the year of the financial statements that have indicated that any such parameter has been reached. We have never reached any of the triggering events above.

The independent accountants, in the course of their audit or review procedures, and the audit committee must immediately communicate to the Central Bank any event that may materially adversely affect the financial institution's status, including material non compliance with applicable regulations.

### ***Financial Reporting and Auditing Requirements***

Brazilian law requires financial institutions to prepare their financial statements in accordance with certain standards set forth by Brazilian Corporate Law and other applicable regulations. As a financial institution we are required to have our financial statements audited every six months. Quarterly financial information, as required by Central Bank and CVM regulations, is subject to review by independent accountants.

### **New CMN Regulation for Credit Assignment**

Resolution No. 3,533, issued by the CMN on January 31, 2008 (to be effective as from January 1, 2012 pursuant to Resolution No. 3,895, issued by the CMN on July 29, 2010) provides changes to the manner in which assigned loans are to be treated in our books. In accordance with Resolution No. 3,533, if the assignor substantially keeps the risks and benefits of the assigned credits, such credits may not be recorded as off-balance sheet loans. This provision shall also be applicable to (i) assignments with repurchase commitment; (ii) assignments in which the

assignor undertakes the obligation to compensate the assignee for losses; and (iii) assignments made jointly with the acquisition of junior shares of FIDCs.

### **Capital Adequacy Guidelines**

Brazilian financial institutions must comply with guidelines established by the Central Bank and the CMN that are similar to those of the Basel II Agreement on risk based capital adequacy. The requirements imposed by the Central Bank and the CMN differ from the Basel II Agreement in a few aspects. Among other differences, the Central Bank and the CMN:

- impose a minimum capital requirement of 11% in lieu of the 8% minimum capital requirement of the Basel II Agreement;
- require that swap, interest rates and exchange transactions must be accounted for in the calculation of the regulatory capital;
- assign different risk weights to certain assets and credit conversion amounts, including a risk weight of 300% on deferred tax assets relating to income and social contribution taxes; and
- require banks, pursuant to Resolution No. 3,490, issued by the CMN on August 29, 2007, and Circular No. 3,383, dated April 30, 2008, to set aside a portion of their equity to cover operational risks (i.e., losses arising from failures, deficiency or inadequacy of internal procedures, personnel or systems, including those due to external events). Such resolution became effective as from July 1, 2008, and the required portion of equity varies from 12% to 18% of amounts representing averages of income arising from financial intermediation and rendering of services.

Regulatory capital, or the "reference capital," is considered for the determination of operating limits of Brazilian financial institutions, and is represented by the sum of the following two tiers:

Tier I equity is represented by the sum of amounts corresponding to net assets, the balance of profit and loss accounts of creditors and deposits in escrow accounts to cover capital shortages (pursuant to the terms of CMN Resolution No. 4,019, of September 29, 2011), excluding amounts corresponding to: (i) debtor profit and loss account balances; (ii) re-evaluation reserves, contingency reserves and special reserves for profits relating to non-distributed mandatory dividends; (iii) preferential shares issued with a redemption clause and preferential shares with the accumulation of dividends; (iv) tax credits (CMN Resolution No. 3,059, of December 20, 2002); (v) permanent deferred assets and the goodwill paid in the acquisition of investments; and (vi) the balance of unearned gains and losses resulting from the adjustment in the market value of securities classified as "securities available for sale" and derivative financial instruments used for cash flow hedge.

Tier II equity is represented by the sum of amounts corresponding to re-evaluation reserves, contingency reserves and special profit reserves relating to non-distributed mandatory dividends added to amounts corresponding to: (i) hybrid capital and debt contracts, subordinated debt contracts, preferential shares issued with a redemption clause and preferential shares with the accumulation of dividends issued by financial institutions; and (ii) the balance of unearned gains and losses resulting from the adjustment in the market value of securities classified as "securities available for sale" and derivative financial instruments used for cash flow hedge.

The total amount of Tier II equity is limited to the total amount of Tier I equity, provided that (i) the total amount of revaluation reserves is limited to 25% of the Tier I equity; (ii) the total amount of subordinated debt plus the total amount of redeemable preferred shares with an original term to maturity below 10 years is limited to 50% of the total amount of the Tier I equity; and (iii) a 20% to 100% reduction will be applied to the amount of subordinated debt authorised for Tier II equity and of redeemable preferred shares during the period between 60 and 12 months preceding their respective maturities.

Financial institutions must calculate the reference capital on a consolidated basis. As of July 2007, the balances of assets represented by shares, hybrid equity and debt instruments, subordinated debt instruments and other financial instruments authorised by the Central Bank for inclusion in Tier I and Tier II, issued by financial institutions authorised by the Central Bank, are deducted from the reference capital. In addition, investment fund

quotes proportional to these instruments are also deducted from the reference capital, as well as amounts relating to (i) equity in financial institutions which information the Central Bank does not have access to; (ii) excess funds applied to permanent assets pursuant to the current regulation; and (iii) funds delivered to or available by third parties for related transactions.

In addition to the minimum limits of realized capital and shareholders' equity set forth in the legislation in force, financial institutions must keep their reference shareholders' equity compatible with the exposure of their assets, liabilities, and offsetting accounts. Financial institutions may only distribute income on any account in amounts that exceed the amounts that may be required by law or by the applicable regulation when such distribution does not prevent compliance with the capital and shareholders' equity standards.

### Corporate Structure

Except for the cases set forth as exceptions in the law, financial institutions must be organized as corporations (*sociedades anônimas*) and be subject to the provisions under Brazilian Corporate Law and the regulations issued by the Central Bank, and to inspections by the CVM if they are registered as publicly held corporations.

Capital of financial institutions may be divided into voting or non-voting shares, where non-voting shares may not exceed 50% of total capital.

### Classification of Credit and Allowance for Loan Losses

Under Central Bank regulations, financial institutions are required to classify their loan transactions with companies into nine categories, ranging from AA to H, in accordance with their risk. Risk assessment includes an evaluation of the borrower, the guarantor and the relevant loans. Credit classifications are determined in accordance with Central Bank criteria relating to:

- characteristics of the debtor and the guarantor, such as their economic and financial situation, level of indebtedness, capacity for generating profits, cash flow, delay in payments, contingencies and credit limits; and
- characteristics of the transaction, such as its nature and purpose, the sufficiency of the collateral, the level of liquidity and the total amount of the loan.

The regulations specify for each loan category, a minimum provision as follows:

Loan rank	Minimum provision
AA .....	—
A .....	0.5%
B .....	1%
C .....	3%
D .....	10%
E .....	30%
F .....	50%
G .....	70%
H .....	100%

In general, banks must review their loan classifications annually. However, except for loans amounting to less than R\$50,000, banks must review loans:

- semi-annually in any case where the aggregate amount of loans extended to a single borrower or economic group exceeds 5% of the bank's reference shareholders' equity; and
- monthly in case the loans become overdue.

A loan may be upgraded if it has a credit support or downgraded if it is in default. Banks must write off loans six months after they are ranked H.

In case of loan transactions with individuals, the loan is graded based on data including the individual's income, shareholders' equity and credit history (as well as other personal data).

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

<b>Number of days overdue<sup>(1)</sup></b>	<b>Maximum classification</b>
15 to 30 days.....	B
31 to 60 days.....	C
61 to 90 days.....	D
91 to 120 days.....	E
121 to 150 days.....	F
151 to 180 days.....	G
More than 180 days .....	H

*Note:*

(1) For loan transactions with a maturity date more than 36 months, the period may be counted in double.

Financial institutions are required to determine, on a monthly basis, whether any loans must be reclassified as a result of these maximum classifications, and, if so, must adjust their provisions accordingly:

- 0.5% of the amount of transactions classified as category A risk;
- 1% of the amount of transactions classified as category B risk;
- 3% of the amount of transactions classified as category C risk;
- 10% of the amount of transactions classified as category D risk;
- 30% of the amount of transactions classified as category E risk;
- 50% of the amount of transactions classified as category F risk;
- 70% of the amount of transactions classified as category G risk; and
- 100% of the amount of transactions classified as category H risk.

Finally, financial institutions are required to make their lending and loan ranking policies available to the Central Bank and to their independent accountants. They must also provide information relating to their loan portfolio along with their financial statements.

### **Central Bank Credit Risk System**

Financial institutions are required to provide information to the Central Bank concerning the extension of credit and guarantees rendered to clients, including leasing transactions and write off loans. The information is used to strengthen the Central Bank's supervisory capacity, make information concerning debtors available to other financial institutions (however, other institutions can only access information subject to a client's authorisation) and prepare macroeconomic analyses.

## **Anti-Tax Evasion Law**

Generally, information protected by bank secrecy laws can only be furnished in compliance with a court order or an order by a Federal Congressional Inquiry Committee (*Comissão Parlamentar de Inquérito*), or CPI.

However, the Central Bank is authorised to require financial institutions to provide information generally protected by bank secrecy without judicial authorisation within the performance of its supervisory powers, as long as they have strong circumstantial evidence that a customer has engaged in tax evasion.

## **Regulations Affecting Liquidity in the Financial Market**

### ***Reserves and Other Requirements***

In light of the global financial crisis, the CMN and the Central Bank enacted measures aiming to change Brazilian banking regulation in order to provide financial markets with greater liquidity, including:

- a discount from the time deposits reserve requirement of R\$2 billion;
- reduction of the applicable rate for reserve purposes on additional time deposit and demand deposit reserve requirements from 8% to 4%, and 8% to 5%, respectively;
- authorisation for banks to deduct the amount of foreign currency acquisition transactions with the Central Bank from the reserve requirements on interbank deposits of commercial leasing companies; and
- reduction of the rate of compulsory demand deposits from 45% to 42%.

On October 24, 2008, the Central Bank enacted Circular No. 3,416, which permits financial institutions to deduct the amount equal to the anticipated contribution to the Credit Guarantee Fund (*Fundo Garantidor de Crédito*) from the compulsory deposits.

On October 6, 2008, the President of Brazil sanctioned Provisional Measure No. 442 (converted into Law No. 11,882 of December 23, 2008), which is regulated by CMN Resolution No. 3,622, dated October 9, 2008 (as amended by several CMN Resolutions), Circular No. 3,409, dated October 10, 2008, and Circular No. 3,418, dated November 4, 2008, as amended, which permits the Central Bank to: (i) acquire credit portfolios from financial institutions through rediscount operations; and (ii) grant loans in foreign currencies in order to finance Brazilian export transactions. The term of such rediscount operations and loans in foreign currencies may be of up to 360 days. Upon the expiration of such term, the financial institution must repurchase its assets. The repurchase price of rediscount operations will be equal to the original purchase price plus interest charged at a rate equal to the SELIC rate plus 4% per annum.

The Central Bank may, with respect to rediscount operations, require financial institutions to: (i) pay additional amounts in order to meet risks to which a financial institution may be exposed; (ii) adopt more restrictive operational limits; (iii) restrict their activities to certain types of transactions or operational practices; (iv) readjust their adequate liquidity levels; (v) suspend the distribution of any earnings above the minimum required by law; (vi) prohibit acts that may increase managers' remuneration; (vii) prohibit the development of new lines of business; and (viii) prohibit the sale of assets.

### ***Reserve Requirements***

The Central Bank currently imposes several compulsory reserve requirements on financial institutions. Financial institutions must deposit those reserves with the Central Bank. The Central Bank uses reserve requirements as a mechanism to control the liquidity of the financial system. The reserves imposed on demand deposits, savings deposits and time deposits account for substantially all amounts required to be deposited with the Central Bank.

***Demand Deposits.*** Pursuant to Circular No. 3,274, dated February 10, 2005, as amended, enacted by the Central Bank, banks and other financial institutions are generally required to deposit from 43% to 45% of the daily average balance of their demand deposits, bank drafts, collection of receivables, collection of tax receipts, debt assumption transactions and proceeds from the realization of guarantees granted to financial institutions in excess of R\$44 million with the Central Bank on a non interest bearing basis. At the end of each day, the balance in such account must be equivalent to at least 80% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the following week.

***Savings Accounts.*** Currently, pursuant to Circular No. 3,093, dated March 1, 2002 as amended, enacted by the Central Bank, the Central Bank has established that Brazilian financial institutions are generally required to deposit in an interest bearing account with the Central Bank, on a weekly basis, an amount in cash equivalent to 20% of the average aggregate balance of savings accounts during the prior week. In addition, CMN Resolution No. 3,932, of December 17, 2010, establishes that a minimum of 65% of the total amount of deposits in savings accounts of the entities of the Brazilian Savings and Loans System (Sistema Brasileiro de Poupança e Empréstimo), or SBPE, must be used to finance residential real estate or the housing construction sector. Amounts that can be used to satisfy this requirement include, in addition to direct residential real estate financings, mortgage notes, charged off residential real estate loans, and certain other financings, all as specified in guidance issued by the Central Bank. Pursuant to Resolution No. 3,023, dated as of October 11, 2002, the CMN established an additional reserve requirement of 10% on the savings account funds captured by the entities of SBPE.

***Time Deposits.*** Pursuant to Circular No. 3,091, enacted by the Central Bank on March 1, 2002, as amended, 20% of financial institutions' time deposits and certain other amounts in excess of R\$2 billion are subject to reserve requirements at 45% of the amounts subject to such reserve requirements. Such securities shall be linked to Brazilian government securities registered out in SELIC and have to be deposited in an account with the Central Bank, which 30% is remunerated based on the daily average rate of the transactions with Brazilian government securities carried out in the SELIC system, and 70% is deposited in cash, with no remuneration. At the end of each day, the amount of such securities shall be equivalent to 100% of the reserve requirement.

***Additional Reserve Requirement (Demand Deposits, Saving Accounts and Time Deposits).*** On August 14, 2002, the Central Bank, by means of Circular No. 3,144, as amended, established an additional reserve requirement on deposits captured by multiple service banks, investment banks, commercial banks, development banks, credit, financing and investment companies, real estate companies and savings and loan associations.

Pursuant to such regulations, the aforesaid entities are required to deposit into an interest bearing account with the Central Bank, on a weekly basis, the cash equivalent to the sum of the following amounts: (i) 12% of the arithmetic mean of the time deposit funds and certain other amounts subject to the respective reserve requirement; (ii) 10% of the arithmetic mean of the savings deposit funds subject to the respective reserve requirement; and (iii) 12% of the arithmetic mean of the demand deposit funds subject to the respective reserve requirement. At the end of each day, the balance in such account must be equivalent to 100% of such additional reserve requirement.

***Foreign Currency and Gold Exposure.*** Pursuant to CMN Resolution No. 3,488 of August 29, 2007, the total consolidated exposure of a financial institution in foreign currencies and gold cannot exceed 30% of its reference shareholders' equity.

***Repurchase Agreements, Export Notes, Etc.*** The Central Bank at times has established a reserve requirement for certain types of financial transactions, such as repurchase agreements, export notes, derivative transactions and certain types of assignments. Central Bank Circular No. 2,820, dated May 27, 1998, currently sets this reserve requirement at zero.

***Deposits and Guarantees.*** Pursuant to Circular 3,090, dated March 1, 2002, financial institutions are required to deposit with the Central Bank, on a non-interest bearing basis, an amount in cash equivalent to 45% of the amounts corresponding to the sum of the average balance of (a) deposits made by individuals or legal entities domiciled abroad, compulsory deposits and vintilated deposits in excess of R\$2.0 billion, and (b) agreements with assumption of obligations related to transactions carried out in Brazil and guarantees granted by them (*garantias realizadas*) in excess of R\$2.0 billion. At the end of each day, the balance in such account shall be equivalent to at least 100% of the reserve requirement for the respective calculation period, which begins on Monday of one week and ends on Friday of the next following week.

In addition, in the past the Central Bank has imposed on other types of transactions certain compulsory deposit requirements that are no longer in effect, and could re-impose these requirements or impose similar restrictions in the future. For more information on Central Bank restrictions, see "Risk Factors—Risks Factors Relating to Us" and "Risk Factors—Risks Factors Relating to the Brazilian Banking Industry."

## **Taxation of Financial Transactions**

### ***Income Tax***

The income received on financial transactions by Brazilian residents is subject to the withholding income tax at rates which vary according to: (i) the type of investment (fixed or variable income, as defined by Brazilian law; variable income investments usually have a more favorable treatment), and (ii) the investments' terms (long-term investments are usually subject to lower rates). Generally, fixed income investments are subject to the withholding tax at rates which vary according to the duration of the investment as follows: (i) 22.5% for investments of 180 days or less; (ii) 20% for investments of between 180 and 360 days; (iii) 17.5% for investments of between 360 and 720 days; and (iv) 15% for investments held for more than 720 days.

Income earned from stock market investment is subject to withholding income tax at a rate of 0.005% on the sale price at the time of the investment's liquidation. Moreover, income tax shall be levied at the rate of 15% on the gains realized in connection with the transaction, deducted the 0.005% previously withheld. Income earned from the stock market investment fund or similar investment is subject to income tax at a rate of 15%.

The withholding income tax levied on financial transactions (a) is considered for Brazilian legal entities as an anticipation of the corporate income tax due by them, since the income received must be included in the taxable corporate income, subject to IRPJ and CSLL and (b) is exclusively taxed at source for individuals that are Brazilian residents.

The income on financial transactions received by Brazilian entities may also be subject to COFINS and PIS and must be included in the taxable corporate income, which is subject to the Corporate Income Tax, or IRPJ, and the CSLL. The PIS and COFINS rates are currently reduced to zero in relation to financial revenues received by entities subject to the non cumulative PIS/COFINS taxation system. For companies adopting the cumulative regime the corresponding income is not subject to PIS and COFINS.

Investments in Brazilian financial and capital markets by individuals or legal entities resident or domiciled abroad are generally subject to the same taxation rules applicable to Brazilian residents, except for foreign investments made in accordance with the rules set forth by the CMN, which currently benefit from a special taxation regime.

### ***Tax on Financial Transactions, or IOF***

The IOF is a tax levied on foreign exchange, securities, credit and insurance transactions. The IOF rate may be changed by an Executive Decree (rather than a law). In addition, the IOF rate is not subject to the *ex post facto* principle, which provides that laws increasing the rate of existing taxes or creating new taxes will only come into effect as of the later of (i) the first day of the year following their publication, and (ii) ninety days after their publication. A statute increasing the IOF rate will therefore take effect from its publication date, but any new rate would only apply to future transactions.

With regard to foreign exchange transactions, which are subject to the IOF exchange, notwithstanding the maximum permitted IOF exchange rate being 25%, the remittance or receipt of amounts are generally subject to a 0.38% tax rate. The exceptions apply to:

- (i) foreign exchange transactions related to the inflow of proceeds into Brazil, including transactions implemented by means of simultaneous exchange transactions, in connection with loans subject to any register before the Brazilian Central Bank with an average term inferior to 1,800 days (almost 5 years), which are subject to the IOF at a 6% rate. The exchange transactions related to the outflow of proceeds from Brazil in connection with the mentioned foreign loans are subject to zero rate. The liquidation of exchange transactions for both inflow and outflow of proceeds into and

from Brazil in connection with foreign loans with an average term superior to 1,800 days, are subject to IOF/Exchange at a zero percent rate;

- (ii) foreign exchange transactions for the acquisition of goods or services outside Brazil with credit cards, in which case the rate is 6.38% of the amount of the transaction;
- (iii) foreign exchange transactions for the acquisition of goods or services outside Brazil with credit cards by the Federal Union, States, Municipalities, Federal District, as well as its foundations and autarchies, in which case the rate is 0%;
- (iv) foreign exchange transactions related to the inflow of export revenues of goods and services, in which case the rate is 0%;
- (v) foreign exchange transactions for the inflow and outflow of funds related to investments in variable income carried out in the Brazilian stock, commodities and/or future exchanges (except for derivatives with predetermined income), variable in accordance with the rules set forth by the CVM, in which case the rate is 0%;
- (vi) foreign exchange transactions for the inflow and outflow of funds related to investments made by non-residents in the Brazilian financial and capital markets, in which case the respective rates are 6% and 0%;
- (vii) foreign exchange transactions for the remittance of interest on net equity and dividends earned by foreign investors, in which case the rate is 0%;
- (viii) foreign exchange transactions performed between financial institutions (*operações interbancárias*), in which case the rate is 0%;
- (ix) foreign exchange transactions made by international air transportation companies, domiciled abroad, for purposes of remitting resources derived from its local revenues, in which case the rate is 0%;
- (x) foreign exchange transactions for the inflow of funds to cover expenses incurred in the country with credit cards issued abroad, in which case the rate is 0%; and
- (xi) foreign exchange transaction related to the acquisition of foreign currency by financial institutions simultaneously contracted with a foreign currency sale transaction, in which case the rate is 0%;
- (xii) foreign exchange transactions for the inflow and outflow of funds for stock acquisitions in a registered public offering (IPO) or subscription of stocks, provided that in both cases the issuer is listed in the Brazilian stock exchange, in which case the rate is 0%;
- (xiii) foreign exchange transactions for the inflow and outflow of funds for investment in private equity investment funds (FIP), venture capital funds (FIEE) and fund of these funds stock acquisitions, in which case the rate is 0%.

The IOF tax may be also levied on issuances of bonds or securities, including transactions carried out on Brazilian stock, futures or commodities exchanges ("IOF/Bonds"). The rate of the IOF/Bonds tax with respect to many securities transactions is currently 0%, although certain transactions may be subject to specific rates. The Minister of Finance, however, has the legal authority to increase the rate to a maximum of 1.5% per day of the amount of the taxed transaction, during the period in which the investor holds the securities, up to the amount equal to the gain made on the transaction and only from the date of its increase or creation.

IOF/Bonds are also assessed on gains realized in transactions with terms of less than 30 days consisting of the sale, assignment, repurchase or renewal of fixed income investments or the redemption of shares of investment funds or investment pools. The maximum rate of IOF payable in such cases is 1% per day, up to the amount equal to the gain made on the transaction, and decreases with the length of the transaction, reaching zero for transactions with maturities of at least 30 days, except that the rate for the following types of transactions is currently 0%:

- transactions carried out by financial institutions and other institutions chartered by the Central Bank as principals;
- transactions carried out by mutual funds or investment pools themselves;
- transactions carried out in the equity markets, including those performed in stock, futures and commodities exchanges and similar entities;
- redemptions of shares in equity funds;
- transactions carried out by governmental entities, political parties and worker's syndicates; and
- transactions with debentures, *Certificados de Recebíveis Imobiliários* and others.

IOF also applies to credit transactions, except for foreign credit, or IOF/Credit. The IOF/Credit levied on credit transactions is usually assessed at a daily rate of 0.0041% (applicable rate for legal entities) or 0.0068% (applicable rate for individuals), up to a limit of 1.5% and 2.5%, respectively. Additionally, an IOF credit surtax of 0.38% is currently applicable to most of the credit transactions, regardless of the term for the transaction maturing.

The IOF tax is levied on insurance transactions at a rate of: (i) zero in the operations of reinsurance, relating to export credits or to the international transport of goods and in operations in which the premiums are allocated to the financing of life insurance plans with coverage for survival, among others; (ii) 0.38% of premiums related to life insurance plans without coverage for survival, among others; (iii) 2.38% of premiums paid in the case of health insurance; and (iv) 7.38% of premiums paid in the case of other types of insurance. Rural insurance, among certain other specific insurance transactions, is exempt from IOF.

### ***Taxation of Corporations***

Brazilian companies' income tax is made up of two components, a federal income tax and a social contribution tax on taxable profits, or CSLL. As of January 1, 1996, the federal income tax is assessed at a combined rate of up to 25% of adjusted net income (the normal rate for Brazilian legal entities is 15%, plus 10% for legal entities with annual profits exceeding R\$240,000). As of January 1, 2003, CSLL is assessed at a rate of 9% of adjusted net income. Provisory Measure No. 413 of January 3, 2008, ratified by Law No. 11,727 of June 23, 2008, increased to 15% the CSLL rate applicable specifically to financial institutions.

Companies are taxed based on their worldwide income rather than on income produced solely in Brazil. Therefore, profits, capital gains and other income obtained abroad by Brazilian entities will be computed in the determination of their net profits. In addition, profits, capital gains and other income obtained by foreign branches or income obtained from subsidiaries or foreign corporations controlled by a Brazilian entity will also be computed in the calculation of such entity's profits, in proportion to its participation in such foreign companies' capital. The Brazilian entity is allowed to deduct any income tax paid abroad, up to the amount of Brazilian income taxes imposed on such income. Compensation for losses incurred abroad against income obtained locally is not allowed.

As of January 1, 2002, Provisory Measure No. 2,158-35 determined that such profits, capital gains and other income obtained abroad by a controlled or affiliate company shall be subject to taxation on an accrual basis by the Brazilian entity on December 31, of every fiscal year. In addition, Provisory Measure No. 2,158-35 also established that any such profit, capital gain and other income obtained that has not been subject to taxation until December 31, 2001 shall be taxed by the Brazilian entity on December 31, 2002. Finally, as of 1999, profits, capital gains and other income obtained abroad are also subject to the CSLL tax.

Law No. 9,249 allows a corporation to deduct from its net profits for tax purposes any interest paid to shareholders as remuneration of the shareholders' equity called "interest on net equity" or "interest on shareholder's capital."

Distributions may be paid in cash. The interest is calculated on the net equity accounts in accordance with the daily *pro rata* variation of the TJLP (*Taxa de Juros de Longo Prazo*), as determined by the Central Bank from time to time, and cannot exceed the greater of:

- (i) 50% of the net income (before the income tax provision taxes and the deduction of the interest amount attributable to shareholders) related to the period in respect of which the payment is made; or
- (ii) 50% of the sum of retained profits and profits reserves as of the date of the beginning of the period in respect of which the payment is made.

Any payment of interest to shareholders is subject to withholding income tax at the rate of 15%, or 25% in the case of a shareholder who is domiciled in a tax haven (defined as one that does not impose income taxes or where the income tax rate is lower than 20%, or where the local legislation imposes restrictions on disclosing the ownership structure of legal entities). These payments may be qualified, at their net value, as part of any mandatory dividend.

Tax losses carried forward are available for offset during any year up to 30% of the annual taxable income. No time limit is currently imposed on the application of tax losses to offset future taxable income.

Additionally, gross revenues of companies are taxed by two different social contributions, the PIS and the COFINS. Nonetheless, certain revenues, such as dividends, equity pick up, revenues from the sale of fixed assets and export revenues paid in foreign currency are not included in the calculation base for PIS and COFINS.

The rates of the PIS and COFINS vary depending on whether or not the taxpayer is subject to the cumulative regime of the contributions.

Generally, companies are subject to the non-cumulative regime of the contributions, and PIS and COFINS are due at a 1.65% and a 7.6% rate, respectively. The acquisition of certain goods and services by legal entities, which are used as input or registered as fixed assets for the production of goods or the rendering of services, may grant PIS and COFINS credits. According to the legislation currently in force, PIS and COFINS are due at a zero percent rate on financial revenues of companies subject to the non-cumulative regime of the contributions.

Companies that fulfil certain criteria, such as those subject to the presumed profit method, are subject to the cumulative regime of the contributions, according to which PIS and COFINS are due at a 0.65% and a 3% rate, respectively, and no deductions of any kind of expense whatsoever are allowed. Financial revenues are not included in the calculation base for PIS and COFINS.

Financial institutions remain subject to the cumulative regime, with some authorised exclusions from the taxable basis of PIS and COFINS. PIS and COFINS are due at the rate of 0.65% and 4%, respectively.

#### ***Allowance for Loan Losses for Income Tax Deduction Purposes***

Law No. 9,430 of December 27, 1996, as amended, provides that, as from January 1, 1997, losses related to credits may be deducted as expenses for the purposes of determination of taxable income as follows:

- unsecured credits in an amount of up to R\$5,000 per operation when due and unpaid after a period of six months, regardless of whether any judicial action has been taken by the creditor;
- unsecured credits in an amount exceeding R\$5,000 and up to R\$30,000 per operation when due and unpaid after a period of one year, regardless of whether any judicial action has been taken by the creditor and provided that the creditor has initiated and continues administrative procedures for the collection of the debt;
- unsecured credits in an amount exceeding R\$30,000 per operation when due and unpaid after a period of one year, provided that the creditor has initiated and continues judicial procedures for the collection of the debt;
- secured credits in any amounts when due and unpaid after a period of two years provided that the creditor has initiated and continues judicial procedures for the collection of the debt;

- debts due by companies under "concordata" (restructuring): (i) only with respect to the portion of the debt which exceeds the amount expected to be paid in the "concordata" proceedings; or (ii) with respect to the unpaid amounts which were expected to be paid during the "concordata" proceedings; and
- debts due to creditors of a declared bankrupt company, provided that the creditor has taken the required legal procedures to receive such credit.

Finally, Provisional Measure, or MP, No. 472, dated December 15, 2009, converted into Law No. 12,249/10, was enacted aiming at imposing limitations on interest payments made by Brazilian corporate taxpayers to foreign affiliates or to parties located in tax havens or in jurisdictions deemed to grant "privileged tax regimes", as defined by Brazilian laws, under cross border loans: the deductibility for purposes of determining the Brazilian corporate income tax and social contribution of interest paid to related parties are limited to a debt/equity ratio of 2:1. With regard to interests paid to beneficiaries, being related or not, located in tax haven countries or benefiting from tax favorable regimes (as listed by Brazilian law), the corresponding expense may be tax deductible limited to the debt/net equity ratio of 0.3/1.

Additionally, under the provisions of Section 26 of MP No. 472/09, any payments made by Brazilian companies in favour of tax haven residents or in favour of residents of privileged tax regime shall only consist of deductible expenses for corporate income taxes purposes if: (a) the effective beneficiary of the payment can be identified; (b) the Brazilian favour evidences that the beneficiary of the payment has active operational activities, and (c) if the effective payment is supported by the proper documents.

### **Regulations Affecting our Relationship with our Clients**

The relationship between financial institutions and their clients is regulated in general by laws applicable to all commercial transactions, and by the Brazilian Civil Code in particular. However, regulations established by the CMN and the Central Bank address specific issues relating to banking activity and contracts, complementing the general regulation.

#### ***The Consumer Defence Code and the Banking Client Defence Code***

CMN Resolution No. 3,694, dated March 26, 2009, expressly revoked CMN Resolution No. 2,878, dated July 26, 2001, as amended, which established procedures with respect to the settlement of financial transactions and to services provided by financial institutions to customers and the public in general. CMN Resolution No. 3,694 sets out new rules in connection with the execution of transactions and provision of services by financial institutions and other institutions authorised to operate by the Central Bank.

According to such rules, financial institutions must reflect, in their internal control and risk management systems, the adoption and verification of procedures in connection with the execution of maintaining and provision of services that will ensure:

- the supply of required information necessary to the free choice and decision making by their clients and users, including drawing to their attention contractual clauses or practices that imply duties, responsibilities and penalties, and providing in a timely manner copies of contracts, receipts, statements and other documentation related to the applicable transactions and services rendered to them;
- the use of clear, objective and adequate (to the nature and complexity of the applicable transaction or service) language in contracts and documents, in order to allow the proper understanding of their tenor and identification of deadlines, amounts, costs, fines, dates, locations and other conditions;
- the suitability of products and services offered or recommended to the needs, interests and goals of its clients;
- the possibility of timely termination of contracts and agreements;

- the formalization of proper title establishing the rights and obligations for the provision of credit card; and
- the forwarding of credit cards to the customer's home exclusively pursuant to express request.

Financial institutions must also disclose in their premises and in the premises where their products are offered visible written information related to the events which may cause the refusal of payment or the reception of checks, bank slips, documents (including collection documents), bills and others. Financial institutions are prohibited from refusing or embarrass access by clients or users of their products and services to conventional customer support channels, including bank tellers and ATMs, even if alternative or electronic customer support channels are available. The provision of services through alternative service channels is permitted, provided that the required measures to preserve the integrity, reliability, security and privacy of transactions are adopted and the legitimacy of the services rendered is assumed, with the institution required to inform their clients and users about any applicable risks.

In addition to the aforementioned procedures, the Federal Supreme Court decided on June 7, 2006 that relationships between consumers and financial institutions are also subject to Law No. 8,078 of September 11, 1990, or the Brazilian Consumer Defence Code, which ensures consumers certain prerogatives that facilitate their defence in court, such as the imposition of the reverse burden of proof, and defines limits on bank interest rates deemed to be abusive.

### **Anti-Money Laundering and Banking Secrecy**

Law No. 9613, of March 3, 1998, or the Money Laundering Law, plays a major role in relation to those engaged in banking and financial activities in Brazil. The Money Laundering Law sets forth the definition and the penalties to be incurred by persons involved in activities that comprise the "laundering" or concealing of property, rights and assets, as well as preclusion on using the financial system for these illicit acts.

The Money Laundering Law also created the Financial Activity Control Council (*Conselho de Controle de Atividades Financeiras*), or COAF, which is the entity responsible for applying administrative fines and receiving, examining and identifying information relating to suspected illegal activities under the Money Laundering Law.

Financial institutions are required, among other things, to:

- identify and maintain data on all clients;
- keep a file on all transactions performed by such clients, which exceed the limits set forth by the competent authority, for a five-year period;
- comply with all requests of COAF; and
- inform the competent authorities (without the clients' knowledge) of any transaction which involves an amount which exceeds the limit set forth by the competent authorities.

On July 24, 2009, the Central Bank issued Circular 3,461, which sets forth requirements to be complied with by financial institutions related to (a) internal policies and controls systems, (b) record of customer information, (c) record of financial services and transactions, (d) record of checks and transfer of funds, (e) record of prepaid cards, (f) record of handling of resources in excess of R\$100,000, and (g) report of material information to COAF.

### **Internal Policies and Controls Systems**

Financial institutions shall develop and implement internal policies and control systems that: (a) identify the responsibilities of the members of each of the hierarchical levels of the financial institutions; (b) contemplate gathering and registration of information systems that shall timely enable the identification of transactions that may indicate the occurrence of a money laundering crime; (c) define criteria and proceedings for the selection and training the employees of financial institutions, as well for monitoring their economic and financial conditions; and (d) reflect the necessity of previous analysis of new products aiming at preventing money laundering crimes. In

addition, such internal policies and control systems shall encompass measures to enable financial institutions to (a) confirm the customer identifications; (b) identify ultimate beneficiaries of transactions; and (c) identify politically exposed persons.

According to the first paragraph of Article 4 of Circular 3,461, a politically exposed person is an individual who is engaged or has been engaged, in the last 5 years, relevant public positions, jobs or functions, in Brazil or in other countries, territories and foreign dependencies, as well as their representatives, relatives and other people closely related to him. Circular 3,461, provides for further details to be complied with by financial institutions with respect to the identification of a politically exposed person.

#### ***Record of Customer Information***

The identification of customers (individuals and legal entities) must be recorded in a regularly updated customer information file, at least on an annual basis, pursuant to Circular 3,461. All files may be stored either physically or electronically. Circular 3,461 provides for different levels of record requirements by financial institutions depending on the type of relationship maintained with the customer (if either on occasional or permanent basis).

#### ***Record of Financial Services and Transactions***

Financial institutions must record all financial services rendered to or financial transactions entered with their customers. Information on the applicable financial services and transactions shall be recorded in order to enable them to identify: (a) if the relevant resources are compatible with the financial and economic conditions of the respective customer; (b) origin of resources; and (c) ultimate beneficiaries of the resources. The record system of financial transactions must enable the identification of (a) transactions carried out by a person, group of persons or corporate group, severally or jointly, in excess of R\$10,000 per month; and (b) transactions that may constitute, in view of their frequency, amount or structure, a manner to avoid the identification, control and record mechanisms of financial institutions.

#### ***Record of Checks and Transfer of Funds***

The information about checks and transfers of funds must be recorded in order to enable the financial institutions to identify: (a) transactions involving receipt of deposits through wire transfer, check, bank check and other documents with equivalent nature, as well as set-off checks deposited in other financial institutions; and (b) transactions involving the issuance of checks and bank checks, wire transfer, electronic transfer of amounts and credit documents in excess of R\$1,000.

#### ***Record of Prepaid Cards***

Financial institutions shall record information about prepaid cards with a function to receive charge or recharge of amounts, in national or foreign currency, as a result of payment in cash, foreign exchange transaction or any other transfer of deposit accounts. Such registration system shall enable the identification of the following events: (a) the issuance or recharge of values, in one or more prepaid cards, in amounts of or in excess of R\$100,000, or any equivalent amounts in other currencies, per month; and (b) the issuance or recharge of values in prepaid cards that may evidence, conceal or disguise the true nature, origin, location, disposition, movement, or ownership of assets, rights and valuables.

#### ***Record of Handling of Resources in Excess of R\$100,000***

Financial institutions must record information about deposits in cash, withdrawals in cash, withdrawals in cash by means of prepaid cards and requests of withdrawal provisioning in order to enable the identification of: (a) deposits in cash, withdrawal in cash, withdrawal in cash by means of prepaid cards and request of withdrawal provisioning in amount of, or in excess of, R\$100,000; (b) deposits in cash, withdrawal in cash, withdrawal in cash by means of prepaid cards and request of withdrawal provisioning that may evidence, conceal or disguise the true nature, origin, location, disposition, movement, or ownership of assets, rights and valuables; and (c) the issuance of bank checks, wired transfer of amounts or any other instrument of transfer of funds that comprise payment in cash in amounts of, or in excess of, R\$100,000.

### ***Report of Material Information to COAF***

Financial institutions must report to COAF, without the knowledge of the relevant client, the occurrence of any of the following events or proposals leading to such events:

- the issuance or recharge of values, in one or more prepaid cards, in amounts of, or in excess of, R\$100,000, or any equivalent amounts in other currencies, per month; and
- deposits in cash, withdrawal in cash, withdrawal in cash by means of prepaid cards and request of withdrawal provisioning in amounts of, or in excess of, R\$100,000. Additionally, the financial institutions shall report to COAF the occurrence of the following events or proposals leading to such events:
  - transactions or services (i) in amounts of, or in excess of, R\$10,000; and (ii) that may indicate the occurrence of the money laundering crimes in view of the parties thereto, their structure and lack of legal and economic support;
  - transactions and services that may constitute, in view of their frequency, amount or structure, a manner to avoid the identification, control and record mechanisms of financial institutions; and
  - transactions and services involving any person that has perpetrated or intended to perpetrate terrorist acts, or that has participated in or facilitated the perpetration of such acts, as well as the existence of resources owned by such person or, otherwise, directly or indirectly controlled by him; and acts that may constitute terrorism financing.

The records referred to above must be kept for at least five years or ten years depending on the information.

Failure to comply with any of the obligations indicated above shall subject the financial institution and its officers and directors to penalties that vary from the application of fines (ranging from 1% to 100% of the transaction amount or 200% over any profit generated by the same), to the declaration of its officers and directors as ineligible to exercise any position at a financial institution and/or the cancellation of the financial institution's operating license. The Money Laundering Law establishes that employees are subject to criminal penalties if they facilitate or participate in money laundering activities. According to article 1, paragraph 2, I, of the Money Laundering Law, the same penalty (imprisonment of three to ten years, and fine) applies to a person who uses, in the economic or financial activity, assets, right or valuables, knowing that they proceed from any of the money laundering crimes listed therein.

Brazilian financial institutions are also subject to strict bank confidentiality regulations. The only circumstances in which information about clients, services or operations of Brazilian financial institutions or credit card companies may be disclosed to third parties are the following: (i) the disclosure of information with the express consent of the interested parties; (ii) the exchange of information between financial institutions for record purposes; (iii) the supply to credit reference agencies of information based on data from the records of subscribers of checks drawn on accounts without sufficient funds and defaulting debtors; (iv) in the event that acted or suspected as to the occurrence or suspicion that criminal or administrative illegal acts have been performed, financial institutions and credit card companies may provide the competent authorities with information relating to such criminal acts; and (v) Complementary Law No. 105 enacted on January 10, 2001 also allows the Central Bank or the CVM to exchange information with foreign governmental authorities, provided that a specific treaty in that respect may have been previously executed.

Financial institutions must maintain the secrecy of their banking operations and services provided to their customers. Certain exceptions apply to this obligation, however, such as the sharing of information on credit history, criminal activity and violation of bank regulations or disclosure of information authorised by interested parties, as discussed above. Bank secrecy may also be breached when necessary for the investigation of any illegal act.

The Brazilian Government and auditors from the Secretariat of the Federal Revenue of Brazil may also inspect an institution's documents, books and financial registry in certain circumstances.

## **Bank Failure**

### ***Intervention, Administrative Liquidation and Bankruptcy***

The Central Bank may intervene in the operations of a financial institution not controlled by the Brazilian government if there is a material risk for creditors, or if the financial institution frequently violates applicable regulations. The Central Bank may also intervene if liquidation can be avoided or it may perform administrative liquidation or, in some circumstances, require the bankruptcy of any financial institution except those controlled by the Brazilian government. Intervention may also be ordered upon the request of a financial institution's management.

### ***Intervention***

As from the date on which it is ordered, the intervention will automatically: (a) suspend the enforceability of any payable obligations; (b) prevent early termination or maturity of any previously contracted obligations; and (c) freeze deposits existing on the date on which the intervention is decreed.

The intervention period shall not exceed six months, which, by decision of the Central Bank, may be extended only once for up to six additional months. The intervention proceeding will cease (a) if interested parties undertake to continue the economic activities of the financial institution, by presenting the necessary guarantees, as determined by the Central Bank; (b) when the situation of the entity is regularized, as determined by the Central Bank; or (c) when administratively liquidation or bankruptcy of the entity is ordered. In this case, the Central Bank may administrative liquidate the financial institution or authorise the intervener to file for voluntary bankruptcy currently governed by bankruptcy laws, among other situations, if the assets of the intervened institution are insufficient to satisfy at least 50% of outstanding unsecured debts.

### ***Administrative Liquidation***

An administrative liquidation of any financial institution (with the exception of public financial institutions controlled by the Brazilian government) may be carried out by the Central Bank if it can be established that:

- debts of the financial institution are not being paid when due;
- the financial institution is deemed insolvent;
- the financial institution has incurred losses that could abnormally increase the exposure of the unsecured creditors;
- management of the relevant financial institution has materially violated Brazilian banking laws or regulations; or
- upon cancellation of its operating authorisation, a financial institution's ordinary liquidation proceedings are not carried out within 90 days or are carried out with delay representing a risk to its creditors, at the Central Bank's discretion. Liquidation proceedings may otherwise be requested, on reasonable grounds, by the financial institution's officers or by the intervener appointed by the Central Bank in the intervention proceeding.

#### **Administrative Liquidation Proceedings May Cease:**

- at the discretion of the Central Bank if the parties concerned assume the administration of the financial institution after having provided the necessary guarantees;
- when the liquidator's final accounts are rendered and approved, and subsequently filed with the competent Public Registry;

- when converted to an ordinary liquidation; or
- when the financial institution is declared bankrupt.

### ***Temporary Special Administration Regime***

In addition to the aforesaid procedures, the Central Bank may also establish the Temporary Special Administration Regime (*Regime de Administração Especial Temporária*), or RAET, which is a less restrictive form of Central Bank intervention in private and non-federal public financial institutions and which allows institutions to continue to operate normally.

The RAET may be imposed by the Central Bank in the following circumstances:

- continuous practice of transactions contrary to the economic and financial policies established by federal law;
- the institution fails to comply with the compulsory reserves rules;
- the institution has operations or circumstances which call for an intervention;
- reckless or fraudulent management;
- the institution faces a shortage of assets; and
- the occurrence of any of the events described above that may result in a declaration of intervention.

The main object of the RAET is to assist with the recovery of the financial condition of the institution under special administration. Therefore, the RAET does not affect the day to day business operations, liabilities or rights of the financial institution, which continues to operate in its ordinary course.

There is no minimum term for a RAET, which ceases upon the occurrence of any of the following events: (i) acquisition by the Brazilian federal government of control of the financial institution; (ii) a corporate restructuring, merger, spin-off, amalgamation or transfer of the control of the financial institution; (iii) a decision by the Central Bank; or (iv) the declaration of extra-judicial liquidation of the financial institution.

On October 19, 2009, the Central Bank submitted to market comments a proposal for a new law to revamp the existing legal framework applicable to the actions that may be taken by the Central Bank to protect the stability of the financial system and to prevent and regulate bank failure. However, we cannot anticipate if and when such new legal framework may become effective.

### ***Repayment of Creditors in Liquidation***

In case of the bankruptcy or liquidation of a financial institution, certain credits, such as credits for salaries up to 150 minimum wages (*salários mínimos*) per labour creditor, among others, will have preference over any other credits.

The Credit Insurance Fund (*Fundo Garantidor de Crédito*) is a deposit insurance system which guarantees a maximum amount of R\$60,000 of deposits and credit instruments held by an individual against a financial institution (or against financial institutions of the same financial group). The Credit Insurance Fund is funded principally by mandatory contributions from all Brazilian financial institutions that take customer deposits. The payment of unsecured credit and customer deposits not payable under the Credit Insurance Fund is subject to the prior payment of all secured credits and other credits to which specific laws may grant special privileges.

### ***Brazilian Payment System***

In December 1999, the Brazilian government released new rules for the settlement of payments in Brazil, based on the guidelines adopted by the Bank of International Settlements, or BIS. After a period of tests and gradual implementation, the Brazilian Payment and Settlement System began operating in April 2002. The Central Bank

and CVM have the power to regulate and supervise this system. Pursuant to these rules, new clearing houses may be created and all clearing houses are required to adopt procedures designed to reduce the possibility of systemic crises and to reduce the risks currently borne by the Central Bank. The most important principles of the Brazilian Payment System are:

- the existence of two main payment and settlement systems: real-time gross settlements, using the reserves deposited with the Central Bank; and deferred net settlements, through the clearing houses;
- the clearing houses, with some exceptions, will be liable for the payment orders they accept; and
- bankruptcy laws do not affect the payment orders made through the credits of clearing houses, nor the collateral granted to secure those orders. However, clearinghouses have ordinary credits against any participant under bankruptcy laws.

The systems comprising the Brazilian clearing systems are responsible for creating safety mechanisms and rules for controlling risks and contingencies, for loss sharing among market participants and for direct execution of participants' positions, performance of their agreements and foreclosure of collateral held under custody. In addition, clearing houses and settlement services providers that are considered important to the system are obligated to set aside a portion of their assets as an additional guarantee for the settlement of transactions.

Under these rules, responsibility for the settlement of a transaction is assigned to the clearinghouses and settlement service providers responsible for it. Once a financial transaction has been submitted for clearing and settlement, it generally becomes the obligation of the relevant clearing house and/or settlement services provider to clear and settle it, and it is no longer subject to the risk of bankruptcy or insolvency on the part of the market participant that submitted it for clearing and settlement.

Financial institutions and other institutions chartered by the Central Bank are also required under these rules to create mechanisms to identify and avoid liquidity risks, in accordance with certain procedures established by the Central Bank. Under these procedures, institutions are required to:

- maintain and document criteria for measuring liquidity risks and mechanisms for managing them;
- analyze economic and financial data to evaluate the impact of different market scenarios on the institution's liquidity and cash flow;
- prepare reports to enable the institution to monitor liquidity risks;
- identify and evaluate mechanisms for unwinding positions that could threaten the institution economically or financially and for obtaining the resources necessary to carry out such unwinds;
- adopt system controls and testing them periodically;
- promptly provide to the institution's management available information and analysis regarding any liquidity risk identified, including any conclusions or remedies adopted; and
- develop contingency plans for handling liquidity crisis situations.

## **Foreign Investment and the Brazilian Constitution**

### ***Foreign Banks***

The Brazilian Constitution prohibits foreign financial institutions from establishing new branches in Brazil, except when duly authorised by the Brazilian government. A foreign financial institution duly authorised to operate in Brazil through a branch or a subsidiary is subject to the same rules, regulations and requirements that are applicable to any Brazilian financial institution.

### ***Foreign Investment in Brazilian Financial Institutions***

The Brazilian Constitution permits foreign individuals or companies to invest in the voting shares of Brazilian financial institutions only if they have specific authorisation from the Brazilian government.

Foreign investors may acquire publicly traded non-voting shares of Brazilian financial institutions negotiated on a stock exchange, or depositary receipts offered abroad representing non-voting shares, without specific authorisation.

### **Cayman Islands Banking Regulation**

Banks and trust companies wishing to carry on business from within the Cayman Islands must be licensed by the Cayman Islands Monetary Authority under the Banks and Trust Companies Law (2009 Revision), whether or not such business is actually to be carried on in the Cayman Islands. Under the Banks and Trust Companies Law, there are two main categories of banking licence: a category "A" licence, which permits unrestricted domestic and offshore banking business, and a category "B" licence, which permits principally only offshore banking business. As of December 31, 2011, there were approximately 5 banks holding category "A" licences and approximately 219 banks holding category "B" licences. The holder of a category "B" licence may have an office in the Cayman Islands and conduct business with other licensees and offshore companies but, except in limited circumstances, may not do banking business locally with the public or residents in the Cayman Islands. We have an unrestricted category "B" licence. There are no specific ratio or liquidity requirements under the Bank and Trust Companies Law, but the Cayman Islands Monetary Authority will expect observance of prudent banking practices, and the Banks and Trust Companies Law imposes a minimum net worth requirement of an amount equal to CI\$400,000 (or, in the case of licensees holding a restricted category "B" or a restricted trust licence, CI\$20,000).

## TERMS AND CONDITIONS OF THE NOTES

*The following is the text of the terms and conditions that, subject to completion and amendment and as supplemented or varied in accordance with the provisions of the relevant Final Terms, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. Either (i) the full text of these terms and conditions together with the relevant provisions of the Final Terms or (ii) these terms and conditions as so completed, amended, supplemented or varied (and subject to simplification by the deletion of inapplicable provisions), shall be endorsed on the Notes. All capitalised terms that are not defined in these Conditions will have the meanings given to them in the relevant Final Terms. Those definitions will be endorsed on the definitive Notes. References in the Conditions to "Notes" are to the Notes of one Series only, not to all Notes that may be issued under the Programme, unless the context otherwise requires.*

### Introduction

*Programme:* BES Investimento do Brasil S.A. – Banco de Investimento, acting through its principal office in Brazil or through its Grand Cayman Branch, as specified in the applicable Final Terms (the "**Issuer**") has established a Global Medium Term Note Programme (the "**Programme**") for the issuance of up to US\$1,000,000,000 in aggregate principal amount of notes (the "**Notes**").

*Final Terms:* Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche will be the subject of the relevant final terms (the "**Final Terms**") which supplement these terms and conditions (the "**Conditions**"). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as supplemented, amended and/or replaced by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

*Trust Deed:* The Notes are constituted by, are subject to, and have the benefit of, a trust deed dated February 4, 2010 (as amended, supplemented or restated, the "**Trust Deed**") made between the Issuer and The Bank of New York Mellon as trustee (the "**Trustee**," which expression includes all persons for the time being appointed trustee or trustees under the Trust Deed) for the holders of the Notes (the "**Noteholders**").

*Paying Agency Agreement:* The Notes are the subject of a paying agency agreement dated February 4, 2010 (as amended, supplemented or restated, the "**Paying Agency Agreement**") among the Issuer, the Trustee, The Bank of New York Mellon Trust (Japan), Ltd. as principal paying agent (the "**Principal Paying Agent**," which expression shall include any successor or alternate principal paying agent appointed from time to time in connection with the Notes), The Bank of New York Mellon as the registrar (the "**Registrar**," which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon, acting as the issue agent (the "**Issue Agent**," which expression includes any successor issue agent appointed from time to time in connection with the Notes) and as a transfer agent (a "**Transfer Agent**," which expression includes any successor transfer agent appointed from time to time in connection with the Notes, and together with the other transfer agents named therein, the "**Transfer Agents**"), and the paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**," which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). In these Conditions, references to the "**Agents**" are to the Registrar, the Issue Agent, the Transfer Agents and the Paying Agents, and any reference to an "**Agent**" is to any one of them.

*The Notes:* The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**"). All subsequent references in these Conditions to "**Notes**" are to the Notes of a relevant Series which are the subject of the relevant Final Terms, and any references to Coupons (as defined below) are to Coupons relating to Notes of the relevant Series. Copies of the relevant Final Terms will be available for inspection by Noteholders during normal business hours at the specified office of the Issue Agent or, as the case may be, the Registrar, and, to the extent the relevant Series of Notes is listed on the Global Exchange Market, the unregulated market of the Irish Stock Exchange (the "**Global Exchange Market**"), will also be obtainable in the city of Dublin, at the office of The Bank of New York Mellon (Ireland) Limited, as listing agent for the Notes and so long as the Notes are listed on the Global Exchange Market and the rules of that exchange so require, by publication on the website of the Global Exchange Market designated for such purposes pursuant to the rules of the Global Exchange Market. In the case of a Tranche of Notes in relation to which application has not been made for listing on any stock exchange, listing

authority or quotation system, copies of the relevant Final Terms will only be available for inspection by a Holder of such Notes.

*Summaries:* Certain provisions of these Conditions are summaries of the Trust Deed and the Paying Agency Agreement and are subject to their detailed provisions. The Noteholders are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and Paying Agency Agreement. Copies of the Trust Deed and Paying Agency Agreement are available for inspection by Noteholders during normal business hours at the offices of each of the Trustee, the Paying Agents, the Registrar and the Transfer Agent, the initial Specified Offices of which are set out below.

## 1. **Definitions and Interpretation**

(a) *Definitions:* In these Conditions, the following expressions have the following meanings:

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Brazil**" means the Federative Republic of Brazil;

"**Business Day**" means:

- (a) in relation to any sum payable in euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in each (if any) Additional Business Centre; and
- (b) in relation to any sum payable in a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the Principal Financial Centre of the relevant currency and in each (if any) Additional Business Centre;

"**Business Day Convention,**" in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

"**Calculation Agent**" means a calculation agent or such other Person appointed by the Issuer in accordance with the terms of the Paying Agency Agreement and as specified in the relevant Final Terms as the party responsible for calculating the Interest Rate(s), Interest Amount(s), Redemption Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

"**Cayman Islands**" means the British overseas territory located in the western Caribbean Sea, comprising the three islands of Grand Cayman, Cayman Brac, and Little Cayman;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to the Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period, the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

- (a) if "**Actual/Actual (ICMA)**" is so specified, means a fraction equal to the "number of days accrued/number of days in year," as such terms are used in Rule 251 of the statutes, by-laws, rules and recommendations of the International Capital Market Association (the "**ICMA Rule Book**"), calculated in accordance with Rule 251 of the ICMA Rule Book as applied to non-U.S. dollar denominated straight and convertible bonds issued after December 31, 1998, as though the interest coupon on a bond were being calculated for a coupon period corresponding to the Calculation Period in respect of which payment is being made;
- (b) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period in respect of which payment is being made divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of (i) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366 and (ii) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);
- (c) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;
- (d) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;
- (e) if "**30/360**," "**360/360**" or "**Bond Basis**" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y<sub>1</sub>**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y<sub>2</sub>**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M<sub>1</sub>**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M<sub>2</sub>**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D<sub>1</sub>**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>1</sub> will be 30; and

"**D<sub>2</sub>**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D<sub>1</sub> is greater than 29, in which case D<sub>2</sub> will be 30; and

- (f) if "30E/360" or "Eurobond Basis" is so specified means, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D<sub>2</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

- (g) if "30E/360 (ISDA)" is so specified means, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360x(Y_2 - Y_1)] + [30x(M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"Y<sub>1</sub>" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"Y<sub>2</sub>" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"M<sub>1</sub>" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"M<sub>2</sub>" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"D<sub>1</sub>" is the first calendar day, expressed as a number, of the Calculation Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D<sub>1</sub> will be 30; and

"D<sub>2</sub>" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless (i) that day is the last day of

February but not the Maturity Date or (ii) such number would be 31, in which case  $D_2$  will be 30.

**"Early Redemption Amount"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"Early Redemption Amount (Tax)"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"Exchange Date"** means the Relevant Banking Day following the day on which the relevant Bearer Note shall have been surrendered for exchange in accordance with Condition 3(b)(ii);

**"Extraordinary Resolution"** means a resolution passed at a meeting of the Holders of the Notes, duly convened and held in accordance with the provisions of the Trust Deed, by a majority of not less than three quarters of the votes cast;

**"Final Redemption Amount"** means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

**"Fixed Coupon Amount"** has the meaning given in the relevant Final Terms;

**"Following Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day;

- (a) **"Modified Following Business Day Convention"** or **"Modified Business Day Convention"** means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day;
- (b) **"Preceding Business Day Convention"** means that the relevant date shall be brought forward to the first preceding day that is a Business Day;
- (c) **"FRN Convention," "Floating Rate Convention"** or **"Eurodollar Convention"** means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred; provided, however, that:
  - (i) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;
  - (ii) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and
  - (iii) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and
- (d) **"No Adjustment"** means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Grand Cayman**" means the island of Grand Cayman, part of the Cayman Islands;

"**Holder**," in the case of Bearer Notes, has the meaning given in Condition 3(a)(i) and, in the case of Registered Notes, has the meaning given in Condition 3(b)(i);

"**Individual Note Certificate**" has the meaning given in Condition 2(b)(ii);

"**Interest Accrual Period**" means, in respect of an Interest Period, each successive period beginning on and including an Interest Period End Date and ending on but excluding the next succeeding Interest Period End Date during that Interest Period provided always that the first Interest Accrual Period shall commence on and include the Interest Commencement Date and the final Interest Accrual Period shall end on but exclude the date of final maturity;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period;

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

- (a) as the same may be adjusted in accordance with the relevant Business Day Convention;  
or
- (b) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date of any Interest Payment Date and ending on (but excluding) the next Interest Payment Date;

"**Interest Period End Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms, as the same may be adjusted in accordance with the Business Day Convention or, if the Business Day Convention is the FRN Convention and an interval of a number of calendar months is specified in the relevant Final Terms as the Interest Accrual Period, such dates as may occur in accordance with the FRN Convention at such specified period of calendar months following the Interest Commencement Date (in the case of the first Interest Period End Date) or the previous Interest Period End Date (in any other case) or, if none of the foregoing is specified in the relevant Final Terms, means the date or each of the dates which correspond with the Interest Payment Date(s) in respect of the Notes;

"**Interest Rate**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"**ISDA Definitions**" means the 2006 ISDA Definitions, as amended and updated as of the date of issue of the first Tranche of the Notes of the relevant Series (as specified in the relevant Final Terms) and as published by the International Swaps and Derivatives Association, Inc.;

"**Issue Date**" has the meaning given in the relevant Final Terms;

"**Margin**" has the meaning given in the relevant Final Terms;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Note Certificate**" has the meaning given in Condition 3(b)(i);

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms;

"**Payment Business Day**" means:

- (a) if the currency of payment is euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or
- (b) if the currency of payment is not euro, any day which is:
  - (i) a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and
  - (ii) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

**"Principal Financial Centre"** means, in relation to any currency, the principal financial centre for that currency as provided in the ISDA Definitions;

**"Put Option Notice"** means a notice which must be delivered to a Paying Agent by any Holder wanting to exercise a right to redeem a Note at the option of the Holder;

**"Put Option Receipt"** means a receipt issued by a Paying Agent to a depositing Holder upon deposit of a Note with such Paying Agent by any Holder wanting to exercise a right to redeem a Note at the option of the Holder;

**"Redemption Amount"** means, as appropriate, the Final Redemption Amount, the Early Redemption Amount (Tax), the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

**"Reference Banks"** has the meaning given in the relevant Final Terms or, if none, three major banks selected by the Calculation Agent in the market that is most closely connected with the Reference Rate;

**"Reference Price"** has the meaning given in the relevant Final Terms;

**"Reference Rate"** has the meaning given in the relevant Final Terms;

**"Registered Global Note"** has the meaning given in Condition 2(b)(ii);

**"Regular Period"** means:

- (a) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;
- (b) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls; and
- (c) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where **"Regular Date"** means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

**"Relevant Banking Day"** means a day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the place where the Specified Office of the Registrar or the Transfer Agent is located and, in the case of an exchange of a Bearer Note for a Registered Note, where such request for exchange is made to the Issue Agent in the place where the Specified Office of the Issue Agent is located;

**"Relevant Date"** means, in relation to any payment, whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Principal Paying Agent on or

prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Holders;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, the Reuter Service) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Significant Subsidiary**" means any Subsidiary that would be a "Significant Subsidiary" of the Issuer within the meaning of Rule 1-02 under Regulation S-X promulgated by the United States Securities and Exchange Commission;

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination(s)**" has the meaning given in the relevant Final Terms;

"**Specified Office**" has the meaning given in the Paying Agency Agreement;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**");

- (a) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or
- (b) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Reserved Matter**" means any proposal:

- (a) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes on redemption or maturity or the date for any such payment;
- (b) to effect the exchange or substitution of the Notes for, or the conversion of the Notes into, shares, bonds or other obligations or securities of the Issuer or any other person or body corporate formed or to be formed;
- (c) to change the currency in which amounts due in respect of the Notes are payable;
- (d) to change the quorum required at any meeting of the Holders of the Notes or the majority required to pass an Extraordinary Resolution; or
- (e) to amend this definition;

"**TARGET Settlement Day**" means any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET 2) System, which was launched on 19 November 2007, is operating; and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) *Interpretation:* In these Conditions:

- (i) if the Notes are Zero Coupon Notes, references to Coupons are not applicable;
- (ii) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 10 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;
- (iii) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 10 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;
- (iv) references to Notes being "outstanding" shall be construed in accordance with the Trust Deed;
- (v) any reference to the Trust Deed and to the Paying Agency Agreement shall be construed as a reference to the Trust Deed or the Paying Agency Agreement, as amended and/or supplemented up to and including the Issue Date of the Notes; and
- (vi) if an expression is stated in Condition 1(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms give no such meaning or specify that such expression is "not applicable" then such expression is not applicable to the Notes.

## 2. **Form and Denomination**

(a) *Bearer Note Provisions:*

- (i) Bearer Notes are issued in bearer form, as specified in the Final Terms and are serially numbered.
- (ii) The Final Terms shall specify whether U.S. Treasury Regulation §1.163-5(c)(2)(i)(D) (the "**TEFRA D Rules**") or U.S. Treasury Regulation §1.163-5(c)(2)(i)(C) (the "**TEFRA C Rules**") shall apply to a Tranche of Bearer Notes. Each Tranche of Bearer Notes is represented upon issue by a temporary global Note (a "**Temporary Global Note**"), unless the relevant Final Terms specify otherwise and the TEFRA C Rules apply.

Where the Final Terms applicable to a Tranche of Bearer Notes specify that the TEFRA C Rules apply, such Tranche is (unless otherwise specified in the Final Terms) represented upon issue by a permanent global Note (a "**Permanent Global Note**").

Interests in the Temporary Global Note may be exchanged for:

- (A) interests in a Permanent Global Note; or
- (B) if so specified in the Final Terms, definitive Notes in bearer form ("**Definitive Notes**").

Exchanges of interests in a Temporary Global Note for Definitive Notes or, as the case may be, a Permanent Global Note will be made only on or after the Exchange Date (as specified in the Final Terms) and (unless the Final Terms specify that the TEFRA C Rules are applicable to the Bearer Notes) provided certification as to the beneficial

ownership thereof as required by U.S. Department of Treasury regulations (“**Treasury Regulations**”) (in substantially the form set out in the Temporary Global Note or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received.

- (iii) The bearer of any Temporary Global Note shall not (unless, upon due presentation of such Temporary Global Note for exchange (in whole but not in part only) for a Permanent Global Note or for delivery of Definitive Notes, such exchange or delivery is improperly withheld or refused and such withholding or refusal is continuing at the relevant payment date) be entitled to receive any payment in respect of the Bearer Notes represented by such Temporary Global Note which falls due on or after the Exchange Date or be entitled to exercise any option on a date after the Exchange Date.
- (iv) Unless the Final Terms specify that the TEFRA C Rules are applicable to the Bearer Notes and subject to Condition 2(a)(iii) above, if any date on which a payment of interest is due on the Bearer Notes of a Tranche occurs whilst any of the Bearer Notes of that Tranche are represented by a Temporary Global Note, the related interest payment will be made on the Temporary Global Note only to the extent that certification as to the beneficial ownership thereof as required by Treasury Regulations (in substantially the form set out in the Temporary Global Note or in such other form as is customarily issued in such circumstances by the relevant clearing system) has been received by Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”), or Clearstream Banking, *société anonyme*, Luxembourg (“**Clearstream, Luxembourg**”) or any other relevant clearing system. Payments of amounts due in respect of a Permanent Global Note or (subject to Condition 2(a)(iii) above) a Temporary Global Note (if the Final Terms specify that the TEFRA C Rules are applicable to the Bearer Notes) will be made through Euroclear or Clearstream, Luxembourg or any other relevant clearing system without any requirement for certification.
- (v) Interests in a Permanent Global Note will be exchanged by the Issuer in whole but not in part only at the option of the Holder of such Permanent Global Note, for Definitive Notes, (a) if an Event of Default (as defined below) occurs in respect of any Note of the relevant Series; or (b) if either Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of fourteen days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so; or (c) if so specified in the Final Terms, at the option of the Holder of such Permanent Global Note upon such Holder's request, in all cases at the cost and expense of the Issuer. In order to exercise the option contained in paragraph (c) of the preceding sentence, the Holder must, not less than forty-five days before the date upon which the delivery of such Definitive Notes is required, deposit the relevant Permanent Global Note with the Principal Paying Agent at its Specified Office with the form of exchange notice endorsed thereon duly completed. If the Issuer does not make the required delivery of Definitive Notes by 6:00 pm (London time) on the day on which the relevant notice period expires or, as the case may be, the thirtieth day after the day on which such Permanent Global Note becomes due to be exchanged and, in the case of (a) above, such Note is not duly redeemed (or the funds required for such Redemption are not available to the Principal Paying Agent for the purposes of effecting such redemption and remain available for such purpose) by 6:00 p.m. (London time) on the thirtieth day after the day at which such Note became immediately redeemable, such Permanent Global Note will become void in accordance with its terms but without prejudice to the rights conferred by the Trust Deed.
- (vi) Interest bearing Definitive Notes have attached thereto at the time of their initial delivery Coupons, presentation of which will be a prerequisite to the payment of interest save in certain circumstances specified herein.

- (b) *Registered Note Provisions:*
- (i) Registered Notes are issued in registered form, as specified in the Final Terms.
  - (ii) Each Tranche of Registered Notes is represented upon issue by a global Note Certificate in registered form (a "**Registered Global Note**") which will be exchangeable in whole, but not in part, for individual Note Certificates in registered form ("**Individual Note Certificates**"), (a) if an Event of Default (as defined below) occurs in respect of any Note of the relevant Series; or (b) if either Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of fourteen days (other than by reason of public holidays) or announces an intention to cease business permanently or in fact does so.
  - (iii) Whenever the Registered Global Note is to be exchanged for Individual Note Certificates, the Issuer shall procure that Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Registered Global Note within five business days of the delivery, by or on behalf of the registered Holder of the Registered Global Note to the Registrar of such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) against the surrender of the Registered Global Note at the Specified Office of the Registrar. Such exchange will be effected in accordance with the provisions of the Paying Agency Agreement and the regulations concerning the transfer and registration of Notes scheduled thereto and, in particular, shall be effected without charge to any Holder, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.
- (c) *Denomination of Bearer Notes:* Bearer Notes are issued in the Specified Denomination(s) (each of which Specified Denomination is integrally divisible by each smaller Specified Denomination) specified in the Final Terms. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of any other Specified Denomination.
- (d) *Denomination of Registered Notes:* Registered Notes are issued in the Specified Denomination(s) and may be held in holdings equal to a minimum Specified Denomination (as specified in the relevant Final Terms) and integral multiples equal to specified increments (as specified in the relevant Final Terms) in excess thereof.
- (e) *Currency of Notes:* The Notes are denominated in such currency as may be specified in the relevant Final Terms. Any currency may be so specified (including, without limitation, United States dollars ("**USD**"), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements.

### 3. **Title and Transfer**

- (a) *Title to Bearer Notes:*
- (i) Title to Bearer Notes and Coupons passes by delivery. In the case of Bearer Notes, references herein to the "**Holder**" of a Note or of a Coupon are to the bearer of such Note or such Coupon, as the case may be.
- (b) *Title to Registered Notes:*
- (i) Title to Registered Notes passes by registration in the register, which the Issuer shall procure to be kept by the Registrar (the "**Register**"). The Registrar will maintain the Register in accordance with the provisions of the Paying Agency Agreement. A certificate (each, a "**Note Certificate**") will be issued to each Holder of Registered Notes

in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register. In the case of Registered Notes, references herein to the "**Holder**" means the person in whose name such Registered Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof).

- (ii) Subject to Conditions 3(b)(v) and (vi) below, a Registered Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; provided, however, that a Registered Note may not be transferred unless the principal amount of Registered Notes transferred and (where not all of the Registered Notes held by a Holder are being transferred) the principal amount of the balance of Registered Notes not transferred are Specified Denominations. Where not all the Registered Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Registered Notes will be issued to the transferor.
  - (iii) Within five business days of the surrender of a Note Certificate in accordance with Condition 3(b)(ii) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Registered Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "business day" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.
  - (iv) The transfer of a Registered Note will be effected without charge by or on behalf of the Issuer or the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.
  - (v) Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Registered Notes.
  - (vi) All transfers of Registered Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Registered Notes scheduled to the Paying Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.
- (c) The Holder of any Note or Coupon will (except as otherwise required by applicable law or regulatory requirement) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest thereof or therein, any writing thereon or, in the case of Registered Notes, on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such Holder.

- (d) *Transfer of Registered Notes and Exchange of Bearer Notes for Registered Notes:*
- (i) A Registered Note may, upon the terms and subject to the conditions set forth in the Paying Agency Agreement and further subject to the provisions of Conditions 3(d)(v) to 3(d)(vii), be transferred in whole, or in part only (provided that such part is, or is an integral multiple of, the minimum Specified Denomination) upon the surrender of the relevant Note Certificate, together with the form of transfer endorsed on it duly completed and executed, at the Specified Office of the Registrar or any Transfer Agent. A new Note Certificate will be issued to the transferee and, in the case of a transfer of part only of a Registered Note, a new Note Certificate in respect of the balance not transferred will be issued to the transferor.
  - (ii) If so specified in the relevant Final Terms and subject to the provisions of Conditions 3(d)(v) to 3(d)(vii), the Holder of Bearer Notes may exchange the same for the same aggregate principal amount of Registered Notes upon the terms and subject to the conditions set forth in the Paying Agency Agreement. Under no circumstances will any Registered Note be exchanged for a Bearer Note. In order to exchange a Bearer Note for a Registered Note, the Holder thereof shall surrender such Bearer Note at the Specified Office outside the United States of the Issue Agent, the Registrar or any Transfer Agent, together with a written request for the exchange. Each Bearer Note so surrendered must be accompanied by all unmaturing Coupons, if any, other than any Coupon in respect of the next payment of interest or principal (as the case may be) falling due after the Exchange Date where the exchange date would, but for the provisions of Condition 3(d)(iii), occur between the Record Date (as defined in Condition 9(f) (*Payments – Registered Notes – Record Date*))) for such payment of interest or principal and the date on which such payment of interest or principal falls due.
  - (iii) A Note Certificate representing each new Registered Note or Notes to be issued upon the transfer of a Registered Note or the exchange of a Bearer Note for a Registered Note will, within three Relevant Banking Days of the transfer date or, as the case may be, the Exchange Date, be available for collection by each relevant Holder at the Specified Office of the Registrar or the Transfer Agent (as the case may be) or, at the option of the Holder requesting such exchange or transfer be mailed (by uninsured post at the risk of the Holder(s) entitled thereto) to such address(es) as may be specified by such Holder. For these purposes, a form of transfer or request for exchange received by the Registrar, the Issue Agent or the Transfer Agent (as the case may be) after the Record Date (as defined in Condition 9(f) (*Payments – Registered Notes – Record Date*))) in respect of any payment due in respect of Registered Notes shall be deemed not to be effectively received by the Registrar, the Issue Agent or the Transfer Agent (as the case may be) until the day following the due date for such payment.
  - (iv) The issue of new Registered Notes on transfer or on the exchange of Bearer Notes for Registered Notes will be effected without charge by or on behalf of the Issuer, the Issue Agent, the Registrar or the Transfer Agent, but upon payment by the applicant of (or the giving by the applicant of such indemnity as the Issuer, the Issue Agent, the Registrar or the Transfer Agent may require in respect of) any tax, duty or other governmental charges which may be imposed in relation thereto.
  - (v) Upon the transfer, exchange or replacement of Registered Notes represented by Note Certificates bearing the Rule 144A legend (the "**Rule 144A Legend**") set forth in the relevant form of Note Certificate scheduled to the Trust Deed, the Registrar or any Transfer Agent shall deliver only Registered Notes represented by Note Certificates that also bear such legend unless either (i) such transfer, exchange or replacement occurs three or more years after the later of (1) the original Issue Date of such Notes or (2) the last date on which the Issuer or any affiliates (as defined below) of the Issuer as notified to the Registrar or such Transfer Agent by the Issuer as provided in the following

sentence, was the beneficial owner of such Notes (or any predecessor of such Notes) or (ii) there is delivered to the Registrar or such Transfer Agent an opinion reasonably satisfactory to the Issuer of counsel experienced in giving opinions with respect to questions arising under the securities laws of the United States to the effect that neither such legend nor the restrictions on transfer set forth therein are required in order to maintain compliance with the provisions of such laws. The Issuer covenants and agrees that it will not acquire any beneficial interest, and will cause its "**affiliates**" (as defined in paragraph (a)(1) of Rule 144 under the Securities Act of 1933, as amended (the "**Securities Act**")) not to acquire any beneficial interest, in any Registered Note represented by a Note Certificate bearing the Rule 144A Legend unless it notifies the Registrar and the Transfer Agents of such acquisition. The Registrar, the Transfer Agents and all Holders shall be entitled to rely without further investigation on any such notification (or lack thereof).

- (vi) For so long as any of the Registered Notes represented by Note Certificates bearing the Rule 144A Legend remain outstanding and are "**restricted securities**" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer covenants and agrees that it shall, during any period in which it is not subject to Section 13 or 15(d) under the United States Securities Exchange Act of 1934, as amended, nor exempt from reporting pursuant to Rule 12g3-2(b) under such Act, make available to any Holder in connection with any sale thereof and any prospective purchaser of such Notes from such Holder, in each case upon request, the information specified in, and meeting the requirements of, Rule 144(d)(4) under the Securities Act.
- (vii) No Holder may require the transfer of a Registered Note to be registered or a Bearer Note to be exchanged for a Registered Note during the period of fifteen days ending on the due date for the payment of any principal or interest in respect of such Note.

#### 4. **Status of the Notes**

- (a) *Status:* The Notes constitute direct, unconditional, unsubordinated and unsecured obligations of the Issuer and rank *pari passu* without any preference among themselves and at least *pari passu* with all other unsubordinated and unsecured obligations of the Issuer, present and future.
- (b) *No Set-Off:* No Holder shall be entitled to set-off against any amounts due in respect of the Notes held by such Holder any amount held by the Holder to the credit of the Issuer whether in any account, in cash or otherwise, nor any deposits with, advances to or debts of the Issuer, nor any other amount owing by the Holder to the Issuer on any account whatsoever, nor shall any Holder be entitled to effect any reduction of the amount due to such Holder in respect of a Note by merger of accounts or lien or the exercise of any other rights the effect of which is or may be to reduce the amount due in respect of that Note in breach of these Conditions.

#### 5. **Negative Pledge**

So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), the Issuer will not create or permit to subsist any Security upon the whole or any part of its undertakings or assets, present or future (including any uncalled capital) to secure (i) any of its Public External Indebtedness; or (ii) any of its Guarantees in respect of Public External Indebtedness; without at the same time or prior thereto securing the Notes equally and rateably therewith or providing such other security for the Notes as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Holders.

For the purpose of these Conditions:

- (a) "**External Indebtedness**" means Indebtedness which is payable (or may be paid) (i) in a currency or by reference to a currency other than the currency of Brazil and (ii) to a person resident or having its principal place of business outside Brazil.

- (b) "**Guarantee**" means any obligation of a person to pay the Indebtedness of another person including, without limitation:
  - (i) an obligation to pay or purchase such Indebtedness;
  - (ii) an obligation to lend money or to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;
  - (iii) an indemnity against the consequences of a default in the payment of such Indebtedness; or
  - (iv) any other agreement to be responsible for such Indebtedness.
- (c) "**Indebtedness**" means any obligation (whether present or future, actual or contingent) for the payment or repayment of money which has been borrowed or raised (including money raised by acceptances and leasing).
- (d) "**person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having a separate legal personality.
- (e) "**Public External Indebtedness**" means any External Indebtedness which is in the form of, or represented by, bonds, notes or other securities which are for the time being or are capable of being or intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market; provided, however, that Public External Indebtedness shall not include (i) transactions privately negotiated and entered into under the terms and conditions of the ISDA® Master Agreement (and any Schedule, Confirmation, Credit Support Annex and other documents related thereto) as published by the International Swap Dealer Association, Inc. or any substitute entity thereof; (ii) transactions privately negotiated and entered into under the terms and conditions of the TBMA/ISMA® Global Master Repurchase Agreement (and any annex, confirmation, credit support document and other documents related thereto) as published by the International Securities Market Association and the Bond Market Association or any substitute entity thereof; and (iii) any transactions involving derivatives that at the time of entering into such transaction are quoted, listed or ordinarily traded on any stock exchange, automated trading system, or other organised securities market.
- (f) "**Security**" means any mortgage, pledge, lien, hypothecation or security interest including, without limitation, any equivalent created or arising under the laws of Brazil.

## 6. Interest

- (a) Notes may be interest bearing or non interest bearing, as specified in the Final Terms. Words and expressions appearing in this Condition 6 (*Interest*) and not otherwise defined herein or in the Final Terms shall have the meanings given to them in Condition 1(a) (*Definitions*).
- (b) *Fixed Rate Note Provisions:*
  - (i) *Application:* This Condition 6(b) (*Fixed Rate Note Provisions*) is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.
  - (ii) *Accrual of Interest:* The Notes bear interest from the Interest Commencement Date at the Interest Rate and such interest is payable in arrears on each Interest Payment Date, subject as provided in Conditions 8 (*Payments - Bearer Notes*) and 9 (*Payments - Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment in full of the Redemption Amount is

improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (*Interest*) (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder and (ii) the day which is seven days after the Principal Paying Agent has notified the Holders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

- (iii) *Fixed Coupon Amount:* The amount of interest payable in respect of each Note for any *Interest Period* shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.
- (iv) *Calculation of Interest Amount:* The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified shall be calculated by *applying* the Interest Rate to the principal amount of such Note, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards). For this purpose a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(c) *Floating Rate Note and Index-Linked Interest Note Provisions:*

- (i) *Application:* This Condition 6(c) (*Floating Rate Note and Index-Linked Interest Note Provisions*) is applicable to the Notes only if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable.
- (ii) *Accrual of Interest:* The Notes bear interest from the Interest Commencement Date at the Interest Rate and such interest is payable in arrears on each Interest Payment Date, subject as provided in Conditions 8 (*Payments - Bearer Notes*) and 9 (*Payments - Registered Notes*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment in full of the Redemption Amount or the relevant instalment amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition (as well after as before judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Holder and (ii) the day which is seven days after the Principal Paying Agent has notified the Holders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).
- (iii) *Screen Rate Determination:* If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Notes for each Interest Accrual Period will be determined by the Calculation Agent on the following basis:
  - (A) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;
  - (B) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

- (C) if, in the case of (A) above, such rate does not appear on that page or, in the case of (B) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:
- (1) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and
  - (2) determine the arithmetic mean of such quotations; and
- (D) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (rounded, if necessary, to the nearest one-hundred-thousandth of a percentage point, 0.000005 per cent. being rounded up to 0.00001 per cent.) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11:00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Accrual Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Accrual Period and in an amount that is representative for a single transaction in that market at that time, and the Interest Rate for such Interest Accrual Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; provided, however, that if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Accrual Period, the Interest Rate applicable to the Notes during such Interest Accrual Period will be the sum of the Margin and the rate (or as the case may be the arithmetic mean of the rates) last determined in relation to the Notes in respect of the last preceding Interest Accrual Period.
- (iv) *ISDA Determination:* If ISDA Determination is specified in the relevant Final Terms as the manner in which the Interest Rate(s) is/are to be determined, the Interest Rate applicable to the Notes for each Interest Accrual Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Accrual Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:
- (A) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;
  - (B) the Designated Maturity (as defined in the ISDA Definitions) is a period specified in the relevant Final Terms; and
  - (C) the relevant Reset Date (as defined in the ISDA Definitions) is either (A) if the relevant Floating Rate Option is based on the London inter-bank offered rate (LIBOR) for a currency, the first day of that Interest Accrual Period or (B) in any other case, as specified in the relevant Final Terms.
- (v) *Index-Linked Interest:* If the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable, the Interest Rate(s) applicable to the Notes for

each Interest Accrual Period will be determined in the manner specified in the relevant Final Terms.

- (vi) *Maximum or Minimum Interest Rate:* If any maximum interest rate or minimum interest rate is specified in the relevant Final Terms, then the Interest Rate shall in no event be greater than the maximum or be less than the minimum so specified.
  - (vii) *Calculation of Interest Amount:* The Calculation Agent will, as soon as practicable after the time at which the Interest Rate is to be determined in relation to each Interest Accrual Period, calculate the Interest Amount payable in respect of each Note for such Interest Accrual Period. The Interest Amount will be calculated by applying the Interest Rate for such Interest Accrual Period to the principal amount of such Note during such Interest Accrual Period and multiplying the product by the relevant Day Count Fraction. Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable in respect of such Interest Period will be the sum of the amounts of interest payable in respect of each of those Interest Accrual Periods.
  - (viii) *Calculation of Other Amounts:* If the relevant Final Terms specify that any other amount is to be calculated by the Calculation Agent, the Calculation Agent will, as soon as practicable after the time or times at which any such amount is to be determined, calculate the relevant amount. The relevant amount will be calculated by the Calculation Agent in the manner specified in the relevant Final Terms.
  - (ix) *Publication:* The Calculation Agent will cause each Interest Rate and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Paying Agents and each listing authority, stock exchange and/or quotation system (if any) and/or by which the Notes are then listed, traded and/or quoted as soon as practicable after such determination but (in the case of each Interest Rate, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Holders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period.
  - (x) *Notifications, Etc.:* All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 6 (*Interest*) by the Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Paying Agents, the Holders (subject as aforesaid) and no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.
- (d) *Zero Coupon Note Provisions:*
- (i) *Application:* This Condition 6(d) (*Zero Coupon Note Provisions*) is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.
  - (ii) *Late Payment on Zero Coupon Notes:* If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:
    - (A) the Reference Price; and
    - (B) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of (i) the day on which all sums due in respect of such

Note up to that day are received by or on behalf of the relevant Holder and (ii) the day which is seven days after the Principal Paying Agent has notified the Holders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(e) *Dual Currency Note Provisions:*

- (i) *Application:* This Condition 6(e) (*Dual Currency Note Provisions*) is applicable to the Notes only if the Dual Currency Note Provisions are specified in the relevant Final Terms as being applicable.
- (ii) *Interest Rate:* If the rate or amount of interest falls to be determined by reference to an exchange rate, the rate or amount of interest payable shall be determined in the manner *specified* in the relevant Final Terms.

7. **Redemption and Purchase**

- (a) *Scheduled Redemption:* Unless previously redeemed, or purchased and cancelled, or unless such Note is stated in the Final Terms as having no fixed maturity date, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Conditions 8 (*Payments - Bearer Notes*) and 9 (*Payments - Registered Notes*).
- (b) *Redemption for Tax Reasons:* The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time (if neither the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable) or on any Interest Payment Date (if the Floating Rate Note Provisions or the Index-Linked Interest Note Provisions are specified in the relevant Final Terms as being applicable), on giving not less than thirty nor more than sixty days' notice to the Holders in accordance with Condition 16 (*Notices*) which notice shall be irrevocable), at their Early Redemption Amount, together with interest accrued (if any) to the date fixed for redemption, if:
  - (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 10 (*Taxation*) as a result of any change in, or amendment to, (A) in the case of Notes issued by the Issuer through its principal office in Brazil, the laws or regulations or rulings of Brazil or any political subdivision or any authority thereof or therein having power to tax or (B) in the case of Notes issued by the Issuer through its Grand Cayman Branch, the laws or regulations or rulings of the Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or, in either such case, any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes or any other date specified in the Final Terms; and
  - (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided, however, that no such notice of redemption shall be given earlier than:
    - (A) where the Notes may be redeemed at any time, ninety days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or
    - (B) where the Notes may be redeemed only on an Interest Payment Date, sixty days prior to the Interest Payment Date occurring immediately before the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (A) a certificate signed by two authorised signatories of the Issuer stating that such Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of such Issuer so to redeem have occurred of and (B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 7(b) (*Redemption for Tax Reasons*), the Issuer shall be bound to redeem the Notes in accordance with this Condition 7(b) (*Redemption for Tax Reasons*).

The Issuer may not exercise such option in respect of any Note which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Note under Condition 7(e) (*Redemption at the Option of Holders*).

- (c) *Redemption at the Option of the Issuer*: If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Issuer in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Issuer's giving not less than 30 nor more than 60 days' notice (or such other notice period as may be specified in the relevant Final Terms) to the Holders in accordance with Condition 16 (*Notices*) (which notice shall be irrevocable and shall oblige the Issuer to redeem all of the Notes of the relevant Series or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

The Issuer may not exercise such option in respect of any Note which is the subject of the prior exercise by the Holder thereof of its option to require the redemption of such Note under Condition 7(e) (*Redemption at the Option of Holders*).

- (d) *Partial Redemption*: If the Notes are to be redeemed in part only on any date in accordance with Condition 7(c) (*Redemption at the Option of the Issuer*):
- (i) in the case of Notes (other than a Temporary Global Note or a Permanent Global Note), the Notes to be redeemed shall be selected by the drawing of lots in such European city as the Trustee approves and in such manner as the Trustee considers appropriate; and
  - (ii) in the case of a Temporary Global Note or a Permanent Global Note, the Notes to be redeemed shall be selected in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system,

and the notice to Holders referred to in Condition 7(c) (*Redemption at the Option of the Issuer*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

- (e) *Redemption at the Option of Holders*: If the Put Option is specified in the relevant Final Terms as being applicable, the Issuer shall, at the option of the Holder of any Note redeem such Note on the *Optional Redemption Date (Put)* specified in the relevant Put Option Notice at the relevant *Optional Redemption Amount (Put)* together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 7(e) (*Redemption at the Option of Holders*), the Holder of a Note must, not less than 45 days and not more than 60 days before the relevant *Optional Redemption Date (Put)*, deposit with any Paying Agent such Note together with all unmatured Coupons relating thereto (other than any Coupon maturing on or before the *Optional Redemption Date (Put)*) (failing which the provisions of Condition 8(h) (*Payments - Bearer Notes - General Provisions*) apply) and a duly completed Put Option Notice in the form obtainable from, any Paying Agent specifying in the case of a Temporary Global Note or Permanent Global Note,

the aggregate principal amount in respect of which such option is exercised (which must be the minimum denomination specified in the Final Terms or an integral multiple thereof). The Paying Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Holder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 7(e) (*Redemption at the Option of Holders*), may be withdrawn; provided, however, that if, prior to the relevant Optional Redemption Date (Put) any such Note becomes immediately due and payable, the relevant Holder at its option, may elect by notice to the Paying Agent to withdraw the Put Option Notice given pursuant to this Condition 7(e) (*Redemption at the Option of Holders*) and instead declare such Note to be forthwith due and payable pursuant to Condition 11 (*Events of Default*). For so long as any outstanding Note is held by a Paying Agent in accordance with this Condition 7(e) (*Redemption at the Option of Holders*), the depositor of such Note and not such Paying Agent shall be deemed to be the holder of such Note for all purposes.

The Holder of a Note may not exercise such option in respect of any Instrument which is the subject of an exercise by the Issuer of its option to redeem such Note under either Condition 7(b) (*Redemption for Tax Reasons*) or 7(c) (*Redemption at the Option of the Issuer*).

- (f) *Redemption for Change of Control of the Issuer:* The Issuer shall, at the option of the Holder of any Note, upon the Holder giving not less than fifteen nor more than thirty days' notice to the Issuer, redeem such Note on the Redemption Date at its Early Redemption Amount (as described in Condition 1(a)) (together with interest accrued to the date fixed for redemption) if the Issuer ceases to be directly or indirectly controlled by Banco Espírito Santo de Investimento S.A. (or its legal successor and/or by any other company owned and/or controlled by Banco Espírito Santo de Investimento S.A.) (such event, a "**Change of Control**").

To exercise such option, the Holder must deposit such Note (together with all unmatured Coupons) with any Paying Agent, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent within the notice period. No Note deposited and option exercised may be withdrawn (except as provided in the Paying Agency Agreement) without the prior consent of the Issuer. The Issuer will give irrevocable notice (a "**Change of Control Notice**") of the occurrence of a Change of Control, which shall be published in accordance with Condition 16 (*Notices*) to the Holders not less than fifteen nor more than thirty days after its occurrence (or such other notice period as may be specified herein).

In this Condition 7(f) (*Redemption for Change of Control of the Issuer*), unless the context otherwise requires, the following defined terms shall have the meaning set out below:

"**Redemption Date**" means the date for redemption specified in the Change of Control Notice, being a date not less than thirty nor more than forty-five days after the date of the Change of Control Notice or, in the event that no Change of Control Notice is given by the Issuer, the next Interest Payment Date occurring not less than fifteen nor more than thirty days after the Change of Control.

For a company to be "**controlled**" by another means that the other (whether directly or indirectly and whether by the ownership of share capital, the possession of voting power, contract or otherwise) has the power to appoint and/or remove all or the majority of the members of the board of directors or other governing body of that company or otherwise controls or has the power to control the affairs and policies of that company.

- (g) *No Other Redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Conditions 7(a) to 7(f) above.

- (h) *Early Redemption of Zero Coupon Notes:* Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the *Maturity Date* shall be an amount equal to the sum of:
  - (i) the Reference Price; and
  - (ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 7(h) (*Early Redemption of Zero Coupon Notes*) or, if none is so specified, a Day Count Fraction of 30E/360.

- (i) *Purchase:* The Issuer may at any time purchase Notes in the open market or otherwise and at any price, provided that all unmaturing Coupons are purchased therewith. If purchases are made by tender, tenders must be available to all Holders of Notes alike. Any Notes purchased may be held or resold or surrendered for cancellation.
- (j) *Cancellation:* Any Notes purchased and surrendered for cancellation pursuant to Condition 7(i) (*Purchase*) are required to be promptly cancelled and may not be reissued or resold.

## 8. **Payments - Bearer Notes**

This Condition 8 (*Payments – Bearer Notes*) is only applicable to Bearer Notes.

- (a) *Principal:* Payments of principal due in respect of Bearer Notes shall be made only against presentation and (provided that payment is made in full) surrender of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States by check drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency or to which such currency may be transferred and maintained by the payee with, a bank in the Principal Financial Centre of that currency.
- (b) *Interest:* Payment of amounts in respect of interest on Bearer Notes will be made:
  - (i) in the case of a Temporary Global Note or Permanent Global Note, against presentation of the relevant Temporary Global Note or Permanent Global Note at the Specified Office of any of the Paying Agents outside the United States and, in the case of a Temporary Global Note, upon due certification as required therein;
  - (ii) in the case of Definitive Notes without Coupons attached thereto at the time of their initial delivery, against presentation of the relevant Definitive Notes at the Specified Office of any of the Paying Agents outside the United States; and
  - (iii) in the case of Definitive Notes delivered with Coupons attached thereto at the time of their initial delivery, against surrender of the relevant Coupons or, in the case of interest due otherwise than on a scheduled date for the payment of interest, against presentation of the relevant Definitive Notes, in either case at the Specified Office of any of the Paying Agents outside the United States.
- (c) *Payments Subject to Fiscal Laws:* All payments in respect of the Bearer Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Holders in respect of such payments.

- (d) *Payments on Business Days:* If the due date for payment of any amount in respect of any Bearer Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.
- (e) *Payments in Respect of Definitive Notes:* Each Definitive Note initially delivered with Coupons shall be presented and, save in the case of partial payment of the Redemption Amount, surrendered for final redemption together with all unmatured Coupons relating thereto, failing which:
  - (i) if the Final Terms specify that this paragraph (i) of this Condition 8(e) (*Payments in Respect of Definitive Notes*) is applicable (and, in the absence of specification this paragraph (i) shall apply to Definitive Notes which bear interest at a fixed rate or rates or in fixed amounts) and subject as hereinafter provided, the amount of any missing unmatured Coupons (or, in the case of a payment not being made in full, that portion of the amount of such missing Coupon which the Redemption Amount paid bears to the total Redemption Amount due) will be deducted from the amount otherwise payable on such final redemption, the amount so deducted being payable against surrender of the relevant Coupon at the Specified Office of any of the Paying Agents at any time within ten years of the Relevant Date applicable to payment of such Redemption Amount; and
  - (ii) if the Final Terms specify that this paragraph (ii) of this Condition 8(e) (*Payments in Respect of Definitive Notes*) is applicable (and, in the absence of specification, this paragraph (ii) shall apply to Bearer Notes which bear interest at a floating rate or rates or in variable amounts) all unmatured Coupons relating to such Definitive Notes (whether or not surrendered therewith) shall become void and no payment shall be made thereafter in respect of them.

The provisions of paragraph (i) of this Condition 8(e) (*Payments in Respect of Definitive Notes*) notwithstanding, if any Definitive Notes are issued with a maturity date and an Interest Rate or Interest Rates such that, on the presentation for payment of any such Definitive Note without any unmatured Coupons attached thereto or surrendered herewith, the amount required by paragraph (i) to be deducted would be greater than the Redemption Amount otherwise due for payment, then, upon the due date for redemption of any such Definitive Note, such unmatured Coupons (whether or not attached) shall become void (and no payment shall be made in respect thereof as shall be required so that, upon application of the provisions of paragraph (i) in respect of such Coupons as have not so become void, the amount required by paragraph (i) to be deducted would not be greater than the Redemption Amount otherwise due for payment). Where the application of the foregoing sentence requires some but not all of the unmatured Coupons relating to a Definitive Note to become void, the relevant Paying Agent shall determine which unmatured Coupons are to become void, and shall select for such purpose Coupons maturing on later dates in preference to Coupons maturing on earlier dates.

- (f) *Payments Other Than in Respect of Matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Bearer Notes at the Specified Office of any Paying Agent outside the United States.
- (g) *Payments to the Principal Paying Agent:* Every payment of any sum due in respect of the Bearer Notes made to the Principal Paying Agent as provided in the Paying Agency Agreement shall, to such extent, be a good discharge to the Issuer. The Issuer will indemnify each Holder of a Bearer Note against any failure on the part of the Principal Paying Agent or any Agent to pay any sum due in respect of the Bearer Notes and will pay such sum to such Holder of a Bearer Note on demand. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of a Bearer Note and shall continue in full

force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Bearer Note or any judgment or order. No proof or evidence of any actual loss may be required.

(h) *Payments - General Provisions:*

- (i) Payments of amounts due (whether principal, interest or otherwise) in respect of Bearer Notes will be made in the currency in which such amount is due (a) at the option of the payee, by transfer to an account denominated in the relevant currency specified by the payee or (b) in the case of payments in euro, such payments will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee or, at the option of the payee, by a euro check. Payments will, without prejudice to the provisions of Condition 10 (*Taxation*), be subject in all cases to any applicable fiscal or other laws and regulations.
- (ii) No commissions or expenses shall be charged to the Holders of Bearer Notes or Coupons in respect of such payments.
- (iii) Payments of amounts of interest in respect of Bearer Notes must always be made outside Brazil.

9. **Payments - Registered Notes**

This Condition 9 (*Payments – Registered Notes*) is only applicable to Registered Notes.

- (a) *Principal:* Payments of principal due in respect of Registered Notes shall be made by check drawn in the currency in which the payment is due on, or, upon application by a Holder of a Registered Note to the Specified Office of any of the Paying Agents not later than the fifteenth day before the due date for any such payment, by transfer to, an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling check, a town clearing branch of a bank in the City of London) and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (b) *Interest:* Payments of interest shall be made by check drawn in the currency in which the payment is due on, or, upon application by a Holder of a Registered Note to the Specified Office of any of the Paying Agents not later than the fifteenth day before the due date for any such payment, by transfer to, an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling check, a town clearing branch of a bank in the City of London) and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificates at the Specified Office of any Paying Agent.
- (c) *Payments Subject to Fiscal Laws:* All payments in respect of the Registered Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 10 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.
- (d) *Payments on Business Days:* Where payment is to be made by transfer to an account, payment instructions (for value the due date, or, if the due date is not Payment Business Day, for value the next succeeding Payment Business Day) will be initiated and, where payment is to be made by check, the check will be mailed (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption)

on the due date for payment. A Holder of a Registered Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from (A) the due date for a payment not being a Payment Business Day or (B) a check mailed in accordance with this Condition 9(d) (*Payments on Business Days*) arriving after the due date for payment or being lost in the mail.

- (e) *Partial Payments:* If a Paying Agent makes a partial payment in respect of any Registered Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.
- (f) *Record Date:* Each payment in respect of a Registered Note will be made to the person shown as the Holder in the Register at the close of business in the place of the Registrar's Specified Office on the day before the due date for such payment (the "**Record Date**"). Where payment in respect of a Registered Note is to be made by check, the check will be mailed to the address shown as the address of the Holder in the Register at the close of business on the relevant Record Date.

#### 10. **Taxation—Gross up**

- (a) All payments of principal and interest in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of Brazil or the Cayman Islands, or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the Holders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:
  - (i) held by, or by a third party on behalf of, a Holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of his having some connection (whether past or present) with Brazil other than (a) the mere holding of such Note or Coupon or (b) the receipt of principal, interest or other amount in respect of such Note or Coupon; or
  - (ii) held by, or by a third party on behalf of, a Holder who could lawfully avoid (but has not so avoided) such deduction or withholding by complying with any statutory requirements in force at the present time or in the future or by making a declaration of non-residence or other claim or filing for exemption; or
  - (iii) where the relevant Note or Coupon or Note Certificate is presented or surrendered for payment more than thirty days after the Relevant Date, except to the extent that the relevant Holder would have been entitled to such additional amounts if it had presented or surrendered such Note or Coupon or Note Certificate on the last day of such period of thirty days; or
  - (iv) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 or any law implementing or complying with, or introduced in order to conform to, such Directive; or
  - (v) by or on behalf of a Holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to another Paying Agent in a Member State of the European Union.
- (b) Any reference in these Conditions to "**principal**" and/or "**interest**" in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition 10

(*Taxation*). Unless the context otherwise requires, any reference in these Conditions to "principal" shall include any premium payable in respect of a Note, any instalment amount or Redemption Amount and any other amounts in the nature of principal payable pursuant to these Conditions and "interest" shall include all amounts payable pursuant to Condition 6 (*Interest*) and any other amounts in the nature of interest payable pursuant to these Conditions.

- (c) *Taxing Jurisdiction*: If the Issuer is, or becomes, subject at any time to any taxing jurisdiction(s) other than or in addition to Brazil and the Cayman Islands, references in Condition 7(b) (*Redemption for Tax Reasons*) and this Condition 10 (*Taxation*) shall be read and construed as including references to such other taxing jurisdiction(s).

## 11. **Events of Default**

- (a) The following events or circumstances as modified by, and/or such other events as may be specified in the Final Terms (each an "**Event of Default**") shall be acceleration events in relation to the Notes of any Series, namely:
- (i) *Non-Payment*: the Issuer fails to pay any amount of principal in respect of the Notes of the relevant Series or any of them on the due date for payment thereof or fails to pay any amount of interest in respect of the Notes of the relevant Series or any of them within fourteen days of the due date for payment thereof; or
  - (ii) *Breach of Other Obligations*: the Issuer, defaults in the performance or observance of any of its other obligations under or in respect of any of the Notes of the relevant Series, the Trust Deed, the Paying Agency Agreement and (except in any case where such default is, in the opinion of the Trustee, incapable of remedy when no such continuation or notice, as is hereinafter mentioned, will be required) such default remains unremedied for thirty days and the Trustee shall have certified in writing that the occurrence of such event is in its opinion materially prejudicial to the interest of the Holders; or
  - (iii) *Winding-Up, Etc.*: an order is made or an effective resolution is passed for the winding-up, liquidation or dissolution of the Issuer; or
  - (iv) *Encumbrance, Receiver Appointed, Etc.*: an encumbrancer takes possession or a receiver is appointed of the whole or any substantial part of the assets or undertaking of, or an official manager is appointed to, the Issuer or a distress or execution is levied or enforced upon or sued out against any substantial part of the assets or undertaking of the Issuer and is not removed, paid out or otherwise discharged within thirty days; or
  - (v) *Bankruptcy Etc.*: the Issuer (a) is dissolved, (b) suspends payments on its debts or fails to pay its debts generally as they become due, (c) commences, to the extent permitted by applicable law, a voluntary case in bankruptcy or any other action or proceeding for any other relief under any law affecting creditors' rights that is similar to a bankruptcy law or (d) consents by answer or otherwise to the commencement against it of an involuntary case in bankruptcy in respect of the Issuer or any Significant Subsidiary if such proceeding is not dismissed or stayed on or before the sixtieth day after the entry thereof or if any such dismissal or stay ceases to be in effect; or
  - (vi) *Governmental Authorisation*: any governmental authorisation necessary for the performance of any obligation of the Issuer under the Trust Deed, Paying Agency Agreement or the Notes fails to enter into or become in full force and effect or remain valid and subsisting; or
  - (vii) *Unlawful Obligations*: it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Notes; or

- (viii) *Final Judgment Against Issuer*: there has been entered against the Issuer or any Significant Subsidiary a final judgment, decree or order by a court of competent jurisdiction from which no appeal may be or is taken for the payment of money in excess of U.S.\$50,000,000 or its equivalent thereof in any other currency or currencies (as reasonably determined by the Trustee) and ninety days have passed since the date of entry of such judgment, decree or order without its having been satisfied or stayed; or
- (ix) *Distress, Attachment, Etc.*: a distress, attachment, execution or seizure before judgment is levied or enforced upon or sued out against a substantial part of the property of the Issuer and is not discharged within thirty days thereof; or
- (x) *Moratorium Declared*: a moratorium is agreed or declared in respect of any indebtedness of the Issuer or any governmental authority or agency condemns, seizes, compulsorily purchases or appropriates all or a substantial part of the assets of the Issuer; or
- (xi) *Indebtedness for Borrowed Money*: any holder or person entitled to the benefit of any indebtedness for borrowed money (amounting in aggregate principal amount to not less than U.S.\$50,000,000) of the Issuer shall (being entitled so to do) demand premature repayment thereof following a default or shall (being entitled so to do) enforce any security therefor, or the Issuer shall default in the repayment of any such indebtedness for borrowed money (amounting in aggregate principal amount to not less than U.S.\$50,000,000) at the maturity thereof or, as the case may be, at the expiration of any applicable grace period therefor as originally provided, or any guarantee of any indebtedness for borrowed money (amounting in aggregate principal amount to not less than U.S.\$50,000,000) of any third party given by the Issuer shall not be honoured when due and called upon, provided that no such demand, enforcement, default or failure to honour shall be within this paragraph (xi) in circumstances where the same is being contested in good faith or where the payment of the relevant indebtedness or the honouring of the relevant guarantee is contrary to applicable law; or
- (xii) any event which under the laws of Brazil has an analogous effect to any of the events referred to in (v), (viii) and (x) above.

For the purposes of paragraph (xi) above, the expression "guarantee of any indebtedness for borrowed money" shall also include any liability by way of indemnity in respect of, or other undertaking given to secure payment or the capacity to make payment of, any indebtedness for borrowed money.

If any Event of Default shall occur in relation to any Series of Notes, then the Trustee, at its discretion, may and if so requested by the Holders of at least twenty-five per cent. in the nominal amount of the Notes of the relevant Series then outstanding or if so directed by an Extraordinary Resolution of the Holders of the relevant Series, shall (subject in each case to it being indemnified and/or secured to its satisfaction), give written notice to the Issuer that the Notes of the relevant Series and (if the Notes are interest bearing) all interest then accrued on such Note shall be forthwith due and payable, whereupon the same shall become immediately due and payable at its early termination amount (the "**Early Termination Amount**") (which shall be its outstanding principal amount or, if such Notes are Zero Coupon Notes, such amount as provided in Condition 7(h) (*Early Redemption of Zero Coupon Notes*)) or such other Early Termination Amount as may be specified in, or determined in accordance with the provisions of, the Final Terms), together with all interest (if any) accrued thereon without presentment, demand, protest or other notice of any kind, all of which the Issuer will expressly waive, anything contained in such Notes to the contrary notwithstanding, unless, prior to receipt of such notice by the Trustee, all Events of Default in respect of the Notes of the relevant Series shall have been remedied.

## 12. **Prescription**

Claims against the Issuer for principal in respect of Bearer Notes shall become void unless the relevant Bearer Notes are presented for payment within ten years of the appropriate Relevant Date. Claims against the Issuer for interest in respect of Bearer Notes shall become void unless the relevant Coupons are

presented for payment within five years of the appropriate Relevant Date. Claims against the Issuer for principal and interest on redemption in respect of Registered Notes shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

13. **The Agents and the Calculation Agent**

- (a) The initial Agents and their respective initial Specified Offices are specified below. The Calculation Agent in respect of any Notes shall be specified in the Final Terms. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent or the Calculation Agent and to appoint additional or other Agents or another Calculation Agent provided that it will at all times maintain (i) a Registrar, (ii) a Paying Agent with a Specified Office in a continental European city, (iii) a Transfer Agent (which may be the Registrar) with a Specified Office in a continental European city, (iv) a Principal Paying Agent with a Specified Office in Japan, (v) a Calculation Agent where required by these Conditions applicable to any Notes (in the case of (i), (ii), (iii), (iv) and (v) with a Specified Office located in such place (if any) as may be required by these Conditions), (vi) if and for so long as any Notes are admitted to listing, trading and/or quotation by any listing authority, stock exchange and/or quotation system, which requires the appointment of a Paying Agent and Transfer Agent in a particular place, the Issuer shall maintain a paying agent and transfer agent with Specified Offices in the place required by such listing authority, stock exchange and/or quotation system, and (vii) a Paying Agent with a Specified Office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC or any other Directive on the taxation of savings implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. The Agents and the Calculation Agent reserve the right at any time to change their respective Specified Offices to some other Specified Office in the same city. Notice of all changes in the identities or Specified Offices of any Agent or the Calculation Agent will be given promptly by the Issuer to the Holders in accordance with Condition 16 (*Notices*).
- (b) The Paying Agents, the Registrar, the Issue Agent, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer or, following an Event of Default, the Trustee and, save as provided in the Paying Agency Agreement or any other agreement entered into with respect to its appointment, do not assume any obligations towards or relationship of agency or trust for any Holder of any Note or Coupon and each of them shall only be responsible for the performance of the duties and obligations expressly imposed upon it in the Paying Agency Agreement or other agreement entered into with respect to its appointment.

14. **Replacement of Notes**

If any Note, Coupon or Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of any Paying Agent or the Issue Agent, in the case of Bearer Notes, or the Registrar or any Transfer Agent, in the case of Registered Notes (each a "**Replacement Agent**"), subject to all applicable laws upon payment by the claimant of all expenses incurred in connection with such replacement and upon such terms as to evidence, security, indemnity and otherwise as the Issuer and the Replacement Agent may require. Mutilated or defaced Notes, Coupons and Note Certificates must be surrendered before replacements will be delivered therefor.

15. **Meetings of Holders and Modification**

- (a) *Meetings of Holders:* The Trust Deed contains provisions for convening meetings of the Holders of Notes of any Series to consider any matter affecting their interests, including modification by Extraordinary Resolution of the Notes of such Series (including these Conditions insofar as the same may apply to such Notes). Such a meeting may be convened by the Issuer or the Trustee, and the Trustee (subject to being indemnified and/or secured to its satisfaction) shall convene such a meeting upon written request of the Holders of Notes holding not less than 10 per cent. of the aggregate amount of the Notes of the relevant Series for the time being outstanding. The quorum for any meeting to consider an Extraordinary Resolution will be at least two Voters (as defined in the Trust Deed) holding or representing not less than the Relevant Fraction (as defined in the Trust

Deed) of the aggregate principal amount of the Notes of the Relevant Series for the time being outstanding; provided, however, that, so long as at least the Relevant Fraction of the aggregate principal amount of the outstanding Notes is represented by, in the case of Bearer Notes, the Temporary Global Note and/or the Permanent Global Note or, in the case of Registered Notes, the Global Note Certificates or a single Individual Note Certificate a Voter (as defined in the Trust Deed) appointed in relation thereto or being the Holder of the Notes represented thereby shall be deemed to be two Voters for the purpose or forming a quorum. A written resolution shall take effect as if it were an Extraordinary Resolution. Any Extraordinary Resolution duly passed shall be binding on all the Holders of the Notes (whether or not present at such meeting at which such resolution was passed) and each of the Holders of the Notes shall be bound to give effect to it accordingly. Notice of the result of every vote on an Extraordinary Resolution shall be given to the Holders of the Notes and, in relation to Bearer Notes, to the Paying Agents and, in relation to Registered Notes, the Registrar (with a copy to the Issuer, and the Trustee) within 14 days of the conclusion of the Meeting.

- (b) *Powers:* A Meeting shall have power (exercisable only by Extraordinary Resolution), without prejudice to any other powers conferred on it or any other person:
- (i) to approve any Reserved Matter;
  - (ii) to approve any proposal by the Issuer for any modification, abrogation, variation or compromise of any provisions of the Trust Deed or these Conditions or any arrangement in respect of the obligations of the Issuer under or in respect of the Notes;
  - (iii) to approve the substitution of any person for the Issuer (or any previous substitute) as principal obligor under the Notes;
  - (iv) to waive any breach or authorise any proposed breach by the Issuer of its obligations under or in respect of the Trust Deed or the Notes or any act or omission which might otherwise constitute an Event of Default under Condition 11 (*Events of Default*);
  - (v) to remove any Trustee;
  - (vi) to approve the appointment of a new Trustee;
  - (vii) to authorise the Trustee (subject to its being indemnified and/or secured to its satisfaction) or any other person to execute all documents and do all things necessary to give effect to any Extraordinary Resolution;
  - (viii) to discharge or exonerate the Trustee from any liability in respect of any act or omission for which it may become responsible under the Trust Deed or the Notes;
  - (ix) to give any other authorisation or approval which under the Trust Deed or the Notes is required to be given by Extraordinary Resolution; and
  - (x) to appoint any persons as a committee to represent the interests of the Holders of the Notes and to confer upon such committee any powers which the Holders of the Notes could themselves exercise by Extraordinary Resolution.
- (c) *Modification, Waiver and Determination:* The Trustee shall, if instructed in writing by the Holders of Notes holding not less than 25 per cent. in aggregate principal amount of the Notes then outstanding or if directed by an Extraordinary Resolution and on such terms and conditions (if any) as shall be specified in such instructions or direction, authorise or waive any proposed breach or breach of any of the covenants or provisions contained in this Trust Deed or the Notes or Coupons or determine that any Event of Default under Condition 11 (*Events of Default*) shall not be treated as such for the purposes of the Trust Deed; any such authorisation, waiver or determination shall be binding on the Holders of Notes or Coupons (if any) and if, but only if, the

Trustee shall require (acting in accordance with the relevant instructions or direction), the Issuer shall cause such authorisation, waiver or determination to be notified to the Noteholders as soon as practicable thereafter in accordance with the Condition 16 (*Notices*); any waiver, authorisation or determination given pursuant to the Trust Deed shall be without prejudice to the rights of the Noteholders and the Trustee in respect of any subsequent breach, condition, event or act, from time to time and at any time. The Trustee may, without any such instructions or direction or other consent or sanction of the Holders of Notes or Coupons (if any), concur with the Issuer in making any modification to any of these Conditions or any of the provisions of the Trust Deed if, in the opinion of the Trustee, such modification is of a formal, minor or technical nature or made to correct a manifest error. Any such modification shall be binding on the Holders of Notes or Coupons (if any) and, unless the Trustee otherwise agrees (in the case of modifications complying with the previous sentence) the Issuer shall cause such modification to be notified to the Noteholders as soon as practicable thereafter in accordance with the Condition 16 (*Notices*).

#### 16. Notices

- (a) *Bearer Notes*: Notices to Holders of Bearer Notes will, save where another means of effective communication has been specified herein or in the relevant Final Terms, be deemed to be validly given if (i) published in a leading daily newspaper having general circulation in London (which is expected to be the *Financial Times*) and (ii) in the case of any Notes which are listed on the Global Exchange Market (so long as such Notes are listed on the Global Exchange Market and the rules of that exchange so require), in a leading newspaper having general circulation in the Republic of Ireland (which is expected to be *The Irish Times*) or, in the case of (i) or (ii), if such publication is not practicable, if published in a leading English language daily newspaper having general circulation in Europe. The Issuer shall also ensure that notices are duly published in compliance with the requirements of any other relevant stock exchange, listing authority or quotation system and so long as the Bearer Notes are listed on the Global Exchange Market and the rules of that exchange so require, by publication on the website of the Global Exchange Market designated for such purposes pursuant to the rules of the Global Exchange Market. Any notice so given will be deemed to have been validly given on the date of first such publication (or, if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Holders of Coupons will be deemed for all purposes to have notice of the contents of any notice given to Holders of Bearer Notes in accordance with this Condition 16(a) (*Notices – Bearer Notes*).
- (b) *Registered Notes*: Notices to Holders of Registered Notes will be deemed to be validly given if sent by first class mail (or equivalent) or, if posted to an overseas address, by air mail to them (or, in the case of joint Holders, to the first-named in the Register) at their respective addresses as recorded in the Register, and will be deemed to have been validly given on the fourth weekday after the date of such mailing or, if posted from another country, on the fifth such day. With respect to Registered Notes listed on the Global Exchange Market (so long as the rules of that exchange so require), any notices to Holders shall also be published in a leading newspaper having general circulation in the Republic of Ireland (which is expected to be *The Irish Times*) and will be deemed validly given only after the date of such publication. The Issuer shall also ensure that notices are duly published in compliance with the requirements of any other relevant stock exchange, listing authority or quotation system and so long as the Registered Notes are listed on the Global Exchange Market and the rules of that exchange so require, by publication on the website of the Global Exchange Market designated for such purposes pursuant to the rules of the Global Exchange Market.

#### 17. Further Issues

The Issuer may from time to time, without the consent of the Holders of any Notes or Coupons, create and issue further Notes, bonds or debentures having the same terms and conditions as such Notes in all respects (or in all respects except for the first payment of interest, if any, on them and/or the denomination thereof) (a "**Further Issue**") so as to be consolidated form a single series with the Notes of any particular Series,

even if further Notes have original issue discount for U.S. federal income tax purposes and even if doing so may adversely affect the value of the original Notes.

*If the Issuer were to issue debt securities with original issue discount ("OID") for U.S. federal income tax purposes as part of a Further Issue, purchasers of Notes after such Further Issue may be required to accrue OID (or greater amounts of OID than they would otherwise have accrued) with respect to their Notes. This may affect the price of outstanding Notes following a Further Issue, Purchasers are advised to consult their tax advisers with respect to the implications of any future decision by the Issuer to undertake a Further Issue of debt securities with OID.*

18. **Currency Indemnity**

The currency in which the Notes are denominated or, if different, payable, as specified in the Final Terms (the "**Contractual Currency**"), is the sole currency of account and payment for all sums payable by the Issuer in respect of the Notes, including damages. Any amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Holder of a Note or Coupon in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the amount in the Contractual Currency which such Holder is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that amount is less than the amount in the Contractual Currency expressed to be due to any Holder of a Note or Coupon in respect of such Note or Coupon, the Issuer shall indemnify such Holder against any loss sustained by such Holder as a result. In any event, the Issuer shall indemnify each such Holder against any cost of making such purchase which is reasonably incurred. These indemnities constitute separate and independent obligations from the Issuer's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder of an Note or Coupon and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due in respect of the Notes or Coupons or any judgment or order. Any such loss aforesaid shall be deemed to constitute a loss suffered by the relevant Holder of a Note or Coupon, and no proof or evidence of any actual loss will be required by the Issuer.

19. **Waiver and Remedies**

No failure to exercise, and no delay in exercising, on the part of the Holder of any Note, any right hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or future exercise thereof or the exercise of any other right. Rights hereunder shall be in addition to all other rights provided by law. No notice or demand given in any case shall constitute a waiver of rights to take other action in the same, similar or other instances without such notice or demand.

20. **Indemnification of the Trustee**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including a provision relieving it from taking proceedings to enforce payment unless indemnified and/or secured to its satisfaction. The Trust Deed contains provisions permitting the Trustee, *inter alia*, to contract with the Issuer and any of its Subsidiaries.

21. **Enforcement**

The Trustee shall institute such proceedings against the Issuer to recover any amounts due in respect of the Notes which are unpaid or to enforce its rights under the Trust Deed in respect of the Notes if:

- (a) it has been so requested in writing by the Holders of at least twenty-five per cent. in aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution; and
- (b) it has been indemnified or provided with security to its satisfaction.

No Noteholder may institute any proceedings against the Issuer to enforce its rights under or in respect of Notes unless (i) the Trustee has become bound to institute proceedings and has failed to do so within a reasonable time and (ii) such failure is continuing.

22. **Governing Law and Jurisdiction**

- (a) The Notes, the Trust Deed, the Paying Agency Agreement and any non-contractual obligations arising out of or in connection with the Notes, the Trust Deed and the Paying Agency Agreement are governed by, and shall be construed in accordance with, English law.
- (b) The Issuer irrevocably agrees for the benefit of the Holders of the Notes that the courts of England shall have jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes or any non-contractual obligations arising out of or in connection with the Notes (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submit to the jurisdiction of such courts.
- (c) The Issuer irrevocably waives any objection which it might now or hereafter have to the courts of England being nominated as the forum to hear and determine any Proceedings and to settle any Disputes and agrees not to claim that any such court is not a convenient or appropriate forum.
- (d) The Issuer has appointed Banco Espírito Santo de Investimento S.A. of 33, Queen Street, 4th floor, London EC4R 1ES, England, as its agent to accept service of process in England on its behalf in respect of any Proceedings.
- (e) The submission to the jurisdiction of the courts of England shall not (and shall not be construed so as to) limit the right of the Trustee or the Holders of the Notes or any of them to take Proceedings in any other court of competent jurisdiction, nor shall the taking of proceedings in any one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not) if and to the extent permitted by applicable law.

23. **Third Parties**

No person shall have any right to enforce any term or condition of any Note under the Contracts (Rights of Third Parties) Act 1999 but this shall not affect any right or remedy of a third party which exists or is available apart from that Act.

## FORM OF FINAL TERMS

*The Final Terms in respect of each Tranche of Notes will be substantially in the following form, duly supplemented (if necessary), amended (if necessary) and completed to reflect the particular terms of the relevant Notes and their issue. Text in this section appearing in italics does not form part of the form of the Final Terms but denotes directions for completing the Final Terms.*

**Final Terms dated** *[insert date]*

### PART A—CONTRACTUAL TERMS

#### **BES INVESTIMENTO DO BRASIL S.A. – BANCO DE INVESTIMENTO**

*(incorporated in the Federative Republic of Brazil with limited liability)  
acting through [its principal office in Brazil] [its Grand Cayman Branch]*

#### **Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes] under the U.S.\$1,000,000,000 Global Medium Term Note Programme**

This document contains the final terms relating to the issue of Notes described herein and should be read in conjunction with the Offering Memorandum dated April 12, 2012 (the "**Offering Memorandum**"). Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Offering Memorandum. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Offering Memorandum as so supplemented. The Offering Memorandum is available for viewing at the Issuer's registered office and copies may be obtained from Avenida Brigadeiro Faria Lima, no. 3729 – 6º andar, São Paulo, SP, Brazil.

*The following alternative language applies if the first tranche of an issue, which is being increased, was issued under an Offering Memorandum with an earlier date.*

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Offering Memorandum dated April 12, 2012 *[and the Supplemental Offering Memorandum dated [insert date]]*. This document contains the final terms of the Notes and must be read in conjunction with the Offering Memorandum dated April 12, 2012 *[and the Supplemental Offering Memorandum dated [insert date]]* save in respect of the Conditions which are extracted from the Offering Memorandum dated *[original date]* and are attached hereto. Full information on the Issuer and the offer of the Notes is only available on the basis of the combination of this document containing the final terms *[,/and]* the Offering Memorandum dated April 12, 2012 *[and the Supplemental Offering Memorandum dated [insert date]]*. The Offering Memorandum *[and Supplement Offering Memorandum]* *[is/are]* available for viewing at the Issuer's registered office and copies may be obtained from Avenida Brigadeiro Faria Lima, no. 3729 – 6º andar, São Paulo, SP, Brazil.

*[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or sub-paragraphs. Italics denote directions for completing the Final Terms.]*

1. (i) Issuer: BES Investimento do Brasil S.A. - Banco de Investimento acting through [its principal office in Brazil] [its Grand Cayman Branch] [•]
2. [(i)] [Series Number:] [•]  
(ii) [Tranche Number: (If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible).] [•]

3. Specified Currency or Currencies: [●]
4. Aggregate Principal Amount:
- [(i)] [Series:] [●]
- [(ii)] [Tranche:] [●]
5. [(i)] Issue Price: [●] per cent. of the Aggregate Principal Amount  
[plus accrued interest from *[insert date]* (*in the case of fungible issues only, if applicable*)]
- [(ii)] Net proceeds: [●] (*Required only for listed issues*)
6. Specified Denominations [●]
7. [(i)] Issue Date: [●]
- [(ii)] Interest Commencement Date: [●]
8. Maturity Date: *[specify date or (for Floating Rate Notes) Interest Payment Date falling in or nearest to the relevant month and year]*
- [If the Maturity Date is less than one year from the Issue Date and either (a) the issue proceeds are received by the Issuer in the United Kingdom or (b) the activity of issuing the Notes is carried on from an establishment maintained by the Issuer in the United Kingdom, (i) the Notes must have a minimum redemption value of £100,000 (or its equivalent in other currencies) and be sold only to "professional investors" or (ii) another applicable exemption from section 19 of the FSMA must be available.]*
9. Interest Basis: [\_\_% Fixed Rate]  
[[specify reference rate] +/- \_ % Floating Rate]  
[Zero Coupon]  
[Index-Linked Interest]  
[Other (*specify*)]  
[(further particulars specified below)]
10. Redemption/Payment Basis: [Redemption at par]  
[Index-Linked Redemption]  
[Dual Currency]  
[Other (*specify*)]
11. Change of Interest or Redemption/Payment Basis: *[Specify details of any provision for convertibility of Notes into another interest or redemption/payment basis]*
12. Put/Call Options: [Investor Put]  
[Issuer Call]  
[(further particulars specified below)]
13. Status of the Notes: [Senior unsubordinated]
14. Listing: [Applications have been made for the Notes to be

admitted to listing on the Official List of the Irish Stock Exchange and to trading on the Global Exchange Market/other (*specify*)/None]

15. Method of distribution: [Syndicated/Non-syndicated]

**PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE**

16. Fixed Rate Note Provisions [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

(i) Rate[(s)] of Interest: [●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly] in arrears]

(ii) Interest Payment Date(s): [●] in each year

(iii) Fixed Coupon Amount[(s)]: [●] [per Note of [●] Specified Denomination and per Note of [●] Specified Denomination]

(iv) Broken Amount(s): *[Insert particulars of any initial or final broken interest amounts which do not correspond with the Fixed Coupon Amount[(s)]]*

(v) Day Count Fraction: [30/360/Actual/Actual (ICMA/ISDA)/other]

(vi) Interest Determination Dates: [ ] in each year (*insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon. N.B. only relevant where Day Count Fraction is Actual/Actual (ICMA)*)

(vii) Other terms relating to the method of calculating interest for Fixed Rate Notes: [Not Applicable/*give details*]

17. Floating Rate Note Provisions [Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph.)*

(i) Interest Period: [●]

*(Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable.")*

(ii) Specified Interest Payment Dates: [●]

*(Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable")*

- (iii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ other (*give details*)]
- (iv) Additional Business Centre(s): [Not Applicable/*give details*]
- (v) Manner in which the Rate(s) of Interest is/are to be determined: [Screen Rate Determination/ISDA Determination/ other (*give details*)]
- (vi) Name and addresses of party responsible for calculating the Rate(s) of Interest and Interest Amount(s): [[*Name*] shall be the Calculation Agent  
[*Address*]]
- (vii) Screen Rate Determination:
- Reference Rate: [*For example, LIBOR or EURIBOR*]
  - Interest Determination Date(s): [●]
  - Relevant Screen Page: [*For example, Reuter Service page 3750/248*]
  - Relevant Time: [*For example, 11.00 a.m. London time/Brussels time*]
  - Relevant Financial Centre: [*For example, London/Euro-zone (where Euro-zone means the region comprised of the countries whose lawful currency is the euro)*]
- (viii) ISDA Determination:
- Floating Rate Option: [●]
  - Designated Maturity: [●]
  - Reset Date: [●]
- (ix) Margin(s): [+/-][●] per cent. per annum
- (x) Minimum Rate of Interest: [●] per cent. per annum
- (xi) Maximum Rate of Interest: [●] per cent. per annum
- (xii) Day Count Fraction: [●]
- (xiii) Fall back provisions, rounding provisions, denominator and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions: [●]
18. Zero Coupon Note Provisions [Applicable/Not Applicable]
- (*If not applicable, delete the remaining subparagraphs of this paragraph*)
- (i) [Amortization/Accrual] Yield: [●] per cent. per annum

- (ii) Reference Price: [●]
- (iii) Any other formula/basis of determining amount payable: [●]
19. Index-Linked Interest Note Provisions *(If not applicable, delete the remaining subparagraphs of this paragraph)*
- (i) Index/Formula: [Give or annex details]
- (ii) Calculation Agent responsible for calculating the interest due: [●]
- (iii) Provisions for determining Coupon where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable: [●]
- (v) Specified Period: [●]
- (Specified Period and Specified Interest Payment Dates are alternatives. A Specified Period, rather than Specified Interest Payment Dates, will only be relevant if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention. Otherwise, insert "Not Applicable.")*
- (vi) Specified Interest Payment Dates: [●]
- (Specified Period and Specified Interest Payment Dates are alternatives. If the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention, insert "Not Applicable.")*
- (vii) Business Day Convention: [Floating Rate Convention/ Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention/other (give details)]
- (viii) Additional Business Centre(s): [●]
- (ix) Minimum Rate of Interest: [●] per cent. per annum
- (x) Maximum Rate of Interest: [●] per cent. per annum
- (xi) Day Count Fraction: [●]
20. Dual Currency Note Provisions [Applicable/Not Applicable]
- (If not applicable, delete the remaining subparagraphs of this paragraph)*

- (i) Rate of Exchange/method of calculating Rate of Exchange: [Give details]
- (ii) Calculation Agent, if any, responsible for calculating the principal and/or interest due: [●]
- (iii) Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable: [●]
- (iv) Person at whose option Specified Currency(ies) is/are payable: [●]

**PROVISIONS RELATING TO REDEMPTION**

21. Early Redemption for Taxation Reasons:  
(Condition 7(b))

- (i) Early Redemption Amount (Tax): *[Specify, if not the Outstanding Principal Amount or, in the case of any Notes which are non-interest bearing, the Amortized Face Amount]*
- (ii) Date after which changes in law, etc. entitle Issuer to redeem: *[Specify, if not the Issue Date]*

22. **Redemption for Change of Control:  
(Condition 7(f))**

- (i) Early Redemption Amount: [●]
- (ii) Redemption Date(s): [●]
- (iii) Notice period: [●]

23. Call Option

[Applicable/Not Applicable]

*(If not applicable, delete the remaining subparagraphs of this paragraph)*

- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) of each Note and method, if any, of calculation of such amount(s): [●] per Note of [●] specified denomination
- (iii) If redeemable in part:
  - (a) Minimum Redemption Amount: [●]
  - (b) Maximum Redemption Amount: [●]
- (iv) Notice period: [●]

24. Put Option [Applicable/Not Applicable]
- (If not applicable, delete the remaining sub-paragraphs of this paragraph)*
- (i) Optional Redemption Date(s): [●]
- (ii) Optional Redemption Amount(s) and method, if any, of calculation of such amount(s): [●]
- (iii) Notice period: [●]
25. Final Redemption Amount of Each Note [[●] per Note of specified denomination/other/see Appendix]
- In cases where the Final Redemption Amount is Index-Linked or other variable-linked: [*give or annex details*]
- (i) Index/Formula/variable: [●]
- (ii) Calculation Agent responsible for calculating the Final Redemption Amount: [●]
- (iii) Provisions for determining Final Redemption Amount where calculated by reference to Index and/or Formula and/or other variable: [●]
- (iv) Determination Date(s): [●]
- (v) Provisions for determining Final Redemption Amount where calculation by reference to Index and/or Formula and/or other variable is impossible or impracticable or otherwise disrupted: [●]
- (vi) Payment Date: [●]
- (vii) Minimum Final Redemption Amount: [●]
- (viii) Maximum Final Redemption Amount: [●]
26. Early Redemption Amount
- Early Redemption Amount(s) of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in the Conditions): [Not Applicable (*if both the Early Redemption Amount (Tax) and the Early Termination Amount are the principal amount of the Notes/specify the Early Redemption Amount (Tax) and/or the Early Termination Amount if different from the principal amount of the Notes*)]

#### **GENERAL PROVISIONS APPLICABLE TO THE NOTES**

27. Form of Notes:

- (i) Form of Notes: [Bearer/Registered]
- (ii) Bearer Notes exchangeable for Registered Notes: [Yes/No]
28. If issued in Bearer form:
- (i) Initially represented by a Temporary Global Note or Permanent Global Note: *[Specify. If nothing is specified and the Final Terms do not specify that the TEFRA C Rules apply, Notes will be represented initially by a Temporary Global Note]*
- (ii) Temporary Global Note exchangeable for [a Permanent Global Note] [and/or] [Definitive Bearer Notes] [and/or] [Definitive Registered Notes] [or] [interest(s) in one or more Global Registered Note]: *[Specify exchangeability and Exchange Date]*
- (iii) [Specify date from which exchanges for Registered Notes will be made.]: *[Exchanges will be made at any time on or after the date of issue of the Notes and upon presentation or, surrender of the Temporary Global Note to the Transfer Agent or Registrar]*
- (iv) Permanent Global Note exchangeable for [Definitive Bearer Notes] [and/or] [Definitive Registered Notes] [or] [interest(s) in one or more Global Registered Note]. *[Specify exchangeability and Exchange Date]*
- (v) Definitive Bearer Notes to be in ISMA or successor's format: *[Yes/No. If nothing is specified Definitive Bearer Notes will be in ISMA or successor's format]*
29. If issued in Registered Form:
- (i) Registrar and Transfer Agents: *[Names and specified offices]*
- (ii) DTC or PORTAL Application: *[Yes/No] [Provide details]*
- (iii) Form of Registered Notes: *[Restricted Global Note Certificate and Unrestricted Global Note Certificate/International Global Note Certificate]*
- (iv) Details of exchange of interests in Registered Notes: *[Global Note Certificate exchangeable for Individual Note Certificates on[ ] day's notice/at any time/in the limited circumstances specified in the Global Note Certificate]*
30. Additional Financial Centre(s) or other special provisions relating to Payment Dates: *[Not Applicable/give details. Note that this item relates to the date and place of payment, and not interest period end dates, to which items 16(ii),17(iv) and 19(viii) relate]*
31. Entities agreeing to underwrite the issue on a firm commitment basis, and entities agreeing to place the issue without a firm commitment or under "best efforts" arrangements: *[●]*

32. Selling agents [Not Applicable/*give details*]  
33. Other final terms: [Not Applicable/*give details*]

#### **DISTRIBUTION**

34. (i) If syndicated, names of Managers: [Not Applicable/*give names*]  
(ii) Stabilising Manager (if any): [Not Applicable/*give name*]  
35. If non-syndicated, name of Dealer: [Not Applicable/*give name*]  
36. TEFRA [Not Applicable/*The [C/D] Rules are applicable*]  
37. Additional selling restrictions: [Not Applicable/*give details*]  
38. ISIN: [ ]  
39. Common Code: [ ]  
40. CUSIP: [ ]

#### **SETTLEMENT**

41. Delivery Date [T+3] / [T+5. We expect to deliver the Notes against payment for the Notes on or about the fifth business day following the Issue Date specified above. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade Notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in "T+5," to specify alternative arrangements to prevent a failed settlement.]

#### **LISTING APPLICATION**

This document comprises the final terms required for the Notes described herein to be admitted to the Official List of the Irish Stock Exchange and admitted to trading on the Global Exchange Market pursuant to the U.S.\$1,000,000,000 Global Medium Term Note Programme of BES Investimento do Brasil S.A. – Banco de Investimento (acting through its principal office in Brazil or through its Grand Cayman Branch).

#### **[STABILISING**

In connection with this issue, [*insert name of Stabilising Manager*] or any person acting for it, may over-allot or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail for a limited period after the Issue Date. However, there may be no obligation on [*insert name of Stabilising Manager*] or any or its agents to do this. Such stabilising, if commenced, may be discontinued at any time, and must be brought to an end after a limited period.]

#### **MATERIAL ADVERSE CHANGE STATEMENT**

There has been no significant change in the financial or trading position of the Issuer and its subsidiaries (taken as a whole) since [*insert date of last audited accounts or interim accounts (if later)*] and no material adverse change in the financial position or prospects of the Issuer and its subsidiaries (taken as a whole) since [*insert date of last published annual accounts*].

#### **USE OF PROCEEDS**

[●]

## **RESPONSIBILITY**

The Issuer accepts responsibility for the information contained in the Final Terms. The Issuer declares that, having taken all reasonable care to ensure that such is the case, the information contained in the Final Terms is, to the best of its knowledge, in accordance with the facts and contains no omission to likely affect its import.

[[●] has been extracted from [●]. The Issuer confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced inaccurate or misleading.]

Signed on behalf of the Issuer:

By:

Duly

authorised

## FORM OF THE NOTES; BOOK-ENTRY AND DELIVERY

### General

Unless otherwise specified in the applicable Final Terms, the Notes shall be represented initially by one or more Global Notes (collectively, the "**Global Notes**"). Registered Notes shall be represented initially by one or more Global Notes in registered form, without Coupons (each, a "**Global Note Certificate**"), which shall be registered in the name of DTC, as depository, or a successor or nominee thereof, and which shall be deposited on behalf of the purchasers thereof with a custodian for DTC. Beneficial interests in the Restricted Global Note Certificates (as defined below) and Unrestricted Global Note Certificates (as defined below) shall be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Purchasers of Notes may elect to hold interests in Restricted Global Note Certificates and Unrestricted Global Note Certificates through any of DTC (in the United States), Clearstream, Luxembourg or Euroclear if they are participants in such systems or indirectly through organisations which are participants in such systems. If specified in the applicable Final Terms, Registered Notes of the same Series sold outside the United States pursuant to Regulation S may be represented, in whole or in part, by a Registered Global Note Certificate that is deposited with or on behalf of a Common Depository for Euroclear and Clearstream, Luxembourg or a nominee thereof for credit to the respective accounts of beneficial owners of the Notes represented thereby (an "**International Global Note Certificate**"). International Global Note Certificates will be subject to special restrictions and procedures referred to under "—Registered Global Note Certificates—International Global Note Certificates" below. Bearer Notes shall be represented initially by a Temporary Global Note in bearer form, without Coupons (a "**Temporary Global Note**"), which shall be deposited with a Common Depository for Clearstream, Luxembourg and Euroclear, unless otherwise specified in the applicable Final Terms. Beneficial interests in such Temporary Global Note shall be exchangeable for beneficial interests in a Permanent Global Note, in an equal aggregate principal amount, not earlier than the earlier of the 40th day after the applicable closing date (or "**restricted period**" as such term is defined in Treasury Regulations Section 1.163-5(c)(2)(D)(7)) or the date the first interest payment is made upon certification of non-U.S. ownership, as set forth in the Paying Agency Agreement. Such exchange will be made upon certification to the effect that the holder is (i) a person that is not a United States person, (ii) a United States person that is (A) a foreign branch of a United States financial institution (as defined in Treasury Regulations Section 1.165-12(c)(1)(iv)) purchasing for its own account or for resale or (B) a United States person who acquired Notes through a foreign branch of a United States financial institution and who holds the Notes through such financial institution on the date of such certification (and in each case (A) or (B), that the financial institution agrees to comply with the requirements of section 163(j)(3)(A), (B) or (C) of the United States Internal Revenue Code and the Treasury Regulations thereunder or (iii) a financial institution that acquired Notes for purposes of resale during the restricted period (as defined in Treasury Regulations Section 1.163-5(c)(2)(i)(D)(7)), and such financial institution certifies that it has not acquired the Notes for purposes of resale directly or indirectly within the United States or its possessions or to a United States person. A financial institution, whether or not described in (i) or (ii) above, that purchases Notes for purposes of resale during the restricted period, may only give the certification described in (iii) above. Except in the limited circumstances described below or as otherwise set forth in the applicable Final Terms, owners of beneficial interests in the Global Notes shall not be entitled to receive Notes in definitive form. See "—Registered Global Note Certificates."

In the United States securities market, the presumption is that settlement of all trades of Notes will occur on the basis of the trade date plus three days ("**T+3**").

Registered Notes may be issued in the form of one or more Global Note Certificates in an aggregate principal amount equal to the principal amount of the Notes of such Series, which shall be exchangeable in the limited circumstances described below for Notes in the form of individual note certificates ("**Individual Note Certificates**").

Unless the Final Terms specify that the TEFRA C Rules are applicable to the Bearer Notes, Bearer Notes will initially be issued in the form of a Temporary Global Note, without Coupons, in an initial aggregate principal amount equal to the principal amount of the Notes of such Series not initially sold to U.S. persons, which shall be exchangeable as described below.

## **Registered Global Note Certificates**

### ***General***

Unless otherwise specified in the applicable Final Terms, Registered Notes of the same Series will be represented, in whole or in part, by (i) one or more Global Note Certificates that are deposited with or on behalf of DTC and registered in the name of its nominee and deposited with the custodian for DTC, for credit to the respective accounts of beneficial owners of the Notes represented thereby (a "**U.S. Global Note**") or (ii) one or more International Global Note Certificates. Restricted Global Note Certificates and Unrestricted Global Note Certificates are U.S. Global Notes sold in reliance on specific registration exemptions of the Securities Act. U.S. Global Notes will be subject to special restrictions and procedures referred to under "**U.S. Global Notes**" below.

### ***U.S. Global Notes***

Notes that are sold in reliance on Rule 144A will be represented by a restricted global note certificate (a "**Restricted Global Note Certificate**"), unless otherwise specified in the applicable Final Terms. A Restricted Global Registered Note Certificate (and any Notes issued in exchange therefor) will be subject to certain restrictions on transfer set forth therein and in the Paying Agency Agreement and will bear the legend regarding such restrictions described under "Transfer Restrictions."

Registered Notes that are sold outside the United States in reliance on Regulation S will be represented by an unrestricted global note certificate (an "**Unrestricted Global Note Certificate**"), unless otherwise specified in the applicable Final Terms. On or prior to the 40th day after the later of the commencement of the offering and the date of delivery of the Notes represented by an Unrestricted Global Note Certificate, a beneficial interest therein may be transferred to a person who takes delivery in the form of an interest in a Restricted Global Note Certificate of the same Series, but only upon receipt by the Registrar of a written certification from the transferor (in the form provided in the Paying Agency Agreement) to the effect that such transfer is being made to a person who the transferor reasonably believes is purchasing for its own account or accounts as to which it exercises sole investment discretion and that such person and each such account is a QIB within the meaning of Rule 144A, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any State of the United States or any other jurisdiction. After such 40th day, such certification requirement will no longer apply to such transfers. Beneficial interests in a Restricted Global Note Certificate may be transferred to a person who takes delivery in the form of an interest in an Unrestricted Global Note Certificate of the same Series, whether before, on or after such 40th day, but only upon receipt by the Registrar of a written certification from the transferor (in the form provided in the Paying Agency Agreement) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 and that, if such transfer occurs on or prior to such 40th day, the interest transferred will be held immediately thereafter through Euroclear or Clearstream, Luxembourg. Any beneficial interest in a U.S. Global Note that is transferred to a person who takes delivery in the form of an interest in another U.S. Global Note of the same Series will, upon transfer, cease to be an interest in the former U.S. Global Note, will become an interest in the latter U.S. Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the latter U.S. Global Note for as long as it remains such an interest.

### ***Book-Entry System***

Upon the issuance of a U.S. Global Note, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such U.S. Global Note to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in a U.S. Global Note will be limited to persons who have accounts with DTC (including Euroclear and Clearstream, Luxembourg), or persons who hold interests through participants. Ownership of beneficial interests in the U.S. Global Notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants), which may include Euroclear and Clearstream, Luxembourg, as described below.

So long as DTC, or its nominee, is the registered holder of a U.S. Global Note, DTC or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such U.S. Global Note for all purposes under the Trust Deed, the Paying Agency Agreement and the Notes. Unless DTC notifies the Issuer

that it is unwilling or unable to continue as depository for such Note, or ceases to be a "Clearing Agency" registered under the Exchange Act, or an Event of Default (as defined in the Conditions) has occurred and is continuing with respect to such Note, owners of beneficial interests in such U.S. Global Note will not be entitled to have portions of such U.S. Global Note registered in their names and will not receive or be entitled to receive physical delivery of Notes in definitive form and will not be considered the owners or holders of such U.S. Global Note (or any Notes represented thereby) pursuant to the Trust Deed, the Paying Agency Agreement or the Notes. If DTC is at any time unwilling or unable to continue as a depository and a successor depository is not appointed by the Issuer within 90 days, the Issuer will (i) issue Restricted Individual Note Certificates in exchange for the relevant Restricted Global Note Certificate and/or (ii) issue Unrestricted Individual Note Certificates in exchange for the relevant Unrestricted Global Note Certificate. In the case of Restricted Individual Note Certificates issued in exchange for the relevant Restricted Global Note Certificate, such Restricted Individual Note Certificates will bear, and be subject to, the legend described under "Transfer Restrictions." Except in the limited circumstances described in this paragraph, owners of beneficial interests in a U.S. Global Note will not be entitled to receive physical delivery of Individual Note Certificates. In addition, no beneficial owner of an interest in a U.S. Global Note will be able to transfer that interest except in accordance with DTC's applicable procedures (in addition to those under the Trust Deed, the Paying Agency Agreement and, if applicable, those of Euroclear and Clearstream, Luxembourg).

Investors may hold their interests in an Unrestricted Global Note Certificate directly through DTC if they are participants in such system and indirectly through organisations which are participants in DTC, including Euroclear or Clearstream, Luxembourg. Euroclear and Clearstream, Luxembourg will hold interests in an Unrestricted Global Note Certificate on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in customers' securities accounts in the depositories' names on the books of DTC.

Investors may hold their interests in a Restricted Global Note Certificate directly through DTC, if they are participants in such system, or indirectly through organisations which are participants in such system.

Payments of the principal of and any premium, interest, and other amounts on any U.S. Global Note will be made to DTC or its nominee as the registered owner thereof. Neither the Issuer, the Trustee, the Registrar, the Transfer Agent (as specified in the applicable Final Terms) nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a U.S. Global Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that DTC or its nominee, upon receipt of any payment in respect of a U.S. Global Note held by it or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such U.S. Global Note as shown on the records of DTC or its nominee. The Issuer also expects that payments by participants to owners of beneficial interests in a U.S. Global Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

Transfers between participants in DTC will be effected in accordance with DTC's procedures and will be settled in same-day funds. The laws of some States of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a U.S. Global Note to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a U.S. Global Note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate of such interest. Transfers between participants in Euroclear and Clearstream, Luxembourg will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the Notes described above, cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg participants, on the other hand, will be effected in DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its respective depository; however, such cross-market transactions

will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in any U.S. Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream, Luxembourg participants may not deliver instructions directly to the depositories for Euroclear or Clearstream, Luxembourg.

Because of time zone differences, the securities account of a Euroclear or Clearstream, Luxembourg participant purchasing an interest in a U.S. Global Note from a DTC participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, Luxembourg, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a U.S. Global Note settled during such processing day will be reported to the relevant Euroclear or Clearstream, Luxembourg participant on such day. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a U.S. Global Note by or through a Euroclear or Clearstream, Luxembourg participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day following settlement in DTC.

DTC has advised us that it will take any action permitted to be taken by a holder of a U.S. Global Note (including the presentation of Notes for exchange as described below) only at the direction of one or more participants to whose account with DTC interests in such U.S. Global Note are credited and only in respect of such portion of the aggregate principal amount of such U.S. Global Note as to which such participant or participants has or have given such direction. However, if there is an Event of Default under a U.S. Global Note, DTC will exchange such U.S. Global Note for legended Notes in definitive form, which it will distribute to its participants.

DTC has advised us as follows: DTC is a limited purpose trust company organised under the laws of the State of New York, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "Clearing Agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations and may include certain other organisations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly.

Although DTC, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the U.S. Global Notes among participants of DTC, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither the Issuer nor the Trustee will have any responsibility for the performance by DTC, Clearstream, Luxembourg or Euroclear or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

### ***International Global Note Certificates***

Registered Notes sold outside the United States in reliance on Regulation S, which are not part of a Series which is also offered in the United States, may be represented, in whole or in part, by an international global note certificate (an "**International Global Note Certificate**") that is deposited with or on behalf of the Common Depository for Euroclear and Clearstream, Luxembourg, or a nominee thereof, outside the United States for credit to the respective accounts of beneficial owners of the Notes represented thereby.

Investors may hold their interests in an International Global Note Certificate through Euroclear or Clearstream, Luxembourg, if they are participants in such systems, or indirectly through organisations that are participants in such systems. Euroclear and Clearstream, Luxembourg will hold interests in an International Global Note Certificate on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositories.

So long as the Common Depositary, or its nominee, is the registered holder of an International Global Note Certificate, the Common Depositary or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such International Global Note Certificate for all purposes under the Trust Deed, the Paying Agency Agreement and such Notes. If (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of public holidays) or announces an intention permanently to cease business or does so cease business; or (b) an Event of Default has occurred with respect to the Note represented by such International Global Note Certificate, the Issuer will issue Individual Note Certificates. Except in the limited circumstances described in this paragraph, owners of beneficial interests in an International Global Note Certificate will not be entitled to have any portion of such International Global Note Certificate registered in their names and will not receive or be entitled to receive delivery of Individual Note Certificates in exchange for their interests in an International Global Note Certificate and will not be considered the owners or holders of such International Global Note Certificate (or any Notes represented thereby) under the Trust Deed, the Paying Agency Agreement or the Notes. In addition, no beneficial owner of an interest in an International Global Note Certificate will be able to transfer that interest except in accordance with applicable procedures of Euroclear and Clearstream, Luxembourg (in addition to those under the Paying Agency Agreement referred to herein).

Payments of the principal of and any premium, interest and other amounts on any International Global Note Certificate will be made to the Common Depositary or its nominee as the registered owner thereof. Neither the Trustee, the Registrar, the Transfer Agent nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in an International Global Note Certificate or for maintaining, supervising, or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that each of Euroclear and Clearstream, Luxembourg, upon receipt of any such payment in respect of an International Global Note Certificate held by a Common Depositary or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such International Global Note Certificate as shown on the records of Euroclear or Clearstream, Luxembourg, as the case may be. The Issuer also expects that payments by participants to owners of beneficial interests in an International Global Note Certificate held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

All Notes represented by an International Global Note Certificate will be offered and sold pursuant to Regulation S, and the restrictions on and procedures for transfer of beneficial interests in such International Global Note Certificate and any Restricted Global Note Certificate of the same Series will be the procedures applicable to any Unrestricted Global Note Certificate and Restricted Global Note Certificates described above under "—U.S. Global Notes," with such modifications as may be specified in such Notes and the applicable Final Terms.

### **Bearer Notes**

Bearer Notes shall initially be issued in the form of a Temporary Global Note, without Coupons, in an initial aggregate principal amount equal to the principal amount of the Notes of such Series not initially sold to U.S. persons, which shall be exchangeable, unless otherwise specified in the Final Terms, (i) for a Permanent Global Note, without Coupons attached (together with Temporary Global Notes, "**Global Bearer Notes**"), which shall in turn be exchangeable (in whole, but not in part) in limited circumstances in the form of Definitive Bearer Notes, with or without Coupons attached, or for interests in a Global Note Certificate of such Series, (ii) in whole but not in part, directly for Definitive Bearer Notes, with or without Coupons attached, which shall in turn be exchangeable at the option of the Noteholder for interests in a Global Note Certificate of such Series or (iii) directly for interests in a Global Note Certificate. The Notes shall be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination). Purchasers in the United States (including its territories, its possessions and other areas Subject to its jurisdiction) will not be able to receive Bearer Notes.

The Issue Agent shall deliver each Temporary Global Note executed and authenticated as provided in the Paying Agency Agreement to the Common Depositary for the benefit of Euroclear and Clearstream, Luxembourg

for credit against payment in immediately available funds on the date of settlement to the respective accounts of the holders of the Notes of the Series represented by such Temporary Global Note.

So long as the Common Depositary, or its nominee, is the bearer of a Global Bearer Note, the Common Depositary or such nominee, as the case may be, will be considered the sole owner and holder of the Notes represented by such Global Bearer Note for all purposes under the Trust Deed, the Paying Agency Agreement and such Notes. Owners of beneficial interests in a Global Bearer Note will not be considered the owners or holders of such Global Bearer Note (or any Notes represented thereby) under the Trust Deed, the Paying Agency Agreement or the Notes. In addition, no beneficial owner of an interest in a Global Bearer Note will be able to transfer that interest except in accordance with applicable procedures of Euroclear and Clearstream, Luxembourg (in addition to those under the Paying Agency Agreement referred to herein).

Payments of the principal of and any premium, interest and other amounts on any Global Bearer Note will be made to the Common Depositary for Euroclear and Clearstream, Luxembourg or its nominees as the bearer thereof. Neither the Issuer, the Trustee nor any Paying Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Bearer Note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The Issuer expects that each of Euroclear and Clearstream, Luxembourg, upon receipt of any such payment in respect of a Global Bearer Note held by a Common Depositary or its nominee, will immediately credit participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such Global Bearer Note as shown on the records of Euroclear or Clearstream, Luxembourg, as the case may be. The Issuer also expects that payments by participants to owners of beneficial interests in a Global Bearer Note held through such participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants.

On or after the date (the "Exchange Date") which is the earlier of (i) the first Business Day following the expiration of a period of 40 days after the date on which the Notes of such Series were issued and (ii) the first day on which interest, if any, is paid on the Notes of such Series, beneficial interests in the Temporary Global Note of a Series as to which the Issue Agent has received certification as to the non-U.S. beneficial ownership thereof as required by Treasury regulations and as set forth in the Paying Agency Agreement will, upon presentation thereof by the Common Depositary to the Issue Agent, be exchanged (i) for interests in a Permanent Global Note of such Series, (ii) directly for interests in a Global Note Certificate of such Series or (iii) in whole but not in part, directly for one or more Definitive Bearer Notes of the same Series, in each case pursuant to the procedures set forth in the next sentence, with respect to that portion of such Temporary Global Note; *provided, however*, that, if Definitive Bearer Notes and (if applicable) Coupons have already been issued in exchange for a portion of such Temporary Global Note or for all of the Notes represented for the time being by such Permanent Global Note because Euroclear and/or Clearstream, Luxembourg do not regard the Permanent Global Note to be fungible with such Definitive Bearer Notes, then such Temporary Global Note may only thereafter be exchanged for Definitive Bearer Notes and (if applicable) Coupons pursuant to the terms of the Trust Deed, the Paying Agency Agreement and such Notes. At any time after the Exchange Date, upon 40 days' notice (which may be given at any time prior to, on or after the Exchange Date) to the Issue Agent by Euroclear or Clearstream, Luxembourg, as the case may be, acting at the request of or on behalf of the beneficial owner or owners of a Global Bearer Note, and, in the case of a Temporary Global Note, upon receipt of the certifications required by Treasury Regulations referred to above, and, unless otherwise agreed, upon payment by the Holder of reasonable costs, interests in the Temporary Global Note or Permanent Global Note of a Series may be exchanged, in whole but not in part, for Definitive Bearer Notes of such Series with Coupons, if applicable, attached; *provided, however*, that, if Definitive Bearer Notes and (if applicable) Coupons have already been issued in exchange for a portion of such Temporary Global Note or for all of the Notes presented for the time being by such Permanent Global Note because Euroclear and/or Clearstream, Luxembourg do not regard the Permanent Global Note to be fungible with such Definitive Bearer Notes, then such Temporary Global Note may only thereafter be exchanged for Definitive Bearer Notes and (if applicable) Coupons pursuant to the terms of the Trust Deed, the Paying Agency Agreement and of such Notes. Any Definitive Bearer Note delivered in exchange for a beneficial interest in a Temporary Global Note or Permanent Global Note shall bear substantially the same legends as are set forth on the face of the Temporary or Permanent Global Bearer Note for which it was exchanged. No Bearer Note may be delivered nor may any interest be paid on any Bearer Note until

the person entitled to receive such Bearer Note or such interest furnishes the certifications required by Treasury Regulations referred to above.

Upon the terms and conditions set out in the Paying Agency Agreement, Permanent Global Bearer Notes and Definitive Bearer Notes may be exchanged for the same aggregate principal amount of Individual Note Certificates of the same series in authorised denominations, or, if so indicated in the relevant Pricing Supplement, for beneficial interests in a Global Note Certificate, at the request in writing of the Holder and, in the case of an exchange of Definitive Bearer Notes, upon surrender of such Definitive Bearer Notes to be exchanged (together with all unmatured Coupons, if any, relating to it) to the specified office of the Registrar, its duly authorised agent or any other Transfer Agent. Where, however, a Definitive Bearer Note is surrendered for exchange after the fifteenth Business Day before the due date for any payment of interest or such other record date as may be applicable, the Coupon in respect of that payment of interest need not be surrendered with it. No holder of any Note may require a Permanent Global Note or Definitive Bearer Note to be exchanged for a Registered Note during the period of 30 days ending on the due date for any payment of principal on that Note.

Until exchanged in full, Global Bearer Notes of a Series shall in all respects be entitled to the same benefits under the Trust Deed and the Paying Agency Agreement as Definitive Bearer Notes of such Series authenticated and delivered thereunder, except that principal of and any premium, interest, additional amounts and other amounts on a Temporary Global Note will not be payable unless a certification, as described herein, is given by the persons appearing in the records of Euroclear or Clearstream, Luxembourg as the owner of the Temporary Global Note or portions thereof being presented for payment, and unless a corresponding certification by Euroclear or Clearstream, Luxembourg shall have been delivered prior to each such date on which such amounts are to be paid.

The following legend will appear on all Global Bearer Notes and Definitive Bearer Notes with a maturity of more than one year and any related Coupons:

"Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in sections 165(j) and 1287(a) of the Internal Revenue Code."

The sections referred to in the above legend provide that a United States taxpayer, with certain exceptions, will not be permitted to deduct any loss, and will not be eligible for capital gains treatment with respect to any gain realized on any sale, exchange or redemption of Bearer Notes or any related Coupons.

Notwithstanding any other provision herein, Bearer Notes with maturities of one year or less may be issued as specified in the applicable Final Terms.

#### **Terms and Conditions applicable to the Notes**

The terms and conditions applicable to any Definitive Note will be endorsed on that Note and will consist of the terms and conditions set out under "Terms and Conditions of the Notes" above and the provisions of the relevant Final Terms which supplement, amend and/or replace those terms and conditions.

The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described above.

## TAXATION

**PROSPECTIVE PURCHASERS OF THE NOTES OR COUPONS ARE ADVISED TO CONSULT THEIR OWN TAX ADVISERS AS TO THE CONSEQUENCES OF PURCHASING THE NOTES, INCLUDING, WITHOUT LIMITATION, THE CONSEQUENCES OF THE RECEIPT OF INTEREST AND THE SALE, REDEMPTION OR REPAYMENT OF THE NOTES OR COUPONS.**

*The following is a general description of certain tax considerations relating to the Notes under Brazilian Law and the Cayman Islands Law. It does not purport to be a complete analysis of all tax considerations relating to the Notes. Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Brazil of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Offering Memorandum and is subject to any change in law that may take effect after such date.*

*Tax consequences in Brazil are different if the Notes are issued by us acting through our Grand Cayman Branch, or BESI Cayman, or us acting through our principal office in Brazil, as Brazilian Issuer.*

### **Brazil**

Interest (including any original issue discount) and any other income payable by a Brazilian obligor to an individual, entity, trust or organisation domiciled outside Brazil in respect of debt obligations such as the Notes is currently subject to income tax withheld at source. The rate of withholding tax with respect to debt obligations is generally 15 per cent. However, in the event that the beneficiary of such payments is domiciled in a "tax haven" jurisdiction (as defined below), such payments of interest (including any original issue discount) and any other income are subject to withholding at the general rate of 25 per cent. (the withholding rate remains 15 per cent. in the case of interest becoming payable by a Brazilian obligor to an individual, company, trust or organisation domiciled outside Brazil in respect of debt obligations resulting from the issue of international debt securities by a Brazilian issuer previously registered with the Central Bank, including commercial paper, as provided for in Section 10 of Normative Instruction No. 252 of December 3, 2002 issued by the Secretariat of the Federal Revenue of Brazil).

A lower withholding rate may be applicable where there is a tax treaty between Brazil and the country where the effective beneficiary of the payment has its domicile. In this regard, Brazil and Japan are signatories to a treaty for the avoidance of double taxation, or the Brazil-Japan Treaty. Under the Brazil-Japan Treaty, entities incorporated in Japan (or a branch thereof) will be subject to Brazilian withholding tax at a rate of 12.5% with respect to interest payable with respect to debt obligations of a Brazilian company. We believe and intend to take the position for tax purposes that, as long as the Principal Paying Agent for the Notes is an entity incorporated in Japan (or a full branch thereof for the purposes of Japanese laws, duly licensed to operate as such by the applicable laws), and as long as payments of interest (including any original issue discount) on, and principal of, the Notes are made to such Principal Paying Agent, interest paid with respect to the Notes (and under the Paying Agency Agreement) will likely be subject to Brazilian tax at a rate of 12.5% pursuant to the Brazil-Japan Treaty. For this purpose, the Principal Paying Agent must be granted discharge powers and be authorised to receive payments on behalf of the holders of the Notes, which would release the Brazilian debtor from the payment obligations. If we are not able to rely on such treaty to make the payments, and the payments are not made by us to the Principal Paying Agent, any such payments will be subject to the Brazilian WHT at the rates referred to in the preceding paragraph.

Fees and commissions payable by a Brazilian obligor in respect of the Notes may be subject to (i) withholding tax at the rate of 15% or 25% (depending on the nature of the service); (ii) CIDE at the rate of 10%; (iii) Contribuição ao Programa de Integração Social (PIS) and Contribuição para o Financiamento da Seguridade Social (COFINS) at the total rate of 9.25%; (iv) Tax on Services (ISS) at rates which may vary from 2% to 5%; and (v) IOF/Exchange at the rate of 0.38%.

A "tax haven" is a jurisdiction that does not impose any tax on income or which imposes such tax at a maximum effective rate lower than 20%. In addition, on June 24, 2008, Law 11,727 was enacted with effect from January 1, 2009, establishing that a jurisdiction or country where local legislation imposes restrictions on disclosing the shareholding composition or the ownership of an investment is also considered a tax haven jurisdiction. Law No. 11,727 also changed the scope of new transactions that would be subject to Brazilian transfer pricing rules, with

the creation of the concept of a tax privileged regime. Pursuant to Law No. 11,727, a jurisdiction will be considered a privileged tax regime if it (i) does not tax income or that taxes it at a maximum rate lower than 20%; (ii) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or one of its territories or (b) conditioned upon the non-exercise of a substantial economic activity in the country or one of its territories, or (iii) does not tax proceeds generated abroad or taxes them at a maximum rate lower than 20%, or (iv) restricts the ownership disclosure of assets and ownership rights or restricts disclosure about economic transactions carried out. .

We believe that the correct interpretation of Law No. 11,727/08 is that the new concept of a “privileged tax regime” shall only be applied for purposes of the observance of transfer pricing and thin capitalisation rules. However, due to the recent enactment of this law, we are unable to ascertain if this privileged tax regime concept will also be applied to interest payments made to non-resident holders in respect of the Notes. We recommend that prospective purchasers consult their own tax advisors regarding the changes implemented by Law No. 11,727.

According to Law No. 10,833/03, of December 29, 2003, gains assessed on the sale or other disposal of assets located in Brazil may be subject to tax in Brazil, regardless of whether the sale or disposal is made by a non-resident holder to a resident or person domiciled in Brazilian or to other non-resident. Based on the fact that the Notes are sold abroad, they should not fall within the definition of assets located in Brazil for the purpose of Law No. 10,833/03. Gains on the sale or disposal of the Notes made outside Brazil by a non-resident holder, other than a branch, subsidiary of a Brazilian resident as defined under Brazilian tax law, to another non-resident would not be subject to Brazilian taxes. However, considering the general and unclear scope of Law No. 10,833/03 and the absence of judicial court rulings in respect thereto, it is unpredictable whether such understanding will ultimately prevail in the courts of Brazil. If this understanding does not prevail, gains realized by a non-resident holder from the sale or disposition of the Notes may be subject to income tax in Brazil at a rate of 15% or 25% if the non-resident is located in a tax haven jurisdiction.

Pursuant to Decree No. 6,306 of December 14, 2007, as amended, the conversion of foreign currency into Brazilian *reais* and the conversion of Brazilian *reais* into foreign currency is subject to tax on foreign exchange transactions, or IOF/*Exchange*. Currently, the rate of IOF/*Exchange* is 0.38% for almost all foreign exchange transactions. However, as of March 12, 2012, the liquidation of foreign exchange transactions related to the inflow of proceeds into Brazil, including transactions implemented by means of simultaneous exchange transactions, in connection with foreign loans and financings subject to any register before the Brazilian Central Bank, with an average amortization term inferior to 1,800 days (almost 5 years), are subject to IOF Exchange at 6% rate. The exchange transactions related to the outflow of proceeds from Brazil in connection with the mentioned foreign loans are subject to zero rate. On the other hand, the liquidation of exchange transactions in connection with foreign financing or loans with an average term exceeding 1,800 days, for both inflow and outflow of proceeds into and from Brazil are generally subject to IOF/*Exchange* at a zero percent rate. However, the Brazilian government may increase the current IOF/*Exchange* rate at any time up to a maximum rate of 25.0%.

Generally, except as indicated above, there are no stamp, transfer or other similar taxes in Brazil with respect to the transfer, assignment or sale of the Notes outside Brazil nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the Securities, except for gift and inheritance taxes imposed by some Brazilian States on gifts and bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such Brazilian states.

### **Cayman Islands Tax Considerations**

*The following summary is based upon the tax laws of the Cayman Islands as in effect as the date hereof and, except as provided below, is subject to any change in Cayman Islands law that may come into effect after such date.*

Payments in respect of the Notes will not be subject to taxation in the Cayman Islands, and no withholding will be required on such payments to any holder of a Note. Gains derived from the sale of Notes will not be subject to Cayman Islands income or corporation tax. The Cayman Islands currently has no income, corporation or capital gains tax and no estate duty, inheritance or gift tax.

The holder of any Note (or the legal personal representative of such holder) whose Note is executed in or brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of such Note.

### **European Union Savings Directive (Directive 2003/48/EC)**

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35%. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments. Belgium will replace this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

A number of non-EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On November 13, 2008 the European Commission published a proposal for amendments to the Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

### **United States Federal Income Taxation**

#### **U.S. Treasury Department Circular 230 Notice**

**THE DISCUSSION OF TAX MATTERS IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED BY ANY PERSON, FOR THE PURPOSE OF AVOIDING U.S. FEDERAL, STATE OR LOCAL TAX PENALTIES, AND WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE PROGRAMME. EACH PROSPECTIVE INVESTOR SHOULD SEEK ADVICE BASED ON IT'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

The following summary discusses the material U.S. federal income tax consequences applicable to U.S. Noteholders (as defined below) that acquire, own or dispose of Notes that were purchased on original issuance at their issue price (as defined below) and are held as capital assets. This summary does not discuss all of the tax consequences that may be relevant in light of a U.S. Noteholder's particular circumstances, nor does it discuss state, local, U.S. federal estate and gift, and non-U.S. tax laws. In particular, this summary does not discuss the tax considerations that may be applicable to U.S. Noteholders subject to special rules such as financial institutions, insurance companies, dealers in securities or foreign currencies, persons holding Notes as part of a hedging transaction, straddle, conversion transaction or other integrated transaction, U.S. Noteholders whose functional currency is not the U.S. dollar, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, tax-exempt organisations, non-U.S. Noteholders or former citizens and residents of the United States.

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations all as of the date of this Offering Memorandum and any of which may at any time be repealed, revised or subject to differing interpretation, possibly retroactively so as to result in U.S. federal income tax consequences different from those described below. Prospective investors considering the purchase of the Notes should consult the relevant Final Terms for any additional discussion of U.S. federal income tax considerations and should consult their independent tax advisors with regard to the application of the U.S. federal income tax laws to their particular circumstances as well as any tax consequences arising under the laws of any state, local or non-U.S. taxing jurisdiction.

Notes issued under the Programme are issued in Series and each Series may comprise one or more Tranches of Notes. Each Tranche may be issued with a variety of different terms, the specifics of many of which will not be determined until the issuance of the relevant Final Terms for such Tranche. Accordingly, certain of the U.S. federal income tax matters relevant to the acquisition, ownership or disposition of a particular Tranche of the Notes may not be ascertainable until the relevant Final Terms for such Tranche is issued. The following discussion sets forth certain general U.S. federal tax matters which may be described without the requirement of referring to the specific terms of any particular Tranche of the Notes. This summary does not discuss Notes that by their terms may be retired for an amount less than their principal amount and Notes subject to special rules. The tax treatment of certain Notes such as, for example, Index-Linked Interest Notes or Dual Currency Notes, may be specified in the relevant Final Terms. Moreover, this summary does not discuss Bearer Notes. In general, U.S. federal income tax law imposes significant limitations on U.S. Noteholders of Bearer Notes. U.S. Noteholders should consult their independent tax advisors regarding the restrictions and penalties imposed under U.S. federal income tax law with respect to Bearer Notes and any other tax consequences with respect to the acquisition, ownership and disposition of any of these Notes. Finally, the discussion below assumes that the Notes will be treated as debt for U.S. federal income tax purposes.

The Issuer has not sought any opinion of counsel or any ruling from the U.S. Internal Revenue Service (the "IRS") with respect to the statements made and the conclusions reached in this summary, and there can be no assurance that the IRS will agree with such statements and conclusions.

As used herein, the term "**U.S. Noteholder**" means a beneficial owner of a Note that is for U.S. federal income tax purposes (i) a citizen or individual resident of the United States; (ii) a corporation created or organised in or under the laws of the United States or of any state thereof or the District of Columbia; (iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or (iv) a trust (A) if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons" (as defined in Treasury Regulations) have the authority to control all substantial decisions of the trust, or (B) that was in existence on August 20, 1996 and has made a valid election under Treasury Regulations to be treated as a domestic trust.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds Notes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and upon the activities of the partnership. Partners of partnerships holding Notes should consult with their independent tax advisors regarding the U.S. federal tax consequences of an investment in the Notes.

#### ***Payments of Stated Interest***

Payments or accruals of interest on a Note generally will be taxable to a U.S. Noteholder as ordinary interest income at the time it accrues or is received in accordance with the U.S. Noteholder's method of accounting for U.S. federal income tax purposes, provided that the interest is "qualified stated interest" (as defined below). In addition to interest on the Notes, U.S. Noteholders will be required to include in income any tax withheld from the interest payments and additional amounts, if any, paid in respect of such tax withheld. Interest income earned by a U.S. Noteholder with respect to a Note (including any additional amounts) generally will constitute foreign source income for U.S. federal income tax purposes, which may be relevant in calculating the U.S. Noteholder's foreign tax credit limitation. The rules regarding foreign tax credits are complex and prospective investors should consult their independent tax advisors about the application of such rules to them in their particular circumstances. Special rules governing the treatment of interest paid with respect to Original Issue Discount Notes and Foreign Currency Notes are described under "—Original Issue Discount," "—Contingent Payment Debt Instruments," and "—Foreign Currency Notes."

#### ***Original Issue Discount***

U.S. Noteholders of Original Issue Discount Notes, as defined below, other than Short-Term Notes (discussed below under "Short-Term Notes"), will be subject to special tax accounting rules, as described herein. Additional rules applicable to Original Issue Discount Notes which are denominated in or whose payments are determined by reference to a foreign currency are described under "Foreign Currency Notes" below.

For U.S. federal income tax purposes, and subject to the *de minimis* rule described below, a Note that has an "issue price" that is less than its "stated redemption price at maturity" will be considered to have been issued at an original discount ("**Original Issue Discount Note**"). The amount of such Original Issue Discount ("**OID**") is treated as ordinary interest income. A U.S. Noteholder must include in gross income amounts of OID on Original Issue Discount Notes as ordinary interest income on an accrual basis under a "constant yield to maturity" method described below (whether the U.S. Noteholder is a cash or accrual basis taxpayer for U.S. federal income tax purposes). Generally, OID must be included in income in advance of the receipt of cash representing such income.

The total amount of OID on an Original Issue Discount Note will equal the excess of the Note's "stated redemption price at maturity" over its "issue price." The stated redemption price at maturity equals the sum of all payments due under the Original Issue Discount Note, other than any payments of "qualified stated interest." The issue price will generally equal the initial public offering price at which a substantial number of Notes are issued in a given offering (excluding sales to bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers).

The term "qualified stated interest" means stated interest that is unconditionally payable in cash or in property, other than in debt instruments of the Issuer, at least annually, over the entire term of the Notes and at a fixed rate or, subject to certain conditions, based on one or more indices.

The amount of OID on an Original Issue Discount Note that a U.S. Noteholder must include in income during a taxable year is the sum of the "daily portions" of OID for that Note. The daily portions are determined by allocating to each day in an "accrual period" (generally, the period between compounding dates) a pro rata portion of the OID attributable to that accrual period. The amount of OID attributable to an accrual period is the product of the "adjusted issue price" of the Note at the beginning of the accrual period and its yield to maturity. The adjusted issue price of the Note is generally equal to the sum of its issue price and all prior accruals of OID, less any payments on the Notes other than qualified stated interest. Cash payments on an Original Issue Discount Note are allocated first to any stated interest then due, then to previously accrued OID (in the order of accrual) to which cash payments have not yet been allocated, and then to principal.

A Note issued with "de minimis" OID, which is discount that is not treated as OID because it is less than the product of 0.25% of the stated redemption price at maturity and the number of complete years to maturity, is not subject to the OID rules. Instead, a U.S. Noteholder generally must include the de minimis OID in income at the time principal payments on the Note are made in proportion to the amount paid. Any amount of de minimis OID included in income will be treated as capital gain.

A U.S. Noteholder generally may make an irrevocable election to include in its income the entire return on an Original Issue Discount Note (including payments of qualified stated interest) under the constant yield to maturity method applicable to OID.

For purposes of the foreign tax credit provisions of the Code, any OID accrued on a Note and included in a U.S. Noteholder's income will constitute foreign source income and will be classified as "passive category income" (or, in certain cases, as "general category income").

In the case of a Note that is a Floating Rate Note, the OID calculations are generally made as though the Note will bear interest in all periods at a fixed rate generally equal to the rate that would be applicable to interest payments on the Note on its date of issue or, in the case of certain Floating Rate Notes, the rate that reflects the yield to maturity that is reasonably expected for the Note. Actual interest payments in excess of this assumed rate are generally treated as additional qualified stated interest when made. Additional rules may apply if interest on a Floating Rate Note is based on more than one interest index, or such Note is treated as providing for one or more contingent payments.

The U.S. federal income tax, including OID, consequences to a U.S. Noteholder of an Indexed-Linked Interest Note will depend on factors including the specific index or indices used to determine indexed payments on the Note and the amount and timing of any noncontingent payments of principal and interest. Certain instruments that provide for wholly or substantially contingent principal payments may not constitute debt for U.S. federal income tax purposes. The rules applicable to such Notes will be discussed in the applicable Final Terms.

### ***Short-Term Notes***

In the case of Notes having an original maturity of one year or less from the date of issuance (“**Short-Term Notes**”), U.S. Noteholders that report income for U.S. federal income tax purposes on the accrual method, certain other U.S. Noteholders (for example, banks, regulated investment companies and dealers in securities) and electing cash method U.S. Noteholders will be required to accrue the “discount” on such Short-Term Notes as ordinary income on a straight-line basis over the remaining life of such Notes (unless an irrevocable election is made for such Notes to accrue such discount according to a constant yield method based on daily compounding). The discount on a Short-Term Note for this purpose equals the excess of the total payments (including all stated interest) to be made on such Note over the issue price of (or, if an election is made, the U.S. Noteholder’s basis in) the Short-Term Note. Discount recognised under this provision is generally in lieu of, and not in addition to, stated interest on the Note.

In general, individuals and certain other cash method U.S. Noteholders of a Short-Term Note are not required to include accrued discount on such Note in their income currently, unless they elect to do so (but may be required to include any stated interest in income as the interest is received). In the case of a U.S. Noteholder that is not required, and does not elect, to include discount in income currently, any gain realized on the sale, exchange, retirement or other disposition of a Short-Term Note generally will be ordinary income to the extent of the discount accrued through the date of sale, exchange, retirement or other disposition of such Note. In addition, a U.S. Noteholder that is not required, and does not elect, to include accrued discount in income currently, may be required to defer deductions for a portion of the U.S. Noteholder’s interest expense with respect to any indebtedness incurred or continued to purchase or carry the Short-Term Note. The above-described elections available to be made with respect to Short-Term Notes generally apply for the taxable year for which they are made and all subsequent taxable years and may not be revoked without the consent of the IRS.

### ***Treatment of Pre-Issuance Interest***

If a Note is issued with pre-issuance accrued interest, a U.S. Noteholder may treat the Note, for U.S. federal income tax purposes, as having been issued for an amount that excludes the pre-issuance accrued interest. In that event, a portion of the first stated interest payment equal to the excluded pre-issuance accrued interest will be treated as a return of such pre-issuance accrued interest and will not be taxable to the U.S. Noteholder or otherwise treated as an amount payable on the Note.

### ***Market Discount***

If a U.S. Noteholder purchases a Note (other than a Short-Term Note) for an amount that is less than its stated redemption price at maturity or, in the case of an Original Issue Discount Note, its adjusted issue price (which is the sum of the issue price of the Note and the aggregate amount of the OID previously includible in the gross income of any U.S. Noteholder (without regard to any acquisition premium and less any payments on the Notes other than qualified stated interest)), the amount of the difference will be treated as market discount for U.S. federal income tax purposes. The amount of any market discount generally will be treated as de minimis and disregarded if it is less than the product of 0.25% of the stated redemption price at maturity of the Note and the number of complete years to maturity.

Under the market discount rules, a U.S. Noteholder will be required to treat any principal payment (or, in the case of an Original Issue Discount Note, any payment that does not constitute qualified stated interest) on, or any gain on the sale, exchange, retirement or other disposition of a Note as ordinary income to the extent any market discount that has not previously been included in income. If the Note is disposed of in a nontaxable transaction (other than certain specified nonrecognition transactions), accrued market discount will be includible as ordinary income to the U.S. Noteholder as if the U.S. Noteholder had sold the Note at its then fair market value. In addition, the U.S. Noteholder may be required to defer, until the maturity of the Note or its earlier disposition in a taxable transaction, the deduction of all or a portion of the interest expense on any indebtedness incurred or continued to purchase or carry the Note.

Market discount accrues rateably during the period from the date of acquisition to the maturity of a Note, unless a U.S. Noteholder elects to accrue it under a constant yield method (as described under “—Original Issue Discount”). Such election will result in a deemed election for all market discount bonds acquired by the U.S. Noteholder on or after the first day of the first taxable year to which such election applies. If an election is made to

include market discount in income currently, the basis of the Note in the hands of the U.S. Noteholder will be increased by the market discount thereon as it is included in income.

#### ***Acquisition Premium and Amortizable Bond Premium***

If a U.S. Noteholder purchases a Note for an amount that is greater than its adjusted issue price but equal to or less than the sum of all amounts payable on the Note after the purchase date, other than payments of qualified stated interest, the U.S. Noteholder will be considered to have purchased the Note at an "acquisition premium." Under the acquisition premium rules, the amount of OID that the U.S. Noteholder must include in its gross income with respect to the Note for any taxable year will be reduced by the portion of the acquisition premium properly allocable to that year.

If the U.S. Noteholder purchases a Note (including an Original Issue Discount Note) for an amount in excess of the sum of all the amounts payable on the Note after the purchase date, other than payments of qualified stated interest, the U.S. Noteholder will be considered to have purchased the Note at a "premium" and, if it is an Original Issue Discount Note, the U.S. Noteholder will not be required to include any OID in income. The U.S. Noteholder generally may elect to amortize this premium, using a constant yield method, over the remaining term of the Note. If the U.S. Noteholder makes this election, the amount of interest income that must be reported for U.S. federal income tax purposes with respect to any interest payment date will be reduced by the amount of premium allocated to the period from the previous interest payment date to that interest payment date.

The amount of premium allocated to any such period is calculated by taking the difference between (i) the stated interest payable on the interest payment date on which that period ends and (ii) the product of (a) the Note's overall yield to maturity and (b) the U.S. Noteholder's purchase price for the Note (reduced by amounts of premium allocated to previous periods).

In the case of instruments that provide for alternative payment schedules, the amount of premium is calculated by assuming that (a) the U.S. Noteholder will exercise or not exercise options in a manner that maximizes the holder's yield and (b) the Issuer will exercise or not exercise options in a manner that minimizes the U.S. Noteholder's yield.

If a U.S. Noteholder makes the election to amortize premium, it must be applied to the Note and to all debt instruments acquired at a premium that the U.S. Noteholder holds at the beginning of the taxable year in which the election is made and all debt instruments subsequently purchased at a premium, unless the U.S. Noteholder obtains the consent of the IRS to a change.

If the U.S. Noteholder does not make the election to amortize premium on a Note and holds the Note to maturity, the U.S. Noteholder will have a capital loss for U.S. federal income tax purposes, equal to the amount of the premium, when the Note matures.

If the U.S. Noteholder does not make the election to amortize premium and sells or otherwise disposes of the Note before maturity, the premium will be included in the U.S. Noteholder's tax basis (as defined below) in the Note, and therefore will decrease the gain, or increase the loss, that the U.S. Noteholder otherwise would realize on the sale, exchange, retirement or other disposition of the Note.

#### ***Sale, Exchange or Retirement of the Notes***

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Noteholder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition and the U.S. Noteholder's adjusted tax basis in the Note. A U.S. Noteholder's amount realized is the sum of cash and the fair market value of any property received (other than amounts attributable to accrued but unpaid interest not previously included in income, which are treated as payments of interest as described under "— Payments of Stated Interest"). A U.S. Noteholder's adjusted tax basis in a Note generally will equal the acquisition cost of the Note, increased by the amount of OID and market discount included in the U.S. Noteholder's gross income, decreased (but not below zero) by any bond premium or acquisition premium previously amortized and by the amount of any payment received from the Issuer (other than a payment of qualified stated interest), and

increased by any OID previously included in income with respect to the Note. Gain or loss, if any, generally will be U.S. source income for purposes of computing a U.S. Noteholder's foreign tax credit limitation.

Except as described below or as otherwise provided in the applicable Final Terms, gain or loss realized on the sale, exchange, retirement or other disposition of a Note generally will be capital gain or loss, and will be long-term capital gain or loss if at the time of sale, exchange, retirement or other disposition, the U.S. Noteholder has held the Note for more than one year. The gain or loss will be short-term capital gain or loss if the U.S. Noteholder held the Note for one year or less. Under current law, net capital gains of non-corporate taxpayers may be taxed at lower rates than items of ordinary income, although the tax rate for long-term capital gains of non-corporate taxpayers is scheduled to increase for tax years beginning on or after January 1, 2013. Limitations may apply to the U.S. Noteholder's ability to deduct a capital loss. In addition,

Any capital gains or losses that arise upon the sale, exchange, retirement or other disposition of a Note generally will be treated as U.S. source income, or loss allocable to U.S. source income, for purposes of the foreign tax credit provisions of the Code.

### ***Contingent Payment Debt Instruments***

If the terms of the Notes provide for certain contingencies that affect the timing and amount of payments (including Notes with a variable rate or rates that do not qualify as "variable rate debt instruments" for purposes of the OID rules) they generally will be "contingent payment debt instruments" for U.S. federal income tax purposes. Under the rules that govern the treatment of contingent payment debt instruments, no payment on such Notes qualifies as qualified stated interest. Rather, a U.S. Noteholder must account for interest for U.S. federal income tax purposes based on a "comparable yield" and the differences between actual payments on the Note and the Note's "projected payment schedule" as described below. The comparable yield is determined by us at the time of issuance of the Notes. The comparable yield may be greater than or less than the stated interest, if any, with respect to the Notes. Solely for the purpose of determining the amount of interest income that a U.S. Noteholder will be required to accrue on a contingent payment debt instrument, the Issuer will be required to construct a "projected payment schedule" that represents a series of payments the amount and timing of which would produce a yield to maturity on the contingent payment debt instrument equal to the comparable yield.

**Neither the comparable yield nor the projected payment schedule constitutes a representation by the Issuer regarding the actual amount, if any, that the contingent payment debt instrument will pay.**

For U.S. federal income tax purposes, a U.S. Noteholder will be required to use the comparable yield and the projected payment schedule established by the Issuer in determining interest accruals and adjustments, unless the U.S. Noteholder timely discloses and justifies the use of a different comparable yield and projected payment schedule to the IRS.

A U.S. Noteholder, regardless of the such holder's method of accounting for U.S. federal income tax purposes, will be required to accrue interest income on a contingent payment debt instrument at the comparable yield, adjusted upward or downward to reflect the difference, if any, between the actual and the projected amount of any contingent payments on the contingent payment instrument (as set forth below).

A U.S. Noteholder will be required to recognise interest income equal to the amount of any net positive adjustment, i.e., the excess of actual payments over projected payments, in respect of a contingent payment debt instrument for a taxable year. A net negative adjustment, i.e., the excess of projected payments over actual payments, in respect of a contingent payment debt instrument for a taxable year, will first reduce the amount of interest in respect of the contingent payment debt instrument that a U.S. Noteholder would otherwise be required to include in income in the taxable year; and to the extent of any excess, will give rise to an ordinary loss equal to so much of this excess as does not exceed the excess of: (i) the amount of all previous interest inclusions under the contingent payment debt instrument over (ii) the total amount of the U.S. Noteholder's net negative adjustments treated as ordinary loss on the contingent payment debt instrument in prior taxable years.

A net negative adjustment is not subject to the 2% floor limitation imposed on miscellaneous deductions. Any net negative adjustment in excess of the amounts described above will be carried forward to offset future interest income in respect of the contingent payment debt instrument or to reduce the amount realized on a sale,

exchange, retirement or other disposition of the contingent payment debt instrument. Where a U.S. Noteholder purchases a contingent payment debt instrument for a price other than its adjusted issue price, the difference between the purchase price and the adjusted issue price must be reasonably allocated to the daily portions of interest or projected payments with respect to the contingent payment debt instrument over its remaining term and treated as a positive or negative adjustment, as the case may be, with respect to each period to which it is allocated.

Upon a sale, exchange, retirement or other disposition of a contingent payment debt instrument, a U.S. Noteholder generally will recognize taxable gain or loss equal to the difference between the amount realized on the sale, exchange, retirement or other disposition and the U.S. Noteholder's adjusted basis in the contingent payment debt instrument. A U.S. Noteholder's adjusted basis in a Note that is a contingent payment debt instrument generally will be the acquisition cost of the Note, increased by the interest previously accrued by the U.S. Noteholder on the Note under these rules, disregarding any net positive and net negative adjustments, and decreased by the amount of any noncontingent payments and the projected amount of any contingent payments previously made on the Note. A U.S. Noteholder generally will treat any gain as interest income, and any loss as ordinary loss to the extent of the excess of previous interest inclusions in excess of the total net negative adjustments previously taken into account as ordinary losses, and the balance as capital loss. The deductibility of capital losses is subject to limitations. In addition, if a U.S. Noteholder recognizes loss above certain thresholds, the U.S. Noteholder may be required to file a disclosure statement with the IRS (as described under "—Reportable Transactions").

A U.S. Noteholder will have a tax basis in any property, other than cash, received upon the retirement of a contingent payment debt instrument equal to the fair market value of the property, determined at the time of retirement. The U.S. Noteholder's holding period for the property will commence on the day immediately following its receipt. Special rules apply to contingent payment debt instruments that are denominated, or provide for payments, in a currency other than the U.S. dollar ("**Foreign Currency Contingent Payment Debt Instruments**"). Very generally, these instruments are accounted for like a contingent payment debt instrument, as described above, but in the currency of the Foreign Currency Contingent Payment Debt Instruments. The relevant amounts must then be translated into U.S. dollars. The rules applicable to Foreign Currency Contingent Payment Debt Instruments are complex and U.S. Noteholders are urged to consult their independent tax advisors regarding the U.S. federal income tax consequences of the acquisition, ownership and disposition of such instruments.

### *Foreign Currency Notes*

The following discussion summarizes the principal U.S. federal income tax consequences to a U.S. Noteholder of the ownership and disposition of the Notes that are denominated in a specified currency other than the U.S. dollar or the payments of interest or principal on which are payable in a currency other than the U.S. dollar ("**Foreign Currency Notes**").

The rules applicable to Foreign Currency Notes could require gain or loss realized upon the sale, exchange, retirement or other disposition of the notes that is attributable to fluctuations in currency exchange rates ("foreign currency gain or loss") to be recharacterized as ordinary income or loss. The rules applicable to Foreign Currency Notes are complex and may depend on the U.S. Noteholder's particular U.S. federal income tax situation. For example, various elections are available under these rules, and whether a U.S. Noteholder should make any of these elections may depend on the U.S. Noteholder's particular U.S. federal income tax situation. U.S. Noteholders are urged to consult their independent tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of Foreign Currency Notes.

A U.S. Noteholder who uses the cash method of accounting and who receives a payment of qualified stated interest in a foreign currency with respect to a Foreign Currency Note (or who receives proceeds from a sale, exchange, retirement or other disposition attributable to accrued interest) will be required to include in income the U.S. dollar value of the foreign currency payment (determined on the date the payment is received) regardless of whether the payment is in fact converted to U.S. dollars at the time, and this U.S. dollar value will be the U.S. Noteholder's tax basis in the foreign currency. A cash-method holder who receives a payment of qualified stated interest in U.S. dollars will be required to include the amount of this payment in income upon receipt. To the extent that a cash-method holder is required to accrue OID on a foreign currency note, rules similar to the rules described in the following paragraph will apply with respect to the OID.

An accrual method U.S. Noteholder will be required to include in income the U.S. dollar value of the amount of interest income (including OID or market discount, but reduced by acquisition premium and amortizable bond premium, to the extent applicable) that has accrued and is otherwise required to be taken into account with respect to a Foreign Currency Note during an accrual period. The U.S. dollar value of the accrued income will be determined by translating the income at the average rate of exchange for the accrual period or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the taxable year. The U.S. Noteholder will recognise ordinary income or loss with respect to accrued interest income on the date the income is actually received. The amount of ordinary income or loss recognised will equal the difference between the U.S. dollar value of the foreign currency payment received (determined on the date the payment is received) in respect of the accrual period and the U.S. dollar value of interest income that has accrued during the accrual period (as determined above).

An accrual method U.S. Noteholder or cash method U.S. Noteholder accruing OID may elect to translate interest income (including OID) into U.S. dollars at the spot rate on the last day in the interest accrual period (or, in the case of a partial accrual period, the spot rate on the last day of the partial accrual period in the taxable year) or, if the date of receipt is within five business days of the last day of the interest accrual period, the spot rate on the date of receipt. A U.S. Noteholder that makes this election must apply it consistently to all debt instruments from year to year and cannot change the election without the consent of the IRS.

OID, market discount, acquisition premium and amortizable bond premium on a Foreign Currency Note are to be determined in the relevant foreign currency. Where the taxpayer elects to include market discount in income currently, the amount of market discount will be determined for any accrual period in the relevant foreign currency and then translated into U.S. dollars on the basis of the average rate in effect during the accrual period. Foreign currency gain or loss realized with respect to such accrued market discount shall be determined in accordance with the rules relating to accrued interest described above. Accrued market discount (other than market discount currently included in income) taken into account upon the receipt of any partial principal payment or upon the sale, retirement or other disposition of a Note is translated into U.S. dollars at the spot rate on such payment or disposition date.

Note premium on a Foreign Currency Note will be computed in units of the applicable foreign currency. If an election to amortize bond premium is made, amortizable bond premium taken into account on a current basis shall reduce interest income in units of the relevant foreign currency. Exchange gain or loss is realized on amortized bond premium with respect to any period by treating the bond premium amortized in the period in the same manner as on the sale, exchange or retirement, or other disposition of the Foreign Currency Note. Any foreign currency gain or loss will be ordinary income or loss as described below. If the election is not made, any loss realized on the sale, exchange, retirement or other disposition of a Foreign Currency Note with amortizable bond premium by a U.S. Noteholder who has not elected to amortize the premium will be a capital loss to the extent of the bond premium.

A U.S. Noteholder's tax basis in a Foreign Currency Note, and the amount of any subsequent adjustment to the U.S. Noteholder's tax basis, will be the U.S. dollar value amount of the foreign currency amount paid for such Foreign Currency Note, or of the foreign currency amount of the adjustment, determined on the date of the purchase or adjustment. A U.S. Noteholder who purchases a Foreign Currency Note with previously owned foreign currency will recognise ordinary income or loss in an amount equal to the difference, if any, between such U.S. Noteholder's tax basis in the foreign currency and the U.S. dollar fair market value of the Foreign Currency Note on the date of purchase.

Foreign currency gain or loss realized upon the sale, exchange, retirement or other disposition of a Foreign Currency Note that is attributable to fluctuation in currency exchange rates will be ordinary income or loss which will not be treated as interest income or expense. The amount of foreign currency gain or loss generally will equal the difference between (i) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the payment is received or the Note is disposed of, and (ii) the U.S. dollar value of the foreign currency principal amount of the Note, determined on the date the U.S. Noteholder acquired the Note. Payments received attributable to accrued interest will be treated in accordance with the rules applicable to payments of interest on Foreign Currency Notes described above. The foreign currency gain or loss will be recognised only to the extent of the total gain or loss realized by the U.S. Noteholder on the sale, exchange, retirement or other disposition of the Foreign Currency Note. Any gain or loss realized by U.S. Noteholders in excess of the foreign currency gain or loss will be capital gain or loss except to the extent of any accrued market discount or, in the case of Short-Term Note, to

the extent of any discount not previously included in the U.S. Noteholder's income provided that the Note is not a Foreign Currency Contingent Payment Debt Instrument. U.S. Noteholders should consult their independent tax advisors with respect to the tax consequences of receiving payments in a currency different from the currency in which payments with respect to such Note accrue.

A U.S. Noteholder will have a tax basis in any foreign currency received on the sale, exchange, retirement or other disposition of a Foreign Currency Note equal to the U.S. dollar value of the foreign currency, determined at the time of sale, exchange, retirement or other disposition. A cash method taxpayer who buys or sells a Foreign Currency Note that is traded on an established securities market is required to translate units of foreign currency paid or received into U.S. dollars at the spot rate on the settlement date of the purchase or sale. Accordingly, no exchange gain or loss will result from currency fluctuations between the trade date and the settlement date of the purchase or sale. An accrual method taxpayer may elect the same treatment for all purchases and sales of foreign currency obligations provided that the Notes are traded on an established securities market. This election cannot be changed without the consent of the IRS. If either (i) the Note is not traded on an established securities market or (ii) it is and the holder is an accrual method taxpayer that does not make the election described above with respect to such Note, exchange gain or loss may result from currency fluctuations between the trade date and the settlement date of the purchase or sale. Any gain or loss realized by a U.S. Noteholder on a sale or other disposition of foreign currency (including its exchange for U.S. dollars or its use to purchase Foreign Currency Notes) will be ordinary income or loss.

#### **Medicare Tax**

For taxable years beginning after December 31, 2012, a U.S. Noteholder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax on the lesser of (i) the U.S. Noteholder's "net investment income" for the relevant taxable year (or, in the case of a U.S. Noteholder that is an estate or trust, the U.S. Noteholder's "undistributed net investment income") and (ii) the excess of the U.S. Noteholder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. Noteholder's net investment income generally will include its interest income and its net gains from the disposition of Notes, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities).

#### **Information With Respect to Foreign Financial Assets**

Owners of "specified foreign financial assets" with an aggregate value in excess of \$50,000 may be required to file information reports with respect to such assets with their U.S. federal income tax returns. Depending on the holder's circumstances, higher threshold amounts may apply. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, as well as any of the following, but only if they are not held in accounts maintained by financial institutions: (i) stocks and securities issued by non-United States persons, (ii) financial instruments and contracts held for investment that have non-U.S. issuers or counterparties, and (iii) interests in non-U.S. entities. The Notes may be treated as specified foreign financial assets and U.S. Noteholders may be subject to this information reporting regime. Failure to file information reports may subject U.S. Noteholders to penalties. U.S. Noteholders are urged to consult their independent tax advisor regarding their obligation to file information reports with respect to the Notes.

#### ***Backup Withholding and Information Reporting***

In general, information reporting requirements will apply to payments on the Notes and the proceeds from a sale, exchange, retirement or other taxable disposition of the Notes, in each case if such payments are made within the U.S. Such payments will be considered made within the U.S. if transferred to an account maintained in the U.S. or mailed to a U.S. address, and the amount is paid by or through a custodian, nominee or other agent that is a United States Controlled Person, as defined below. Backup withholding will apply to such payments if you are a noncorporate U.S. Noteholder that (i) fails to provide an accurate taxpayer identification number, (ii) in the case of interest payments, fails to certify that it is not subject to backup withholding, or (iii) is notified by the IRS that it has failed to report all interest and dividends required to be shown on its U.S. federal income tax returns.

A “United States Controlled Person” is:

- a “United States person” (as defined in Treasury Regulations);
- a controlled foreign corporation for U.S. federal income tax purposes;
- a foreign person 50% or more of whose gross income is derived for tax purposes from a United States trade or business for a specified three-year period; or
- a foreign partnership in which United States persons hold more than 50% of the income or capital interests or which is engaged in a U.S. trade or business.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a U.S. Noteholder generally will be allowed as a refund or a credit against the U.S. Noteholder's U.S. federal income tax liability as long as the holder provides the required information to the IRS.

#### ***Reportable Transactions***

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A U.S. Noteholder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if the loss exceeds U.S.\$50,000 in a single taxable year if the U.S. Noteholder is an individual or trust, or higher amounts for other U.S. Noteholders. In the event the acquisition, ownership or disposition of the Notes constitutes participation in a "reportable transaction" for purposes of these rules, a U.S. Noteholder will be required to disclose its investment by filing Form 8886 with the IRS. Prospective investors should consult their independent tax advisors regarding the application of these rules to the acquisition, ownership or disposition of the Notes.

**The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a U.S. Noteholder's particular situation. U.S. Noteholders should consult their tax independent advisors with respect to the tax consequences to them of the ownership and disposition of the Notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in U.S. federal or other tax laws.**

## CERTAIN ERISA AND OTHER U.S. CONSIDERATIONS

ERISA imposes fiduciary standards and certain other requirements on "employee benefit plans" (as defined in section 3(3) of ERISA) subject to Title I of ERISA, including collective investment funds, separate accounts, and other entities or accounts whose underlying assets are treated as assets of such plans pursuant to the U.S. Department of Labor "plan assets" regulation, 29 CFR Section 2510.3-101 (collectively, ERISA Plans), and on those persons who are fiduciaries with respect to ERISA Plans. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan. The prudence of a particular investment will be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment including, but not limited to, the matters discussed in "Risk Factors" and the fact that in the future there may be no market in which the fiduciary will be able to sell or otherwise dispose of the Notes.

In addition, Section 406 of ERISA and Section 4975 of the Code prohibit certain transactions involving the assets of an ERISA Plan (as well as those plans that are not subject to ERISA but which are subject to Section 4975 of the Code, such as individual retirement accounts (together with ERISA Plans, Plans)) and certain persons (referred to as "parties in interest" or "disqualified persons") having certain relationships to such Plans, unless a statutory or administrative exemption applies to the transaction. In particular, a sale or exchange of property or an extension of credit between a Plan and a "party in interest" or "disqualified person" may constitute a prohibited transaction. A party in interest or disqualified person who engages in a prohibited transaction may be subject to excise taxes or other penalties and liabilities under ERISA and Section 4975 of the Code.

Prohibited transactions within the meaning of Section 406 of ERISA or Section 4975 of the Code may arise if the Notes are acquired by a Plan with respect to which we, the Arranger or the Dealers or any respective affiliates are a party in interest or a disqualified person, unless the Notes are acquired pursuant to and in accordance with an applicable exemption. Certain exemptions from the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code may apply depending in part on the type of Plan fiduciary making the decision to acquire a Note and the circumstances under which that decision is made. There can be no assurance that any exemption will be available with respect to any particular transaction involving the Notes, or that if an exemption is available, it will cover all aspects of any particular transaction.

EXCEPT AS OTHERWISE PROVIDED IN A SUPPLEMENT, BY ITS PURCHASE AND HOLDING OF A NOTE, EACH PURCHASER AND EACH TRANSFEREE WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED EITHER THAT (A) IT IS NOT AND FOR SO LONG AS IT HOLDS NOTES WILL NOT BE AND IS NOT ACQUIRING THE NOTES DIRECTLY OR INDIRECTLY WITH THE ASSETS OF A PERSON WHO IS OR WHILE THE NOTES ARE HELD WILL BE) AN EMPLOYEE BENEFIT PLAN AS DESCRIBED IN SECTION 3(3) OF ERISA AND SUBJECT TO ERISA, OR A PLAN SUBJECT TO SECTION 4975 OF THE CODE, OR A GOVERNMENTAL PLAN OR CHURCH PLAN WHICH IS SUBJECT TO ANY FEDERAL, STATE OR LOCAL OR NON-U.S. LAW THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR AN ENTITY WHOSE ASSETS ARE TREATED AS ASSETS OF ANY SUCH PLAN OR (B) ITS PURCHASE AND HOLDING OF A NOTE WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, ANY SUBSTANTIALLY SIMILAR PROVISIONS OF ANY FEDERAL, STATE, LOCAL, OR NON-U.S. LAW).

Governmental plans and certain church plans, while not subject to the fiduciary responsibility provisions of ERISA or the provisions of Section 4975 of the Code, may nevertheless be subject to state or local, other federal or non-U.S. laws that are substantially similar to the foregoing provisions of ERISA and the Code. Fiduciaries of any such plans should consult with their counsel before purchasing Notes.

The foregoing discussion is general in nature and not intended to be all-inclusive. Any Plan fiduciary that proposes to cause a Plan to purchase Notes should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and Section 4975 of the Code to such an

investment, and to confirm that such investment will not constitute or result in a prohibited transaction or any other violation of an applicable requirement of ERISA or the Code.

The sale of Notes to a Plan is in no respect a representation by us, the Arranger or the Dealers that such an investment meets all relevant legal requirements with respect to investments by Plans generally or any particular Plan, or that such an investment is appropriate for Plans generally or any particular Plan.

## SUBSCRIPTION AND SALE

*The following is subject to change in the applicable Final Terms. In addition, the Dealers who have agreed to purchase Notes of a Series from us will be specified in the applicable Final Terms.*

Notes may be sold from time to time by the Issuer to Banco Espírito Santo de Investimento S.A. (the "**Dealer**"). The arrangements under which Notes may from time to time be agreed to be sold by the Issuer to, and purchased by, Dealers are set out in a Dealer Agreement dated February 4, 2010 (the "**Dealer Agreement**") and made among the Issuer and the Dealers. Any such agreement will, *inter alia*, make provision for the form and terms and conditions of the relevant Notes, the price at which such Notes will be purchased by the Dealers and the commissions or other agreed deductibles (if any) payable or allowable by the Issuer in respect of such purchase. The Dealer Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealer Agreement entitles the Dealers to terminate any agreement that they make to subscribe for Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

### United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act.

- (1) Each Dealer has represented and agreed that it has not offered or sold Notes and will not offer and sell Notes (i) as part of its distribution at any time and (ii) otherwise until 40 days after the later of the date of issue of the relevant Tranche of Notes and the completion of the distribution of such Tranche, as determined and certified to the Issue Agent or the Issuer by the relevant Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, by each of such Dealers as to the Notes of such Tranche purchased by or through it, in which case the Issuer shall notify each such Dealer when all such Dealers have so certified), except in accordance with Rule 903 of Regulation S under the Securities Act or in the case of offers and sales by any Dealer (through one or more of its affiliates), except as provided in paragraph (2) below. Accordingly, each Dealer will represent and agree that neither it, its affiliates (if any) nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to Notes, and it and they have complied and will comply with the offering restrictions requirements of Regulation S. Each Dealer has agreed that, at or prior to confirmation of sale of Notes (other than sale of Notes in registered form pursuant to paragraph (2) below), it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Notes covered hereby have not been registered under the United States Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the date of issue of the relevant Tranche of Notes of which such Notes are a part and the completion of the distribution of such Tranche, as determined and certified by [*Name of Dealer or Dealers, as the case may be*], except in either case in accordance with Regulation S under, or pursuant to an available exemption from the registration requirements of, the Securities Act. Terms used above have the meaning given to them by Regulation S."

- (2) Each Dealer has agreed that it will not, acting either as principal or agent, offer or sell any Notes in the United States other than Notes in registered form bearing a restrictive legend thereon, and it will not, acting either as principal or agent, offer, sell, reoffer or resell any of such Notes (or approve the resale of any of such Notes):
  - (a) except (A) inside the United States through a U.S. broker dealer that is registered under the Exchange Act to institutional investors, each of which such Dealer reasonably believes (i) is a "qualified institutional buyer" (as defined in Rule 144A thereunder), or a fiduciary or agent

purchasing Notes for the account of one or more qualified institutional buyers, and (ii) has such knowledge and experience in financial and business matters that it is capable of evaluating and bearing the risks of investing in the Notes or is represented by a fiduciary or agent with sole investment discretion having such knowledge and experience or (B) otherwise in accordance with the restrictions on transfer set forth in such Notes, the Dealer Agreement, the Offering Memorandum and the relevant Final Terms; or

- (b) by means of any form of general solicitation or general advertisement, including but not limited to (A) any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio and (B) any seminar or meeting whose attendees have been advised by any general solicitation or general advertising.
- (3) Each Dealer has represented and agreed that in connection with each sale to a qualified institutional buyer it has taken or will take reasonable steps to ensure that the purchaser is aware that the Notes have not been and will not be registered under the Securities Act, that transfers of Notes are restricted as set forth herein and that the selling Dealer may rely upon the exemption provided by Rule 144A under the Securities Act.

The Bearer Notes are also subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the United States Internal Revenue Code of 1986, as amended, and regulations thereunder.

Each Dealer (or, in the case of a sale of a Tranche of Notes to or through more than one Dealer, each of such Dealers, as to Notes of such Tranche purchased by or through it, in which case the Issue Agent or the Issuer shall notify each such Dealer when all such Dealers have certified as provided in this paragraph) who has purchased Notes of any Tranche in accordance with the Dealer Agreement has agreed to determine and certify to the Issue Agent or the Issuer the completion of the distribution of such Tranche of Notes as aforesaid. In order to facilitate compliance by each Dealer with the foregoing, the Issuer has agreed that, prior to such certification with respect to such Tranche, it will notify each relevant Dealer in writing of each acceptance by the Issuer of an offer to purchase and of any issue of Notes or other debt obligations of the Issuer which are denominated in the same currency or composite currency and which have substantially the same terms and maturity date as the Notes of such Series.

In addition, until 40 days after the commencement of the offering of any Tranche of Notes, an offer or sale of Notes within the United States by any dealer that is not participating in the offering of such Series of Notes may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A.

In addition, certain Series of Notes in respect of which any payment is determined by reference to an index or formula, or to changes in prices of securities or commodities, or certain other Notes will be subject to such additional U.S. transfer and selling restrictions as the relevant Issuer and the relevant Dealers may agree, as indicated in the applicable Final Terms. Each Dealer has agreed that it will offer, sell and deliver such Notes only in compliance with such additional U.S. transfer and selling restrictions.

#### **Public Offer Selling Restriction Under the Prospectus Directive**

In relation to each Member State of the EEA which has implemented the Prospectus Directive (each, a Relevant Member State), including each Relevant Member State that has implemented amendments to Article 3(2) of the Prospectus Directive with regard to persons to whom an offer of securities is addressed and the denomination per unit of the offer of securities, or an Early Implementing Member State, and with respect to any tranche which is to be admitted to listing, trading and/or quotation by any listing authority, Stock Exchange and or quotation system situated or operating in a Relevant Member State, in each case in circumstances which require the publication of a prospectus under the Prospectus Directive, each Dealer has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the Relevant Implementation Date, it has not made and will not make an offer of Notes to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State:

- (i) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (ii) to qualified investors as defined in the Prospectus Directive, including (A) (in the case of Relevant Member States other than Early Implementing Member States), at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities; or at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or  
  - (B) (in the case of Early Implementing Member States), persons or entities that are described in points (1) to (4) of Section 1 of Annex II to Directive 2004/39/EC, and those who are treated on request as professional clients in accordance with Annex II to Directive 2004/39/EC, or recognised as eligible counterparties in accordance with Article 24 of Directive 2004/39/EC unless they have requested that they be treated as non-professional client; or
- (iii) to fewer than 100 (or, in the case of Early Implementing Member States, 150) natural or legal persons (other than “qualified investors” as defined in the Prospective Directive) subject to obtaining the prior consent of the Dealers; or
- (iv) in any other circumstances falling within Article 3(2) of the Prospective Directive,

provided that no such offer of Notes shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or of a supplement to a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of the above provisions, the expression an “offer of Notes to the public” in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Relevant Member State by any measure implementing the Prospectus Directive in that Relevant Member State and the expression “Prospectus Directive” means Directive 2003/71/EC (including that Directive as amended, in the case of Early Implementing Member States) and includes any relevant implementing measure in each Relevant Member State.

#### **Transfer and Selling Restrictions Addressing Additional United Kingdom Securities Laws**

Each Dealer has represented, warranted and agreed that: (i) in relation to any Notes which have a maturity of less than one year, (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issuance of the Notes would otherwise constitute a contravention of section 19 of the FSMA by us; (ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to us; and (iii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

## **Japan**

The Notes have not been and will not be registered under the Securities and Exchange Law of Japan and, accordingly, each Dealer has undertaken that it will not offer or sell any Notes directly or indirectly, in Japan or to, or for the benefit of, any Japanese Person or to others for re-offering or resale, directly or indirectly, in Japan or to any Japanese Person except under circumstances which will result in compliance with all applicable laws, regulations and guidelines promulgated by the relevant Japanese governmental and regulatory authorities and in effect at the relevant time. For the purposes of this paragraph, "**Japanese Person**" shall mean any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

## **Brazil**

Each Dealer has represented and agreed that it has not offered or sold, and will not offer or sell, any Notes in Brazil, except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. The Notes will not be registered with CVM.

## **Ireland**

Each Dealer has represented, warranted and agreed in relation to the Notes that it has not and will not do anything in Ireland in connection with the Notes which might constitute a breach of sections 9, 23 (including any advertising restrictions made thereunder) and 50 of any Code of Conduct made under section 37 of the Investment Intermediaries Act 1995.

## **Cayman Islands**

Each Dealer has agreed that it has not offered or sold, and will not offer or sell, any Notes issued by our Grand Cayman Branch to the public in the Cayman Islands. Notes may be issued to ordinary non-resident and exempted companies of the Cayman Islands.

Each Dealer has agreed to comply with the Companies Law (2011 Revision) of the Cayman Islands prohibiting (a) the sale of Notes in the Cayman Islands and (b) any invitation in the Cayman Islands to subscribe for the Notes.

## **Portugal**

No offer or sale of Notes may be made in Portugal, except in circumstances that will result in compliance with the rules concerning marketing of Notes and the laws of Portugal generally.

No prospectus has been subject to the approval nor will it be subject to the approval of the Portuguese Securities Market Commission (the "CMVM") in relation to the offer of the Notes. Each Dealer has represented and agreed, and each further Dealer appointed will be required to represent and agree that it has not offered or sold, and it will not offer or sell any Notes in Portugal or to residents of Portugal otherwise than in accordance with applicable Portuguese Law.

No approval has been or will be requested from the CMVM that would permit a public offering of any of the Notes in Portugal. Accordingly, each Dealer has represented and agreed that no Notes have been or may be offered or sold to 100 or more addressees who are not Portuguese Qualified Investors and no offer has been preceded or followed by promotion or solicitation to unidentified investors, public advertisement or publication of any promotional material. The offer of Notes is only intended for Qualified Investors within the meaning of Article 30 the Securities Code (*Código dos Valores Mobiliários*) includes credit institutions, investment firms, insurance companies, collective investment institutions and their respective managing companies, pension funds and their respective pension fund-managing companies, other authorised or regulated financial institutions, notably securitization funds and their respective management companies, all other financial companies, securitization companies, venture capital companies, venture capital funds and their respective management companies, financial institutions incorporated in a state that is not a member state of the European Union that carry out activities similar to those previously mentioned, entities trading in financial instruments related to commodities and regional and national governments, central banks and public bodies that manage debt, supranational or international institutions,

namely the European Central Bank, the European Investment Bank, the International Monetary Fund and the World Bank, as well as entities whose corporate purpose is solely to invest in securities and any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, all as shown in its last annual or consolidated accounts. It may also include high net worth individuals who request to be classified as such, where they also comply with certain requirements and subsequently with the registration with the CMVM within the terms of a CMVM regulation.

## **General**

Each Dealer has represented, warranted and agreed that it has complied and will comply with in all material respects all applicable laws and regulations in each country or jurisdiction in or from which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Offering Memorandum or any Final Terms or any related offering material, in all cases at its own expense. Other persons into whose hands this Offering Memorandum or any Final Terms comes are required by the Issuer and the Dealers to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Offering Memorandum or any Final Terms or any related offering material, in all cases at their own expense.

Transfer and selling restrictions may be supplemented or modified with the agreement of the Issuer. Any such supplement or modification may be set out in the relevant Final Terms (in the case of a supplement or modification relevant only to a particular Tranche of Notes) or in a supplement to this Offering Memorandum.

BESI Portugal is not a broker-dealer registered with the SEC, and therefore may not make sales of any Notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that BESI Portugal intends to effect sales of the Notes in the United States, BESI Portugal will do so only through Espírito Santo Financial Services, Inc., or one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

Banco Espírito Santo de Investimento S.A., the Arranger and a Dealer under the Programme, is an affiliate of the Issuer.

## TRANSFER RESTRICTIONS

### Rule 144A Notes

Each purchaser of Notes pursuant to Rule 144A, by accepting delivery of this Offering Memorandum, will be deemed to have represented, agreed and acknowledged that:

- (1) It is (a) a QIB within the meaning of Rule 144A, (b) acquiring such Notes for its own account or for the account of a QIB and (c) aware, and each beneficial owner of such Notes has been advised, that the sale of such Notes to it is being made in reliance on Rule 144A.
- (2) It understands that the Notes have not been and will not be registered under the Securities Act and may not be offered, sold, pledged or otherwise transferred except (a) in accordance with Rule 144A to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or for the account of a QIB, (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S or (c) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available), in each case in accordance with any applicable securities laws of any state of the United States.
- (3) It represents by its purchase and holding that either (A) it is not and for so long as it holds a Note (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of the Code, (iii) a governmental or other benefit plan which is subject to any U.S. federal, state or local law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (iv) an entity whose underlying assets include the assets of any employee benefit plan or other plan described in the preceding clauses (i), (ii) or (iii); or (B) its purchase and holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, or entity whose underlying assets include the assets thereof, any such substantially similar U.S. federal, state, local or non-U.S. law) for which an exemption is not available.
- (4) It understands that such Notes, unless we determine otherwise in compliance with applicable law, will bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT OR (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), IN EACH CASE IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT FOR REALES OF THIS NOTE.

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF

1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) A GOVERNMENTAL OR OTHER BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL, OR NON-U.S. LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (IV) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN DESCRIBED IN THE PRECEDING CLAUSES (I), (II) OR (III); OR (B) ITS PURCHASE AND HOLDING OF THIS NOTE WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS THEREOF, ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE, OR LOCAL, OR NON-U.S. LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE."

- (5) It understands that we, the Registrar, the Dealers and the respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Notes for the account of one or more QIBs it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.
- (6) It understands that the Notes offered in reliance on Rule 144A will be represented by the Restricted Global Note Certificate. Before any interest in the Restricted Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

Prospective purchasers are hereby notified that sellers of the Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

#### **Regulation S Notes**

Each purchaser of Notes (or any interest therein) outside the United States pursuant to Regulation S and each subsequent purchaser of such Notes in resales prior to the expiration of the distribution compliance period, by accepting delivery of this Offering Memorandum and the Notes, will be deemed to have represented, agreed and acknowledged that:

- (1) It is, or at the time Notes are purchased will be, the beneficial owner of such Notes and (a) it is not a U.S. person and it is located outside the United States (within the meaning of Regulation S) and (b) it is not our affiliate or a person acting on behalf of such an affiliate.
- (2) It understands that such Notes have not been and will not be registered under the Securities Act and that, prior to the expiration of the distribution compliance period, it will not offer, sell, pledge or otherwise transfer such Notes except (a) in accordance with Rule 144A under the Securities Act to a person that it and any person acting on its behalf reasonably believe is a QIB purchasing for its own account or the account of a QIB or (b) in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any State of the United States.
- (3) It represents by its purchase and holding that either (A) it is not and for so long as it holds a Note (or any interest therein) will not be (i) an "employee benefit plan" as defined in Section 3(3) of ERISA that is subject to Title I of ERISA, (ii) a "plan" as defined in and subject to Section 4975 of the Code, (iii) a governmental or other benefit plan which is subject to any U.S. federal, state or local law, that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code, or (iv) an entity whose underlying assets include the assets of any employee benefit plan or other plan described in the preceding clauses (i), (ii) or (iii); or (B) its purchase and

holding of the Notes will not result in a prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of such a governmental or other employee benefit plan, or entity whose underlying assets include the assets thereof, any such substantially similar U.S. federal, state, local, or non-U.S. law) for which an exemption is not available.

- (4) It understands that such Notes, unless otherwise determined by us in accordance with applicable law, will bear a legend to the following effect:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

BY ITS PURCHASE AND HOLDING OF THIS NOTE (OR ANY INTEREST THEREIN), THE PURCHASER OR HOLDER WILL BE DEEMED TO HAVE REPRESENTED AND AGREED THAT EITHER (A) IT IS NOT AND FOR SO LONG AS IT HOLDS THIS NOTE (OR ANY INTEREST HEREIN) WILL NOT BE (I) AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA") THAT IS SUBJECT TO TITLE I OF ERISA, (II) A "PLAN" AS DEFINED IN AND SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"), (III) A GOVERNMENTAL OR OTHER BENEFIT PLAN WHICH IS SUBJECT TO ANY U.S. FEDERAL, STATE, LOCAL, OR NON-U.S. LAW, THAT IS SUBSTANTIALLY SIMILAR TO THE PROVISIONS OF SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE, OR (IV) AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS OF ANY SUCH EMPLOYEE BENEFIT PLAN OR OTHER PLAN DESCRIBED IN THE PRECEDING CLAUSES (I), (II) OR (III); OR (B) ITS PURCHASE AND HOLDING OF THIS NOTE WILL NOT RESULT IN A PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE (OR, IN THE CASE OF SUCH A GOVERNMENTAL OR OTHER EMPLOYEE BENEFIT PLAN, OR ENTITY WHOSE UNDERLYING ASSETS INCLUDE THE ASSETS THEREOF, ANY SUCH SUBSTANTIALLY SIMILAR U.S. FEDERAL, STATE, LOCAL, OR NON-U.S. LAW) FOR WHICH AN EXEMPTION IS NOT AVAILABLE."

- (5) It understands that we, the Registrar, the Dealers and the respective affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.
- (6) It understands that the Notes offered in reliance on Regulation S will be represented by the Unrestricted Global Note Certificate. Prior to the expiration of the distribution compliance period, before any interest in the Unrestricted Global Note Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in the Unrestricted Global Note Certificate, it will be required to provide a Transfer Agent with a written certification (in the form provided in the Paying Agency Agreement) as to compliance with applicable securities laws.

## GENERAL INFORMATION

- (1) The establishment of the Programme and the execution of all documents in connection therewith was authorised by resolution of our board of directors (*Ata do Conselho de Administração*) passed on December 10, 2009. As a matter of Cayman Islands Law, no separate resolutions of our Grand Cayman Branch are required. Except as disclosed in this Offering Memorandum, there are no conflicts of interest for any of our shareholders, management or related parties with respect to the Programme.
- (2) We have obtained all necessary consents, approvals and authorisations for the establishment of the Programme, the issue and performance of the Notes under the Programme and the execution of the Paying Agency Agreement dated February 4, 2010, the Trust Deed dated February 4, 2010 all of which are in full force and effect, except that the issue of any Series of Notes under the Programme requires (i) the approval by the Central Bank of the terms and conditions of the Series of Notes and registration of the schedule of payments applicable to such Series, which will enable us to make remittances from Brazil in the relevant currency of the principal of and interest on the Notes in relation to such Series and (ii) the approval of the Central Bank for us to make any payment not set forth in the relevant schedule of payments. Reference to the consents, approvals and authorisations obtained by us in connection with each issue of Notes under the Programme and performance thereunder will be included in the Final Terms prepared in connection with such issue.
- (3) Application has been made to the Global Exchange Market of the Irish Stock Exchange Ltd. to list the Programme and application may be made to the Global Exchange Market of the Irish Stock Exchange Ltd. to list any Notes issued under the Programme. There can be no assurance that listing on the Global Exchange Market of the Irish Stock Exchange Ltd. will be achieved prior to the launch date of the Programme or the issue date of any Notes or otherwise or that, if obtained, such listing will be maintained.
- (4) While the Global Exchange Market of the Irish Stock Exchange Ltd. is not a regulated market, if the Transparency Directive (Directive 2004/109/EC) were to be amended or interpreted so as to require us to publish financial information either more regularly than we otherwise would be required to or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our financial information, we may seek an alternative admission to listing, trading and/or quotation for the Notes by such other listing authority, stock exchange and/or quotation system outside the European Union. Notice of any such termination and/or alternative listing shall promptly be given to Noteholders in accordance with Condition 16 (*Notices*).
- (5) Except as disclosed in this Offering Memorandum, there has been no significant change in our financial or trading position or any of our subsidiaries since December 31, 2011 and no material adverse change in our prospects or any of our subsidiaries since December 31, 2011, which is the date of our last published audited financial statements.
- (6) Except as disclosed in this Offering Memorandum, neither we nor any of our subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) during the 12 months preceding the date of this Offering Memorandum which may have or have had in the recent past significant effects on our financial position or profitability.
- (7) Each Global Bearer Note and Definitive Bearer Note having a maturity of more than one year, and each related Coupon, will bear the following legend: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code."
- (8) Notes have been accepted for clearance through the Euroclear and Clearstream systems. The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms.

- (9) The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium, and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy L-1855, Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms.
- (10) The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms of each Tranche, based on then prevailing market conditions. We do not intend to provide any post-issuance information in relation to any issues of Notes.
- (11) For so long as the Programme remains in effect or any Notes shall be outstanding, physical copies of the following documents may be inspected during normal business hours (i) at the specified office of the Listing Agent in Ireland, (ii) at the specified offices of any Paying Agent and (iii) at our registered office in São Paulo, Brazil, namely:
- (a) our constitutive documents;
  - (b) each Final Terms (save that Final Terms relating to a Note which is neither admitted to trading on a regulated market within the European Economic Area nor offered in the European Economic Area in circumstances where a prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to us and the Issue Agent and any Paying Agent as to its holding of Notes and identity);
  - (c) the Paying Agency Agreement;
  - (d) the Trust Deed;
  - (e) the Dealer Agreement; and
  - (f) our most recent publicly available (i) audited individual annual and semi-annual financial statements beginning with such financial statements for the years ended December 31, 2011, 2010 and 2009;

In addition, copies of the items listed in (b) and (f) above will be provided free of charge at the specified offices of the Paying Agents and the Listing Agent upon oral or written request.

- (12) The Bank estimates that total expenses related to the establishment of the Programme will be approximately U.S.\$150,000.
- (13) Our head offices are located at Avenida Brigadeiro Faria Lima, no. 3729 – 6º andar, São Paulo, SP, Brazil. Phone: +55 11 3074 7444. We are registered with the Brazilian General Taxpayers' Registry (*Cadastro Nacional da Pessoa Jurídica*), or CNPJ, under No. 34.111.187/0001-12.
- (14) We were incorporated as an investment bank with limited liability on June 12, 2000, in the Federative Republic of Brazil. We were incorporated with an indefinite duration and operate in accordance with Brazilian laws.

## SUMMARY OF DIFFERENCES BETWEEN BRAZILIAN GAAP AND IFRS

Our financial statements included elsewhere in this Offering Memorandum have been prepared in accordance with accounting practices adopted in Brazil applicable to institutions authorised to operate by the Central Bank. Accounting practices adopted in Brazil which apply to financial institutions include those established by Law No. 6,404, as amended, including amendments set forth in the Brazilian Corporate Law, by the recently created CPC, by the CFC, and interpretative guidance issued by IBRACON. In the case of companies subject to regulation by the Central Bank, such as the Bank, the effectiveness of accounting pronouncements issued by accounting standard setters, such as the CPC, depends on approval of the pronouncement by the CMN/Central Bank which also establishes the effective date of the pronouncements. In addition, the Central Bank provides additional industry-specific guidelines.

Our financial statements have not been prepared in accordance with IFRS, adopted pursuant to Article 3 of Regulation (EC) No. 1606/2002. Accordingly, there may be material differences in the financial information had Regulation (EC) No. 1606/2002 been applied to our historical financial statements. There are certain differences between Brazilian GAAP and IFRS (which incorporates all existing IFRS, IAS, as well as IFRIC and SIC interpretations) which may be relevant to the financial information presented herein.

The following is a summary of certain of those differences; however, this summary does not purport to be complete and should not be construed as exhaustive.

In reading this summary, prospective investors in the Notes should also have regard to the considerations:

- This summary includes differences between Brazilian GAAP and IFRS as of December 31, 2011. Differences resulting from changes in accounting standards or from transaction or events that had occurred before December 31, 2011 have not been taken into account in this summary.
- Differences between Brazilian GAAP and IFRS resulting from future changes in accounting standards or from transactions or events that may occur in the future have not been taken into account in this summary and no attempt has been made to identify any future events, ongoing work and decisions of the regulatory bodies that promulgate Brazilian GAAP and IFRS that could affect future comparisons between Brazilian GAAP and IFRS. The current differences disclosed in this summary are not intended to be complete and are subject to, and qualified in their entirety by, reference to the respective pronouncements of the Brazilian and those of the International Accounting Standards Board and the International Financial Reporting Interpretations Committee.
- As differences between Brazilian GAAP and IFRS may be significant to our financial position or results of operations prospective investors unfamiliar with Brazilian GAAP should consult their own professional advisors for an understanding of the differences between Brazilian GAAP and IFRS and how those differences might impact the financial information presented herein.
- Unlike IFRS, under Brazilian GAAP there are no specific principles relating to certain matters such as business combinations, and accounting and reporting for research and development costs, among others.

This summary does not address differences related solely to the classification of amounts in the financial statements or footnote disclosures

### **Foreign Currency Translation**

Under Brazilian GAAP, the financial statements of subsidiaries operating in non highly inflationary currency environments are translated using the current exchange rate. Financial statements presented in highly inflationary currency environments are generally adjusted for the effects of inflation prior to translation. Translation gains and losses are taken to the income statement.

Under IFRS, when translating financial statements into a different presentation currency (for example, for consolidation purposes), IFRS requires the assets and liabilities to be translated using the closing (year end) rate.

Amounts in the income statement are translated using the average rate for the accounting period if the exchange rates do not fluctuate significantly. Any translation differences are reported in equity (other comprehensive income).

### **Equity Method of Accounting**

In accordance with Brazilian GAAP, under the equity method of accounting, a company is required to record an original investment in the equity of another entity at cost which is thereafter periodically adjusted to recognise the investor's share of the investee's earnings, losses and dividend payments after the date of original investment. A Brazilian parent company is required to use the equity method of accounting to record investments in its subsidiaries (companies that are controlled by the parent company), in its stand alone "individual" financial statements, and its affiliates (companies in which the parent company owns at least 10% of the issued share capital without controlling it) over whose management it exerts influence or in which it owns 20% or more of the capital, if the aggregate book value of all such investments is equal to or greater than 15% of the net worth of the parent company or if the book value of an investment in any single subsidiary or affiliate is equal to or greater than 10% of the net worth of the parent company. If the parent company is registered with the CVM, the subsidiary companies must be consolidated if their aggregate book values exceed 30% of shareholders' equity of the parent company, or if the parent company has control over management decisions of any single affiliate or if the investee is financially dependent on the parent company. In the case of financial institutions, investments in subsidiaries are required by the Central Bank to be recorded using the equity method of accounting regardless of their significance. In addition, the exchange variation resulting from investments in subsidiaries abroad is required by the Central Bank to be recorded as equity pick up in subsidiaries in the income statement. The Brazilian GAAP establish certain factors that are indicative of the fact that the company exerts influence.

Under IFRS (IAS 28), the equity method of accounting is applicable to those investments: (i) in which the investor has significant influence over the investee, which is generally represented by 20% or more of the voting power, without controlling the entity where consolidation is required (see topic below).

### **Business Combinations, Purchase Accounting and Goodwill**

Under Brazilian GAAP, combinations are not specifically addressed and are recorded based on book values. Goodwill or negative goodwill recorded on the acquisition of a company is calculated as the difference between the cost of acquisition and the net book value. The cost of acquisition includes transaction costs.

Under IFRS 3 (Revised), Business Combinations requires, among other things, that all business combinations, except those involving entities under common control be accounted by the purchase method.

Under IFRS 3 (Revised), the acquiring company records identifiable assets and liabilities acquired at their fair values. The shares issued in exchange for shares of other companies are accounted for at fair value based on the market price. All payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed.

### **Transfer of Financial Assets**

No specific pronouncement addresses the accounting for transfers of financial assets under Brazilian GAAP, except for when such a transfer involves a special purpose entity that is in substance controlled by the entity, using a similar approach as prescribed in SIC-12 (IFRS). Assignments of credits to other entities are generally accounted by removing the credits assigned from the balance sheet, recognising the cash or other assets received and recording at the time of assignment a gain or loss for the difference between the book value of the credits assigned and the value of the cash and assets received. In general, the accounting for transfers of financial assets under Brazilian GAAP is significantly different from the accounting of such transfers under IFRS. The CMN issued Resolution No. 3,533 on January 31, 2008 and Resolution No. 3,809 of October 28, 2009, as amended by Resolution No. 3,895, of July 29, 2010, which changed the accounting treatment with respect to assigned loans. With mandatory effect from January 1, 2012, loans assigned where the transferor substantially keeps risks and benefits of

the assigned credit (including assignments with repurchase commitment, assignments where the transferor commits to compensate the assignee for losses and assignments to funds or special entities where the transferor effectively maintains the risks and benefits through interest in shares issued by the fund or special interest) will continue to be recorded in the balance sheet. In addition, Resolution No. 3,809, of October 28, 2009, sets forth that all assigned loans where the transferor keeps the relevant risks shall be described and detailed in an explanatory note.

Under IFRS, financial assets can be derecognised in full or partially but only when the necessary conditions are met. Derecognition conditions depend on the following factors:

- the rights to the asset's cash flows and substantially all risks and rewards of ownership are transferred;
- an obligation to transfer the asset's cash flows is assumed;
- substantially all risks and rewards are transferred and the following conditions are met:
  - (i) no obligation to pay cash flows unless equivalent cash flows from the transferred asset collected;
  - (ii) the obligation to pass through cash flows; and
  - (iii) obligation to remit any cash flows without material delay; or
- substantially all the risks and rewards are neither transferred nor retained but control of the asset is transferred.

#### **Accounting for Guarantees by a Guarantor**

Under Brazilian GAAP, guarantees granted to third parties are recorded in memorandum accounts. When fees are charged for issuing guarantees, the fee is recognised in income over the period of the guarantee. When the guaranteed party has not honoured its commitments and the guarantor should assume a liability, a credit is recognised against the guaranteed party representing the right to seek reimbursement for such party with recognition of the related allowance for losses when considered appropriate.

Under IFRS, certain financial guarantees may be accounted for as insurance contracts if certain conditions are met. Otherwise, the guidance in IAS 39 applies: (i) record guarantee contracts at fair value upon initial recognition and (ii) subsequent measurement of the higher of the amount of expenditure needed to settle the obligation (measured under IAS 37) and the amount initially recognised less cumulative amortization, when appropriate, under IAS 18.

#### **Marketable Securities**

Under Brazilian GAAP, marketable securities are classified based on the investment strategy of the financial institution as either trading securities, available for sale or held to maturity and defines the recognition of the fair market value of such securities as the basis for its presentation in the financial statements, except in the case where the investment strategy is to hold the investment until maturity. Reclassifications of those marketable securities between categories are permitted to be done in each semester. The rules related to reclassifications under Brazilian GAAP are more general than IFRS. Under IFRS reclassification of securities between categories is permitted only in specific circumstances.

#### **Comprehensive Income**

Brazilian GAAP do not recognise the concept of comprehensive income.

Also, as under Brazilian GAAP, statutory reserves are required to appropriate 5% of the annual local currency earnings, after absorbing accumulated losses, to a legal reserve, which is restricted as to distribution. The reserve may be used to increase capital or absorb losses, but may not be distributed as dividends. Any income remaining after the distribution of dividends on the statutory records and appropriations to statutory reserves is

transferred to the reserve for future investments. Such reserve may be distributed in the form of dividends upon approval of the shareholders. There are no similar provisions for IFRS.

Under IFRS, a statement of other comprehensive income can be presented including net income as well as other items of income and expense recognised directly in equity such as: (i) fair value gains (losses) on evaluated lands and buildings, intangible assets, available for sale investments and certain financial instruments, (ii) foreign exchange translation differences, (iii) change in fair value on certain financial instruments if designated as cash flow hedges, and (iv) actuarial gains and losses on defined benefit plans recognised directly in other comprehensive income.

### **Financial Derivative Instruments**

Under Brazilian GAAP, for derivative financial instruments classified as cash flow hedge the portion of the effective hedge portion of the derivatives is accounted for at fair value and unrealized gains and losses recorded as a separate component of shareholders' equity together with the fair value of the item being hedged, net of applicable taxes. The non effective hedge portion is recognised currently in earnings. Under IFRS for derivative financial instruments classified as cash flow hedge only the effective hedge portion of the derivatives is accounted for at fair value and unrealized gains and losses recorded as a separate component of shareholders' equity, net of applicable taxes. The items being hedged are not recorded at fair value as they are under Brazilian GAAP. Also the non effective hedge portion is recognised currently in earnings.

### **Revaluation of Property, Plant and Equipment**

Revaluations may be recorded under Brazilian GAAP provided that certain formalities are complied with up to December 31, 2007. Beginning January 1, 2008, revaluations of property, plant and equipments are no longer permitted under Brazilian GAAP.

The revaluation increment, normally net of deferred tax effects, is credited to a reserve account in shareholders' equity. As from July 1, 1995 companies may opt to carry property, plant and equipment at cost, adjusted for inflation up to December 31, 1995, or at appraised values, in which case the revaluations must be performed at least every four years and should not result in an amount higher than the value expected to be recovered through future operations. Deferred taxes must be recognised, on revaluation increments as from July 1, 1995. Amortization of the asset revaluation increments are charged to income and an offsetting portion is relieved from the revaluation reserve in shareholders' equity and transferred to retained earnings as the related assets are depreciated or upon disposal.

Under IFRS, companies may use either the historical cost or carry their property, plant and equipment, (*PP&E*), at revalued amounts (based on fair value) as the accounting basis. When the revaluation model is selected, revaluations should be made with sufficient regularity. If an item of *PP&E* is revalued, the entire class of *PP&E* to which the asset belongs is required to be revalued. All revalued assets, including land, are subject, at the applicable income tax rate to deferred income tax. Gains and losses from the sale or disposal of assets are recorded as operating expenses.

### **Loan Accounting and Disclosure**

Under Brazilian GAAP, loans are generally carried at cost. Up to March 31, 2000 when changes were introduced by the Central Bank, loans were classified as overdue or doubtful based on the extent to which they were secured and the length of time for which payments were in arrears. Specific minimum allowances were required based on whether they were unsecured or not and the time overdue. As from March 31, 2000, loans should be categorized in 9 categories and the minimum allowance is determined by applying specific percentages to the loans in each category.

Loans are classified in accordance with management's judgment of the risk level, taking into account the economic situation, past experience and specific risks in relation to the transactions, the debtors and the guarantors, complying with the parameters established by CMN Resolution No. 2,682 of December 21, 1999, as amended, which requires periodic analysis of the portfolio and its classification, by risk level, in 9 categories between AA

(minimum risk) and H (maximum risk — loss). The minimum allowance is determined by applying specific percentages to the loans in each category.

Income from credit operations overdue for more than 60 days, independently of their risk level, is only recognised as revenue when effectively received. Operations classified as level H remain in such classification for six months, after which time the loan is charged against the existing allowance and remain controlled in memorandum accounts for five years, no longer appearing in the balance sheet.

At minimum, renegotiated loans are maintained at the same level at which they were classified prior to renegotiation. Renegotiated credit operations, which had already been charged against the allowance for loan losses and were in memorandum accounts, are classified as level H and any eventual gains resulting from the renegotiation of loans previously charged off are recognised as revenue on a cash basis.

Under IFRS, according to IAS 39 “Financial Instruments: Recognition and Measurement”, loans and receivables are defined as financial assets with fixed or determinable payments not quoted in an active market. Loans and receivables are measured at amortized cost.

If there is objective evidence that an impairment loss on loans and receivables investments has been incurred, the amount of the 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 the use of an allowance account and the amount of the loss is recognised in the income statement.

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, whether or not foreclosure is probable. For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics.

### **Income Taxes**

Under Brazilian GAAP, the methods adopted for the recording of income taxes are similar to IFRS but their practical application may lead to different results in certain circumstances. The recognition of tax credits derived from temporary differences and tax losses is an area that requires considerable judgment. In general, tax credits are recognised when there is evidence of future realization in a continuous operation, potential effects of Provisional Measures enacted by the Brazilian Government are evaluated and the effects of increases in enacted tax rates on deferred taxes may not be integrally recognised if the related legislation is being questioned. On December 30, 2002, the Central Bank issued Circular No. 3,171, as amended, which revoked Circular No. 2,746, that: (i) requires specific supporting analysis to recognise deferred tax assets; (ii) requires as a condition to recognise deferred tax assets a history of profitability presenting taxable income in three out of five fiscal years (including the year being reported); and (iii) prohibits recognition of deferred tax assets if it is expected that they will be realized in more than five years as from the reporting date. On March 31, 2006, Resolution No. 3,355 changed the period from five to ten years for the realization of such tax credit.

Under IFRS, the liability method is used to calculate the income tax provision, as specified in IAS 12, “Income Taxes”. Under the liability method, deferred tax assets or liabilities are recognised with a corresponding charge or credit to income for differences between the financial and tax basis of assets and liabilities to each year/period end. Deferred taxes are computed based on the enacted tax rate of income taxes. Net operating loss carry forwards arising from tax losses that are recognised as assets. The deferred tax asset shall be recognised to the extent that it is probable that future taxable profit will realize such deferred tax asset.

### **Related Parties**

Brazilian standards define related parties in a more limited manner and, therefore, may, in practice, include fewer disclosures than IFRS standards. As a result, many of the disclosures required under IFRS are not required under Brazilian GAAP. The Central Bank has already approved CPC 5, which provides guidance for related parties disclosure.

**Earnings Per Share**

Under Brazilian GAAP, disclosure of earnings per share is computed based on the number of shares outstanding at the end of the year.

Under IFRS, in accordance with IAS 33 “Earnings per Share (EPS)”, the presentation of earnings per share must be disclosed on the face of the income statement of enterprises with publicly traded ordinary shares (as defined) or potential ordinary shares (as defined), or those in the process of issuing such instruments. The EPS data given is basic EPS and diluted EPS for each class of ordinary share. EPS based on alternative measures of earnings also may be given in the Notes to the financial statements. Computations of basic and diluted earnings per share data should be based on the weighted average number of common shares outstanding during the period and all potentially dilutive common shares outstanding during each period presented, respectively.

**Dividends and Interest Attributable to Shareholders' Equity**

Subject to certain limitations, Brazilian GAAP permits companies to distribute an amount of interest on shareholders' equity based on the TJLP, a long-term interest rate index. Such amounts are deductible for tax purposes and are presented as a direct reduction of shareholders' equity. At the end of each year, management is required to propose payment of dividends in those years. The entire proposed amount is accounted for as a liability at the balance sheet date.

Under IFRS, the minimum dividends required by law and/or included in the entity's by-laws meet the definition of present obligation and, therefore, should be accounted for at the end of the year.

## **LEGAL MATTERS**

The validity of the Notes will be passed upon for us by Arnold & Porter LLP. Matters of Brazilian law will be passed upon for us by Souza, Cescon, Barriau & Flesch Advogados. Matters of Cayman Islands law will be passed upon for us by Maples and Calder.

## **INDEPENDENT AUDITORS**

Our individual financial statements as of and for the years ended December 31, 2011, 2010 and 2009 included elsewhere in this Offering Memorandum, prepared in accordance with accounting practices adopted in Brazil applicable to the institutions authorised to operate by the Central Bank of Brazil, have been audited by KPMG Auditores Independentes, independent auditors registered with *Conselho Regional de Contabilidade* under N° CRC 2SP014428/O-6, in accordance with the Brazilian and international standards on auditing, as stated in their reports included elsewhere in this Offering Memorandum.

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**BES Investimento do Brasil S.A. - Banco de  
Investimento**

Financial statements  
December 31, 2011 and 2010  
(With independent auditors' report thereon)



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## Independent auditors' report on the financial statements

To  
Board of Directors and Shareholders  
BES Investimento do Brasil S.A. - Banco de Investimento  
São Paulo - SP

We have audited the accompanying individual financial statements of BES Investimento do Brasil S.A. - Banco de Investimento ("the Bank"), which comprise the balance sheet as at December 31, 2011, and the statements of income, changes in shareholders' equity and cash flows for the year and six-month period then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices adopted in Brazil applicable to the institutions authorized to operate by the Central Bank of Brazil and for such internal control as management determines is necessary to enable the preparation of these 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 financial statements based on our audit. We conducted in accordance with the Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

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

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



## Opinion

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of BES Investimento do Brasil S.A. - Banco de Investimento as at December 31, 2011, the results of its operations and cash flows for the year and the six-month period then ended, in accordance with the accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil.

São Paulo, February 6, 2012

KPMG Auditores Independentes  
CRC 2SP014428/O-6

André Dala-Póla  
Accountant CRC 1SP214007/O-2

Zenko Nakassato  
Accountant CRC 1SP160769/O-0

BES Investimento do Brasil S.A. - Banco de Investimento

Balance sheets

as of December 31, 2011

(In thousands of Reals)

Assets	2011	2010	Liabilities	2011	2010
<b>Current assets</b>	<u>5,362,585</u>	<u>3,527,436</u>	<b>Current liabilities</b>	<u>3,796,433</u>	<u>2,659,298</u>
<b>Cash and cash equivalents</b>	<u>14,554</u>	<u>2,372</u>	<b>Deposits</b>	<u>745,912</u>	<u>721,699</u>
<b>Interbank funds applied</b>	<u>273,045</u>	<u>61,189</u>	Interbank deposits	331,325	215,008
Money market	214,075	61,119	Time deposits	414,587	506,691
Interbank deposits	58,970	70	<b>Money market repurchase commitment</b>	<u>2,238,454</u>	<u>1,549,042</u>
<b>Securities and derivative financial instruments</b>	<u>4,149,797</u>	<u>3,014,082</u>	Own portfolio	2,238,454	1,549,042
Own portfolio	1,418,995	1,329,657	<b>Resources from securities issuance</b>	<u>435,737</u>	<u>146,338</u>
Subject to repurchase commitments	2,227,050	1,395,348	Resources from securities issuance	100,355	128,549
Subject to guarantees	371,618	4,887	Securities issued abroad	335,382	17,789
Derivative financial instruments	132,134	284,190	<b>Borrowings</b>	<u>41,276</u>	<u>-</u>
<b>Loans</b>	<u>716,017</u>	<u>333,339</u>	Borrowings abroad	41,276	-
Private sector	717,302	334,654	<b>Repass borrowings from public sector</b>	<u>29,900</u>	<u>2,039</u>
(Allowance for loan losses)	(1,285)	(1,315)	BNDES	29,900	2,039
<b>Other receivable</b>	<u>207,860</u>	<u>115,407</u>	<b>Derivative financial instruments</b>	<u>150,104</u>	<u>161,849</u>
Foreign exchange portfolio	112,838	10,050	Derivative financial instruments	150,104	161,849
Income receivable	12,183	11,718	<b>Other liabilities</b>	<u>155,050</u>	<u>78,331</u>
Securities trading	1,270	2,034	Collection of taxes	889	1,086
Other	82,938	91,892	Foreign exchange portfolio	112,958	8,741
(Allowance for loan losses)	(1,369)	(287)	Social and statutory	9,351	10,667
<b>Other assets</b>	<u>1,312</u>	<u>1,047</u>	Taxes payable	14,768	39,565
Prepaid expenses	1,312	1,047	Securities trading	5,885	10,450
<b>Long-term assets</b>	<u>1,055,681</u>	<u>2,282,355</u>	Subordinated debt	1,454	1,398
<b>Interbank funds applied</b>	<u>14,891</u>	<u>36,266</u>	Other	9,745	6,424
Interbank deposits	14,891	36,266	<b>Long-term liabilities</b>	<u>2,311,732</u>	<u>2,871,368</u>
<b>Securities and derivative financial instruments</b>	<u>344,250</u>	<u>1,863,366</u>	<b>Deposits</b>	<u>949,411</u>	<u>1,379,283</u>
Own portfolio	150,324	1,136,833	Interbank deposits	51,845	44,478
Subject to repurchase commitments	53,141	194,769	Time deposits	897,566	1,334,805
Subject to guarantees	2,523	366,827	<b>Money market repurchase commitment</b>	<u>3,313</u>	<u>2,968</u>
Derivative financial instruments	138,262	164,937	Own portfolio	3,313	2,968
<b>Loans</b>	<u>619,650</u>	<u>303,344</u>	<b>Resources from securities issuance</b>	<u>921,384</u>	<u>1,107,851</u>
Private sector	620,408	304,609	Resources from securities issuance	60,448	40,971
(Allowance for loan losses)	(758)	(1,265)	Securities issued abroad	860,936	1,066,880
<b>Other receivable</b>	<u>75,883</u>	<u>78,276</u>	<b>Repass borrowings from public sector</b>	<u>140,473</u>	<u>115,469</u>
Other	77,599	80,063	BNDES	140,473	115,469
(Allowance for loan losses)	(1,716)	(1,787)	<b>Derivative financial instruments</b>	<u>116,238</u>	<u>139,020</u>
<b>Other assets</b>	<u>1,007</u>	<u>1,103</u>	Derivative financial instruments	116,238	139,020
Prepaid expenses	1,007	1,103	<b>Other liabilities</b>	<u>180,913</u>	<u>126,777</u>
	<u>213,229</u>	<u>197,979</u>	Taxes payable	89,410	34,963
<b>Investments</b>	<u>206,717</u>	<u>190,673</u>	Subordinated debts	90,000	90,000
<b>Permanent assets</b>			Other	1,503	1,814
Subsidiaries and affiliates - Domestic	200,059	185,968	<b>Deferred income</b>	<u>1,128</u>	<u>714</u>
Other investments	6,658	4,705	Deferred income	1,128	714
<b>Premises and equipment</b>	<u>5,572</u>	<u>5,976</u>	<b>Shareholders' equity</b>	<u>522,202</u>	<u>476,390</u>
Other fixed assets for own use	9,350	9,073	Capital - Domestic	320,000	320,000
(Accumulated depreciation)	(3,778)	(3,097)	Revenue reserve	202,202	156,390
<b>Intangible assets</b>	<u>436</u>	<u>219</u>			
Intangible assets	510	241			
(Accumulated amortization)	(74)	(22)			
<b>Deferred charges</b>	<u>504</u>	<u>1,111</u>			
Deferred charges	2,180	3,986			
(Accumulated amortization)	(1,676)	(2,875)			
<b>TOTAL</b>	<u><b>6,631,495</b></u>	<u><b>6,007,770</b></u>	<b>TOTAL</b>	<u><b>6,631,495</b></u>	<u><b>6,007,770</b></u>

See the accompanying notes to the financial statements.

## BES Investimento do Brasil S.A. - Banco de Investimento

### Statements of income

Year ended December 31, 2011 and period July 1, 2011 to December 31, 2011

(In thousands of Reais, except for the net income period/year per share)

	2nd Semester	Years ended December 31	
	2011	2011	2010
<b>Financial operations income</b>	<u>550,937</u>	<u>787,982</u>	<u>362,899</u>
Loans	84,556	136,090	83,592
Securities income	381,977	597,851	433,031
Net income from derivatives financial instruments	83,959	52,480	(155,893)
Trade finance and foreign exchange income	445	1,561	2,169
<b>Financial operations expenses</b>	<u>(489,390)</u>	<u>(692,920)</u>	<u>(280,114)</u>
Deposits, money market and interbank funds	(483,044)	(682,994)	(274,094)
Loans operations, Assignment and Repass	(5,714)	(9,452)	(5,410)
Allowance for losses on doubtful receivables	(632)	(474)	(610)
<b>Net income on financial operations</b>	61,547	95,062	82,785
<b>Other operating income (expenses)</b>	<u>3,310</u>	<u>19,158</u>	<u>5,204</u>
Service fee income	27,301	70,041	44,221
Personnel expenses	(18,693)	(36,351)	(31,041)
Other administrative expenses	(13,077)	(23,502)	(18,863)
Tax expenses	(2,908)	(12,529)	(11,765)
Equity in earnings of subsidiaries	5,693	12,032	37,172
Other operating income	5,812	10,372	2,152
Other operating expenses	(818)	(905)	(16,672)
<b>Operating result</b>	64,857	114,220	87,989
<b>Non-operating result</b>	-	(1)	1,308
<b>Net income before income taxes and profit sharing</b>	64,857	114,219	89,297
<b>Income tax and social contribution</b>	<u>(22,521)</u>	<u>(35,164)</u>	<u>(8,567)</u>
Income tax	(15,478)	(23,901)	(15,602)
Social contribution	(9,055)	(13,888)	(8,830)
Deferred tax assets	2,012	2,625	15,865
<b>Profit sharing</b>	<u>(1,547)</u>	<u>(8,243)</u>	<u>(9,642)</u>
<b>Net income</b>	<u>40,789</u>	<u>70,812</u>	<u>71,088</u>
<b>Number of shares</b>	<u>107,454,469</u>	<u>107,454,469</u>	<u>107,454,469</u>
<b>Net income for the period per shares in RS</b>	<u>0.38</u>	<u>0.66</u>	<u>0.66</u>

See the accompanying notes to the financial statements.

BES Investimento do Brasil S.A. - Banco de Investimento

Statements of changes in shareholders' equity

Year ended December 31, 2011 and period July 1, 2011 to December 31, 2011

(In thousands of Reais)

	Capital	Profit reserves		Retained earnings	Total
		Legal reserve	Reserve for expansion		
<b>Balances at January 1, 2010</b>	300,000	19,409	102,131	-	421,540
Capital increase with reserves	11,138	-	(11,138)	-	-
Capital increase with shares subscriptions	8,862	-	-	-	8,862
Net income for the year	-	-	-	71,088	71,088
Appropriations:					
Reserves	-	3,554	42,434	(45,988)	-
Interest on own capital	-	-	-	(25,100)	(25,100)
<b>Balances at December 31, 2010</b>	<b>320,000</b>	<b>22,963</b>	<b>133,427</b>	<b>-</b>	<b>476,390</b>
Net income for the year	-	-	-	70,812	70,812
Appropriations:					
Reserves	-	3,541	42,271	(45,812)	-
Interest on own capital	-	-	-	(25,000)	(25,000)
<b>Balances at December 31, 2011</b>	<b>320,000</b>	<b>26,504</b>	<b>175,698</b>	<b>-</b>	<b>522,202</b>
<b>Balances at July 01, 2011</b>	320,000	24,464	133,427	14,522	492,413
Net income for the semester	-	-	-	40,789	40,789
Appropriations:					
Reserves	-	2,040	42,271	(44,311)	-
Interest on own capital	-	-	-	(11,000)	(11,000)
<b>Balances at December 31, 2011</b>	<b>320,000</b>	<b>26,504</b>	<b>175,698</b>	<b>-</b>	<b>522,202</b>

See the accompanying notes to the financial statements.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Statements of cash flows

Year ended December 31, 2011 and period July 1, 2011 to December 31, 2011

(In thousands of Reais)

	2nd Semester	Years ended December 31	
	2011	2011	2010
<b>Operations activities</b>			
<b>Net income</b>	40,789	70,812	71,088
<b>Adjusted net income</b>	<u>(4,474)</u>	<u>(9,516)</u>	<u>(35,888)</u>
Allowance for losses on doubtful receivables	(631)	(474)	(610)
Depreciations and amortizations	1,850	2,990	1,894
Equity in earnings of subsidiaries	(5,693)	(12,032)	(37,172)
<b>(Increase) decrease in operations assets</b>	<u>37,101</u>	<u>(658,446)</u>	<u>(1,669,161)</u>
Interbank funds applied	45,895	(37,521)	(36,266)
Securities and Derivative Financial Instruments	279,061	164,315	(1,396,685)
Loans operations	(449,104)	(698,710)	(210,331)
Other receivable	161,411	(86,361)	(24,969)
Other assets	(162)	(169)	(910)
<b>Increase (decrease) in operations liabilities</b>	<u>180,671</u>	<u>566,856</u>	<u>1,808,240</u>
Deposits	(372,509)	(405,659)	(503,278)
Money market and interbank funds	458,378	689,757	1,157,928
Resources from securities issuance	194,471	102,931	825,537
Interbranch accounts	-	-	(1,580)
Borrowings and repasses	84,728	94,142	42,496
Derivative financial instruments	(62,203)	(34,527)	278,238
Other liabilities	(122,197)	119,799	8,521
Deferred income	3	413	378
<b>Net cash provided by/used in operating activities</b>	<u>254,087</u>	<u>(30,294)</u>	<u>174,279</u>
<b>Investing activities</b>			
Application of securities held to maturity	13,717	400,425	-
Application of securities available for sale	(55,478)	(181,339)	(567,672)
Application of money market - position funded	22,151	-	-
Acquisition of assets and investments	(7,439)	(7,578)	(14,414)
Acquisition of others assets	-	-	(73)
Acquisition of premises and equipment	(1,567)	(2,049)	(4,169)
Investment in intangible assets	(191)	(269)	78
Dividends and interest on own capital received	-	-	9,510
Sale of assets and investments	-	66	3
Sale of premises and equipment	-	123	73
<b>Net cash provided by/used in investing activities</b>	<u>(28,807)</u>	<u>209,379</u>	<u>(576,664)</u>
<b>Financing activities</b>			
Capital increase	-	-	8,862
Increase (decrease) in subordinated debts	91	56	213
Interest on own capital paid	(14,000)	(14,000)	(12,550)
<b>Net cash provided by/used in financing activities</b>	<u>(13,909)</u>	<u>(13,944)</u>	<u>(3,475)</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>211,371</u>	<u>165,141</u>	<u>(405,860)</u>
<b>Cash and cash equivalents:</b>			
Beginning of period	17,331	63,561	469,421
End of period	<u>228,702</u>	<u>228,702</u>	<u>63,561</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>211,371</u>	<u>165,141</u>	<u>(405,860)</u>

See the accompanying notes to the financial statements.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

### Years ended December 31, 2011 and 2010

*In thousands of Reais*

#### **1 Operations**

BES Investimento do Brasil S.A. - Banco de Investimento (“the Bank”), whose corporate purpose consists of the practice of operations inherent to investment banks, resulted from the transformation of Companhia Interatlântico de Arrendamento Mercantil S.A., as resolved at the Ordinary and Extraordinary General Shareholders’ Meeting held on March 1, 2000.

BES Investimento do Brasil S.A. - Banco de Investimento is a direct subsidiary of the holding company Espírito Santo Investimentos S.A., with its head office located in Brazil, and indirect subsidiary of Banco Espírito Santo S.A., with its head office located in Portugal, whose operations are conducted in the context of a group of companies that operate in an integrated manner in the financial market, and certain operations of the former have the involvement or intermediation of related institutions, comprising the financial market, whose activities include distribution of securities and foreign exchange and securities brokerage.

As part of its business strategy, in October 2011 the activities of BES Investment Brazil SA - Cayman Branch, located in the Cayman Islands, started. With initial assets of U.S.\$ 5 million, whose approval to operate by Central Bank of Brazil occurred in August 2011.

#### **2 Presentation of the financial statements**

The financial statements have been prepared in accordance with accounting guidelines issued by Law 6404/76 and amendments introduced by Law 11638/07 and by Provisional Measure 449/08 (transformed into Law 11941/09), for the accounting of operations, in connection with the rules and instructions of the National Monetary Council (CMN) and the Central Bank of Brazil (BACEN), when applicable. The financial statements were approved by Management on January 31, 2012.

As part of the process of convergence with international accounting standards, certain accounting pronouncements and their interpretations were issued by the Brazilian Committee for Accounting Pronouncements (CPC), which are applicable to financial institutions only after approved by CMN. The accounting pronouncements which have already been approved by CMN include the following: a) Resolution 3566/08 – Impairment of Assets (CPC 01), b) Resolution 3604/08 – Statement of Cash Flows (CPC 03), c) Resolution 3750/09 – Related Party Disclosures (CPC 05), d) Resolution 3823/09 – Provisions, Contingent Liabilities and Contingent Assets (CPC 25), e) Resolution 3973/11 – Subsequent Events (CPC 24), and f) Resolution 3989/11 – Share-Based Payment (CPC 10), whose adoption became effective as from January 2012.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

At present, it is not practicable to estimate when CMN will approve the other CPC accounting pronouncements or whether their adoption, subsequent to approval, will be effective for future periods or applicable retroactively. As a result, it is not yet possible to estimate the accounting effects arising from the use of these pronouncements on the Bank's financial statements.

### **3 Significant accounting practices**

- a. Income and expenses are recognized on the accrual basis.
- b. Current and noncurrent assets are stated at their realization value and, when applicable, including income accrued up to the balance sheet date, less the provision for losses, and adjusted at their market values, specifically in relation to the recording and accounting valuation of securities and derivative financial instruments in accordance with that established by the BACEN Circular 3068 (see Note 6.1).
- c. The Bank uses derivative financial instruments aiming at mitigating its exposure to market, currency and interest rate risks, using for so the instruments available on the BM&F and the over-the-counter markets. These derivative financial instruments are valued at market value and the positive and negative adjustments are accounted for as income or expenses in the income, in accordance with the BACEN Circular 3082 (see Note 6.2). The derivative financial instruments (items subject to hedge) are considered as hedge instruments used to mitigate risks arising from market exposure to market price valuation of financial assets and liabilities (hedge object) are considered as hedge operations (hedge operation) and, at the moment that operation is contracted, are classified as "market risk hedge". These operations have its gains and losses, realized or not, accounted for in income or expense accounts in the income.
- d. Loans are classified in accordance with the Management's assessment at nine levels of risk, considering the analysis of clients and guarantees, past loan loss experience, as well as specific and general risks relating to operations, in compliance with the parameters established by the CMN Resolution 2682/99. After 60 days, the yield of loans overdue are only recognized as revenue when effectively received. H-rated (maximum risk) past-due operations remain at this level for six months, period after which they are reversed against the existing allowance and controlled in memorandum accounts for at least five years, no longer being recognized in the balance sheets. Renegotiated operations are maintained, at least, at the same classification level as their prior rating. The allowance for doubtful loans was recorded taking into account the current economic scenario and expectations regarding the realization value of the portfolio, so that an adequate provision in an amount sufficient to cover specific and overall risks is recorded, together with the allowance calculated in accordance with the risk levels and the respective minimum percentages established by the BACEN Resolutions 2682 and 2697 (see Note 7 "b").

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

- e. Impairment of assets: An impairment loss is recognized if the book value of an asset or of a cash-generating unit exceeds its recoverable value. Impairment losses are recognized in the income for the period. Beginning 2008, the carrying value of non-financial assets, except other assets and tax credits, are reviewed at least once a year and when there is any sign of loss due to impairment.
- f. Permanent assets are stated at cost, taking the following aspects into consideration:
  - Interests in subsidiaries and affiliates are valued in accordance with the equity method of accounting. Goodwill from investment acquisition is amortized in up to five years and tested for impairment at least annually, or whenever there is evidence that it could be impaired (see Note 10).
  - Depreciation of premises and equipment is calculated using the straight-line method at the following annual rates: 20% for data processing systems and vehicles and 10% for furniture and equipment.
  - Intangible assets are basically represented by software licenses. Their amortization is calculated using the straight line method over the term of their contracts.
  - Deferred charges, basically composed of organization and expansion expenditures and acquisition of software, is recorded using the straight-line method over a maximum period of five years. As established in the legislation in force, the balance of the deferred assets will be maintained up to its total amortization and the new acquisitions will be recorded in the intangible asset accounts.
- g. Current and noncurrent liabilities are measured at their known or estimated values, plus, when applicable, the charges and monetary variations (on a pro rata diem basis) and foreign exchange variations incurred.
- h. Provisions, contingent liabilities and legal liabilities are recognized, measured and disclosed in accordance with the criteria defined by CPC 25 (refer to Note 14), approved by the CMN Resolution 3823:
  - Provisions: recognized taking into consideration the opinion of legal advisors, the nature of the lawsuits, similarity with previous cases, complexity and positioning of the courts, whenever the loss is evaluated as probable, which would cause a probable outflow of funds for the settlement of liabilities and when the amounts involved are measurable with sufficient reliability;

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

- **Contingent liabilities:** according to CPC 25, “contingent” refers to liabilities whose recognition will depend on whether one or more future and uncertain events beyond the Management’s control occur or not. Contingent liabilities do not meet the recognition criteria when being classified as possible losses, and they must only be disclosed in the notes when relevant. Contingent liabilities classified as remote are not recognized nor disclosed; and
  - **Legal liabilities:** provision for tax risks: result from judicial proceedings, being contested on the grounds of legality or constitutionality, which, regardless of the assessment of the probability of success, are fully recognized in the financial statements.
- i. Provisions for Income Tax (IRPJ), Social Contribution (CSLL), PIS (Social Integration Program) and COFINS (Tax for Social Security Financing) are calculated at the rate of 15% plus 10% above a certain limit, 15%, 0.65% and 4%, respectively, considering for calculation purposes of the respective bases the legislation applicable to each tax charge (see Note 13 “a” for Income Tax and Social Contribution). The Bank also complies with the accounting practice of recognizing tax credits from income and social contribution taxes calculated on tax losses and temporary differences, at the same rates in force for the recognition of provision (see Note 13 “b”).
- j. The financial statements, in accordance with Brazilian accounting practices, include some accounts whose amounts are determined using estimates based on past experience, the legal and business environments, chances of occurrence of events, which might be under Management’s control or not, etc. These estimates are reviewed at least semi-annually, with the aim of determining amounts that more closely approximate the future settlement values of the assets or liabilities considered.

### 4 Cash and cash equivalents

Cash and cash equivalents, in accordance with the CMN Resolution 3604, include cash on hand, bank deposits, and highly liquid short-term investments with very low risk of having their values and limits changed, with maturity equal to or shorter than 90 days. The cash and cash equivalents, presented in the Statements of Cash Flows, comprise:

	2nd Semester	Years ended December 31	
	2011	2011	2010
Cash and cash equivalents	4,320	2,372	9,272
- Money market	12,951	61,119	460,149
- Interbank deposits	-	70	-
- Funds applied abroad	60	-	-
	<hr/>	<hr/>	<hr/>
Total - Interbank funds applied	13,011	61,189	460,149

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

	2nd Semester	Years ended December 31	
	2011	2011	2010
<b>Beginning of period</b>	<b>17,331</b>	<b>63,561</b>	<b>469,421</b>
Cash and cash equivalents	14,554	14,554	2,372
- Money market	214,075	214,075	61,119
- Interbank deposits	-	-	70
- Funds applied abroad	73	73	-
Total - Interbank funds applied	214,148	214,148	61,189
<b>End of period</b>	<b>228,702</b>	<b>228,702</b>	<b>63,561</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>211,371</b>	<b>165,141</b>	<b>(405,860)</b>

## 5 Interbank funds applied

	Up to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total 2011	Total 2010
- Public securities - L.F.T.	1,002	-	-	-	1,002	41,112
- Public securities - L.T.N.	113,061	-	-	-	113,061	-
- Public securities - N.T.N.-F.	100,012	-	-	-	100,012	20,007
Money market	214,075	-	-	-	214,075	61,119
Interbank deposits	-	49,521	-	14,891	64,412	27,939
Foreign currency	73	9,376	-	-	9,449	8,397
<b>Total as of Dec 31,2011 - RS</b>	<b>214,148</b>	<b>58,897</b>	<b>-</b>	<b>14,891</b>	<b>287,936</b>	<b>-</b>
- %	<b>74.4%</b>	<b>20.4%</b>	<b>-</b>	<b>5.2%</b>	<b>100.0%</b>	<b>-</b>
<b>Total as of Dec 31,2010 - RS</b>	<b>61,189</b>	<b>-</b>	<b>36,266</b>	<b>-</b>	<b>97,455</b>	<b>97,455</b>
- %	<b>62.8%</b>	<b>-</b>	<b>37.2%</b>	<b>-</b>	<b>100.0%</b>	<b>-</b>

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

### 6 Securities and derivative financial instruments

#### 6.1 Securities

##### *a. Composition of securities*

	<b>Unpledged</b>	<b>Pledged</b>	<b>Total as of 12/31/2011</b>	<b>Unpledged</b>	<b>Pledged</b>	<b>Total as of 12/31/2010</b>
Public securities - L.F.T.	5,794	-	5,794	16,903	73,986	90,889
Public securities - L.T.N.	66,121	748,717	814,838	779,257	194,768	974,025
Public securities - N.T.N.B.	3,859	2,523	6,382	6,001	-	6,001
Public securities - N.T.N.F.	569,335	1,903,092	2,472,427	434,671	1,693,077	2,127,748
Debentures	348,498	-	348,498	365,923	-	365,923
Promissory notes	129,860	-	129,860	293,607	-	293,607
Investment funds quotas	101,946	-	101,946	195,977	-	195,977
Quotas of Credit Assignment Investment Funds (F.D.I.C.s)	117,980	-	117,980	154,259	-	154,259
Shares of held companies	7,839	-	7,839	8,167	-	8,167
Eurobonds	158,387	-	158,387	152,025	-	152,025
Other securities - CEPAC	59,700	-	59,700	59,700	-	59,700
<b>TOTAL</b>	<b>1,569,319</b>	<b>2,654,332</b>	<b>4,223,651</b>	<b>2,466,490</b>	<b>1,961,831</b>	<b>4,428,321</b>

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

### b. Securities portfolio per category

	December 31, 2011						December 31, 2010			
	Unpaid	Up to	3 a 12	3 a 5	Over 5	Book Value	Cost Value	Book Value	Cost Value	
		3 months	months	1 a 3 years	years					years
Public securities - L.F.T.	-	-	-	773	5,021	-	5,794	5,794	90,889	90,821
Public securities - L.T.N.	-	-	1,520	281	-	-	1,801	1,781	326,615	326,610
Public securities - N.T.N.B.	-	-	523	54	3,282	-	3,859	3,699	3,663	3,598
Public securities - N.T.N.F.	-	34,125	-	19,482	-	1,649,443	1,703,050	1,597,181	1,373,898	1,345,402
Debentures	-	-	5,217	43,805	260,633	38,843	348,498	348,498	214,421	214,421
Promissory notes	-	-	129,860	-	-	-	129,860	129,860	71,596	71,596
Investment funds quotas	1,314	-	-	-	-	-	1,314	1,314	104,712	104,712
Eurobond	-	60	3,824	154,138	-	365	158,387	152,872	152,025	152,025
Shares of publicly held companies	7,839	-	-	-	-	-	7,839	7,932	8,167	8,167
<b>TOTAL Trading Securities (b.1)</b>	<b>9,153</b>	<b>34,185</b>	<b>140,944</b>	<b>218,533</b>	<b>268,936</b>	<b>1,688,651</b>	<b>2,360,402</b>	<b>2,248,931</b>	<b>2,345,986</b>	<b>2,317,352</b>
Debentures	-	-	-	-	-	-	-	-	151,502	151,502
Promissory notes	-	-	-	-	-	-	-	-	222,011	222,011
Investment funds quotas	100,632	-	-	-	-	-	100,632	100,632	91,265	91,265
Quotas of Credit Assignment	-	-	-	-	-	-	-	-	-	-
Investment Funds (F.D.I.C.s)	-	464	-	12,642	93,046	11,828	117,980	117,980	154,259	154,259
Other securities - CEPAC	59,700	-	-	-	-	-	59,700	59,700	59,700	59,700
<b>TOTAL Available for Sale (b.1)</b>	<b>160,332</b>	<b>464</b>	<b>-</b>	<b>12,642</b>	<b>93,046</b>	<b>11,828</b>	<b>278,312</b>	<b>278,312</b>	<b>678,737</b>	<b>678,737</b>
Public securities - L.T.N.	-	-	727,088	85,949	-	-	813,037	813,037	647,410	647,410
Public securities - N.T.N.B.	-	-	-	-	2,523	-	2,523	2,523	2,338	2,338
Public securities - N.T.N.F.	-	769,377	-	-	-	-	769,377	769,377	753,850	753,850
<b>TOTAL Held to maturity (b.2)</b>	<b>-</b>	<b>769,377</b>	<b>727,088</b>	<b>85,949</b>	<b>2,523</b>	<b>-</b>	<b>1,584,937</b>	<b>1,584,937</b>	<b>1,403,598</b>	<b>1,403,598</b>
<b>Total as of Dec 31, 2011 - RS</b>	<b>169,485</b>	<b>804,026</b>	<b>868,032</b>	<b>317,124</b>	<b>364,505</b>	<b>1,700,479</b>	<b>4,223,651</b>	<b>4,112,180</b>	<b>-</b>	<b>-</b>
- %	<b>4,0%</b>	<b>19,0%</b>	<b>20,6%</b>	<b>7,5%</b>	<b>8,6%</b>	<b>40,3%</b>	<b>100,0%</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total as of Dec 31, 2010 - RS</b>	<b>263,844</b>	<b>371,325</b>	<b>506,854</b>	<b>1,697,614</b>	<b>341,680</b>	<b>1,247,004</b>	<b>-</b>	<b>-</b>	<b>4,428,321</b>	<b>4,399,687</b>
- %	<b>6,0%</b>	<b>8,4%</b>	<b>11,4%</b>	<b>38,3%</b>	<b>7,7%</b>	<b>28,2%</b>	<b>-</b>	<b>-</b>	<b>100,0%</b>	<b>-</b>

**b.1.** “Trading securities” and “Securities available for sale” - The carrying value corresponds to the market value of these securities as of the balance sheet date. The market value was obtained through the collection of prices on the market as of the balance sheet date. In case there is no liquidity or price quotation to calculate the market value of a certain security, the values are estimated based on dealer quotations, pricing models or price quotations for securities that present similar features. The positive adjustment obtained for the trading securities in the amount of R\$111,471 (2010 – R\$28,634), obtained between the cost - R\$ 2,248,931 (2010 - R\$2,317,352) and market value - R\$2,360,402 (2010 - R\$2,345,986), was recorded as “Securities income” in the statement of income. The cost value and the market value of the securities available for sale totaled R\$278,312 (2010 - R\$678,737).

**b.2.** Securities held to maturity - Classified due to Management’s intention and capacity of the Bank of holding them up to maturity, proved based on cash flow projections, in accordance with the BACEN requirements. These securities are measured at the cost of acquisition, plus income accrued up to the balance sheet date. The market value of these securities corresponded to R\$ 1,594,377 (2010 – R\$ 1,406,849) as of the balance sheet date.

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### 6.2 *Derivative financial instruments*

The Bank uses derivative financial instruments aiming at meeting its needs and the needs of its clients, and to reduce its exposure to market, currency and interest rate risks, using for so the instruments available on the BM&F Bovespa S.A. and the over-the-counter markets. The management and monitoring of the risks involved are performed by an independent area by means of control policies, establishment of operation strategies, determination of limits and constant monitoring of the portfolios contracted using specific techniques, which are consistent with the guidelines established by the Management.

#### *a. Risk management*

The area of Planning, Control, and Risk Management (DPCGR) is responsible for the management and monitoring of market, liquidity and credit risks, and maintains an integrated and independent structure, in such a manner to meet the guidelines established by the Management. The Bank adopts as principle strategies that aim at mitigating the risks involved in its operations and for the latter to be adherent to its risk management policy and to the goals proposed.

**Market risk** - Market risk refers to the chances of a portfolio enduring loss due to fluctuation in the rates, mismatches in the terms, currencies and indices of the asset and liability portfolios held by the companies. In the meantime the risk management is carried out by means of daily monitoring of the exposure levels in comparison with the limits established, using instruments such as VaR (Value at Risk), Monte Carlo Simulation, sensitivity analysis and stress testing. The methodology for the determination of VaR is based on the parametric model, with a 98% confidence interval for the time range of five days and volatility calculated through the EWMA methodology using a 0.94 lambda. The capital requirement for the coverage of risks - supplementing the monitoring, control and market risk management structure - is calculated daily in compliance with the regulations of the Central Bank of Brazil.

**Liquidity risk** - The liquidity strategy and control are decided by the Treasury department, which meets daily before the beginning of the activities of the Bank, aiming to evaluate the various interest, dollar and stock exchange, domestic and overseas market behaviors, as well as to establish the strategies for the day. The Bank manages the liquidity risk by concentrating its portfolio in high quality and liquidity assets, whose positions are monitored carefully in order to reach a balanced management with respect to the exposure to currency and terms. Additionally, the Bank uses the projected cash flow for liquidity risk control in compliance with the BACEN Resolution 2804, adopting assumptions of maturity cash flow of financial operations, payment flow of expenses, the level of late payment in the portfolios, if any, and the anticipated settlement of liabilities for a minimum period of 365 days.

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**Credit risk** - Refers to the risk related to a potential loss for the non fulfillment of future obligations (principal and charges) by a customer with whom a direct or indirect financial relationship is maintained. The credit risk management is carried out through the monitoring of the quality of the credit risks in our portfolio, which involves a high level of discipline and control in the analyses and operations performed, preserving the integrity and independence of the processes. The Bank has a credit policy approved by Management that aim the security, quality and liquidity in the application of funds, agility and profitability of the business, established in order to mitigate the risks inherent to any loan, as well as to establish the operating and/or loan granting limits. The DPCGR and the Credit and Risk Committee assume, for the execution of the credit policy, a very important role, which consists of deciding on business proposals and analyses performed by the credit analysts. The Bank's methodology includes a process that attributes ratings to customers for different risk segments. This risk classification is based on the intrinsic profile of each client and has a direct correlation with the chances of default regarding his/her obligations with the Bank.

In addition to the previously disclosed policy, the Bank has adopted the Credit Risk Management Policy, in accordance to BACEN Resolution 3721. The Credit Risk Control Department has to measure, monitor and to continuously control the credit risk exposures in the light of the limits preapproved, for all transactions realized by the Bank, where the processes are formalized through periodic reports. The scope of analysis includes all transactions, regardless if classified as trading or banking book. All exposure limits are defined and approved by the Credit Risk Committees.

**Operating risk** - The Compliance area is responsible for the management of the operating risk of the Bank. It maintains an independent structure which is able to identify, evaluate and monitor the risks defined in the BACEN Resolution 3380. As this area is considered an essential activity for the generation of added value, actions were developed aiming the implementation of an operating risk management structure that include the management model, the operating risk categories and policy, the documentation and storage procedures, the operating risk management reports and the disclosure process to comply with the aforementioned Resolution.

### *b. Derivatives*

The derivative financial instruments are represented by futures, forward, options and swap contract operations, registered at the Futures and Commodities Exchange (BM&F Bovespa S.A.) or at the Clearing House for the Custody and Financial Settlement of Securities (CETIP) or at the Brazilian Company for Custody and Settlement (CBLC), involving prefixed rates, interbank market (DI), exchange variation or price indices.

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These derivative financial instruments had their amounts recorded in memorandum accounts and the changes, in equity accounts, as shown below:

Contracts	Dec 31, 2011			Dec 31, 2010		
	Market Value	Cost Value	Cost Value	Market Value	Cost Value	Cost Value
	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)
DI	3,065,144	(192)	(192)	32,794,679	850	850
DDI	1,750,653	(851)	(851)	764,079	(8,447)	(8,447)
DOLAR	39,504	(47)	(47)	600,746	(5,710)	(5,710)
<b>Future - Purchase commitments</b>	<b>4,855,301</b>	<b>(1,090)</b>	<b>(1,090)</b>	<b>34,159,504</b>	<b>(13,307)</b>	<b>(13,307)</b>
DI	(1,808,320)	(228)	(228)	(1,177,476)	(3,487)	(3,487)
DI - HEDGE	(47,254)	(1)	(1)	(29,254)	(4)	(4)
DDI	(812,439)	1,025	1,025	(806,979)	7,799	7,799
DDI - HEDGE	(18,028)	37	37	(9,503)	8	8
DOLAR	(74,182)	245	245	(92,879)	581	581
DOLAR - HEDGE	(3,414)	2	2	-	-	-
EURO	(99,844)	3	3	-	-	-
<b>Future - Sale commitments</b>	<b>(2,863,481)</b>	<b>1,083</b>	<b>1,083</b>	<b>(2,116,091)</b>	<b>4,897</b>	<b>4,897</b>
PRÉ	336,450	13,522	6,925	687,165	62,095	60,911
DI	2,347,742	-	-	1,948,194	331,409	293,661
IGPM	-	-	-	12,480	893	785
IPCA	1,107	38	24	972	13	5
EURO	-	-	-	7,017	-	-
DOLAR	1,045,334	30,535	17,410	2,108,217	-	-
DOLAR - HEDGE	1,213,719	77,123	54,083	-	-	-
LIBOR	698,776	-	-	1,146,872	-	20,789
LIBOR EURO - HEDGE	24,589	-	-	-	-	-
EURIBOR - HEDGE	12,435	-	-	-	-	-
<b>Swaps - Asset position</b>	<b>5,680,152</b>	<b>121,218</b>	<b>78,442</b>	<b>5,910,917</b>	<b>394,410</b>	<b>376,151</b>
PRÉ	(53,569)	-	-	(14,820)	-	-
DI	(1,992,869)	(103,863)	(85,347)	(1,850,055)	-	-
IGPM	-	-	-	(12,479)	-	-
IPCA	(1,104)	-	-	(969)	-	-
EURO	-	-	-	(17,230)	(1,352)	(1,448)
DOLAR	-	-	-	(2,611,197)	(76,571)	(69,959)
DOLAR - HEDGE	(42,613)	-	-	-	-	-
LIBOR	(707,640)	(17,045)	(922)	(1,113,008)	(25,328)	-
LIBOR EURO - HEDGE	-	(4,178)	(3,817)	-	-	-
EURIBOR	(24,091)	-	-	-	-	-
EURIBOR - HEDGE	-	(1,412)	(1,222)	-	-	-
<b>Swaps - Liability position</b>	<b>(2,821,886)</b>	<b>(126,498)</b>	<b>(91,308)</b>	<b>(5,619,758)</b>	<b>(103,251)</b>	<b>(71,407)</b>

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PRÉ	1,036,179	-	-	1,129,429	-	-
<b>Forward – Asset position</b>	<b>1,036,179</b>	<b>-</b>	<b>-</b>	<b>1,129,429</b>	<b>-</b>	<b>-</b>
EURO	-	-	-	(9,351)	(660)	(1,023)
DOLAR	(1,004,952)	31,227	48	(1,224,910)	(104,172)	(166,719)
<b>Forward – Liability position</b>	<b>(1,004,952)</b>	<b>31,227</b>	<b>48</b>	<b>(1,234,261)</b>	<b>(104,832)</b>	<b>(167,742)</b>
<b>Forward – Asset position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,065</b>	<b>4,108</b>
IDI	-	-	-	-	-	11
DI OPF	-	-	172	-	-	-
IND	-	-	-	-	-	-
DOLAR	-	869	331	-	3,851	8,304
Ações	-	-	-	-	42	26
<b>Purchase with call option</b>	<b>-</b>	<b>869</b>	<b>503</b>	<b>-</b>	<b>3,893</b>	<b>8,341</b>
IDI	-	51	288	-	-	419
DI OPF	-	57,883	9,595	-	-	-
DOLAR	-	-	1,291	-	16,932	13,847
<b>Purchase with put option</b>	<b>-</b>	<b>57,934</b>	<b>11,174</b>	<b>-</b>	<b>16,932</b>	<b>14,266</b>
IDI	-	-	-	-	-	(1,425)
DI	-	-	(245)	-	-	-
DI OPF	-	(3)	(3,362)	-	-	-
DOLAR	-	(6,108)	(8,575)	-	(349)	(1,556)
Ações	-	-	-	-	(8)	(3)
<b>Sales with call option</b>	<b>-</b>	<b>(6,111)</b>	<b>(12,182)</b>	<b>-</b>	<b>(357)</b>	<b>(2,984)</b>
IDI	-	-	-	-	(62,243)	(59,857)
DI	-	(3,933)	(460)	-	-	-
DI OPF	-	(69,079)	(7,644)	-	-	-
DOLAR	-	-	(585)	-	(359)	(351)
<b>Sales with put option</b>	<b>-</b>	<b>(73,012)</b>	<b>(8,689)</b>	<b>-</b>	<b>(62,602)</b>	<b>(60,208)</b>
<b>Obligations for sale to end to receive/(deliver)</b>	<b>-</b>	<b>(1,572)</b>	<b>(1,569)</b>	<b>-</b>	<b>-</b>	<b>-</b>

The exposure to credit risk in the futures contracts is mitigated due to the daily financial settlement in cash. The swap contracts have a credit risk in case the adverse party does not have the capacity or willingness to meet their contractual obligations. As of December 31, 2011 the total exposure of credit risk in swaps which is referred to in Art. 1 Item III of the BACEN Circular 2770, totaled R\$992,952 (2010- R\$1,369,352).

For the measurement of market values the Bank adopted the following criteria: for the Futures operations it uses the stock exchange quotations, for the Options operations it uses own pricing models based on parameters from stock exchange prices and quotations and for the Swap and Forward operations it estimates the cash flows of each of its legs discounted at present value, in accordance with the respective interest curves, which were obtained based on the BM&F Bovespa and/or CETIP prices.

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### c. Derivatives designed as hedge instruments

As of December 31, 2011 the derivative financial instruments and respective amounts of portfolios hedged by these instruments are as follows:

Hedge object	Risk	Hedge	Dec 31, 2011		Dec 31, 2010	
			Derivative financial instruments	Total Portfolio Hedged	Derivative financial instruments	Total Portfolio Hedged
Loans	Interest rate	Future	16,082	14,226	30,420	28,139
Receivables arising from export contracts	Exchange	Future	17,987	17,070	10,170	9,918
<b>Total (a)</b>			<b>34,069</b>	<b>31,296</b>	<b>40,590</b>	<b>38,057</b>
Securities Issued Abroad	Exchange	Swaps	1,250,743	1,198,212	1,127,196	1,084,669
<b>Total (b)</b>			<b>1,250,743</b>	<b>1,198,212</b>	<b>1,127,196</b>	<b>1,084,669</b>

**(a)** Marked to market positive adjustments of Loans object of hedge amounts to R\$ 542 (2010 – R\$ 1,202) and have been recorded in the account “Other credits – Others” (note 9 “a”);

**(b)** Marked to market positive adjustments of securities issued abroad object of hedge amounts to R\$ 25,110 (2010 – R\$ 29,726) and have been recorded in the account “Resources from securities issuance”.

### d. Maturity dates of the derivative financial instruments

	Up to 30 days	from 31 a 180 days	from 181 a 360 days	Over 360 days	Total 2011	Total 2010
Future - Purchase commitments	13,246	468,298	1,146,888	3,226,869	4,855,301	34,159,504
Future - Sale commitments	(187,968)	(639,181)	(66,155)	(1,970,177)	(2,863,481)	(2,116,091)
Swaps	228	(28,005)	(2,197)	24,694	(5,280)	291,159
Forward	838	16,120	16,939	(2,670)	31,227	(104,832)
Options	(9,716)	(5,159)	(5,445)	-	(20,320)	(42,134)

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	Up to 30 days	from 31 a 180 days	from 181 a 360 days	Over 360 days	Total 2011	Total 2010
Obligations for sale to end to deliver	(254)	(1,318)	-	-	(1,572)	4,065
<b>TOTAL as of Dec 31, 2011</b>	<b>(183,626)</b>	<b>(189,245)</b>	<b>1,090,030</b>	<b>1,278,716</b>	<b>1,995,875</b>	-
<b>TOTAL as of Dec 31, 2010</b>	<b>31,602,469</b>	<b>475,952</b>	<b>510,786</b>	<b>(397,536)</b>	<b>-</b>	<b>32,191,671</b>

## 7 Loans

The loan portfolio totaled R\$ 1,424,157 (2010 - R\$ 741,376) as of the balance sheet date. If the balance of R\$ 589,291 (2010 - R\$ 615,368) of the sureties and guarantees granted recorded in memorandum accounts was included, the portfolio would total R\$ 2,013,448 (2010 - R\$ 1,356,744).

### a. Composition of the loan portfolio per economic activity and per maturity

	Up to 3 months	3 a 12 months	1 a 3 years	3 a 5 years	Over 5 years	Total Dec 31, 2011	Total Dec 31, 2010
Loans - Industry (notes 6.2 "b" and 9 "a")	51,017	348,685	185,139	43,186	9,498	637,525	221,568
Loans - Commerce (notes 6.2 "b" and 9 "a")	14,332	4,597	11,974	7,273	1,818	39,994	41,688
Loans - Other Services	32,501	226,639	55,560	153,306	593	468,599	239,469
Financing - Industry	546	1,430	15,939	13,385	79,515	110,815	88,867
Financing - Commerce	54	7,502	7,502	-	-	15,058	-
Financing - Other Services	201	173	4,189	4,013	9,422	17,998	-
Financing (export) - Industry	583	27,846	18,096	-	-	46,525	47,671
Financing of securities	1,196	-	-	-	-	1,196	-
<b>Loans</b>	<b>100,430</b>	<b>616,872</b>	<b>298,399</b>	<b>221,163</b>	<b>100,846</b>	<b>1,337,710</b>	<b>639,263</b>
Receivables arising from export contracts:							
- Industry (notes 6.2 "b" and 9 "a")	45,467	21,089	10,005	-	9,886	86,447	41,170
- Commerce	-	-	-	-	-	-	60,943
<b>Other receivable - Other</b>	<b>45,467</b>	<b>21,089</b>	<b>10,005</b>	<b>-</b>	<b>9,886</b>	<b>86,447</b>	<b>102,113</b>
<b>Total as of Dec 31, 2011 - R\$</b>	<b>145,897</b>	<b>637,961</b>	<b>308,404</b>	<b>221,163</b>	<b>110,732</b>	<b>1,424,157</b>	<b>-</b>
- %	<b>10.2%</b>	<b>44.8%</b>	<b>21.7%</b>	<b>15.5%</b>	<b>7.8%</b>	<b>100.0%</b>	<b>-</b>
<b>Total as of Dec 31, 2010 - R\$</b>	<b>233,091</b>	<b>172,023</b>	<b>183,911</b>	<b>60,239</b>	<b>92,112</b>	<b>-</b>	<b>741,376</b>
- %	<b>31.5%</b>	<b>23.2%</b>	<b>24.8%</b>	<b>8.1%</b>	<b>12.4%</b>	<b>-</b>	<b>100.0%</b>

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### *b. Concentration of Loan portfolio (includes guarantees provided)*

	2011		2010	
	Amount	%	Amount	%
. Main debtor	121,731	6.0%	113,676	8.4%
. 10 main debtors	996,294	49.5%	835,175	61.6%
. 20 main debtors	1,469,133	73.0%	1,157,167	85.3%
. 50 main debtors	1,950,422	96.9%	1,356,439	100.0%
. Total - Portfolio	<b>2,013,448</b>	<b>100.0%</b>	<b>1,356,744</b>	<b>100.0%</b>

### *c. Classification of the loan portfolio by risk level*

The Central Bank Resolution 2682 of December 21, 1999 introduced the criteria for the classification of loans and for the recording of allowance for doubtful loans. These allowances are based on risk assessment systems of clients and operations. We show as follows the composition of the loan portfolio and of the minimum allowance for doubtful loans required at their corresponding risk levels as established in the aforementioned Resolution.

Risk Level	December 31, 2011			December 31, 2010		
	Loan portfolio		Provision	Loan portfolio		Provision
	To Mature	Minimum	Accounting	To Mature	Minimum	Accounting
AA	1,316,388	-	-	598,817	-	-
A	44,355	222	222	69,693	349	349
B	8,201	82	82	8,762	88	96
C	41,260	1,238	2,402	47,519	1,426	2,550
D	13,953	1,395	2,422	16,585	1,659	1,659
TOTAL	<b>1,424,157</b>	<b>2,937</b>	<b>5,128</b>	<b>741,376</b>	<b>3,522</b>	<b>4,654</b>

### *d. Allowance for doubtful loans*

The balance of the allowance for loan losses amounted to R\$ 5,128 (2010 - R\$ 4,654), corresponding to 0.36% of the loan portfolio, above the minimum required by Resolution 2682. During the years ended December 31, 2011 and 2010 there were no operations derecognized to loss and no recovery of credits. During the year ended December 31, 2011 there was no renegotiated operations (2010 - R\$ 45,382).

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### 8 Foreign exchange portfolio

	As of December 31, Other receivables		Other liabilities	
	2011	2010	2011	2010
Exchange purchases pending settlement	56,640	7,769	-	-
Exchange sales pending settlement	-	-	56,530	2,272
Exchange sale receivables	56,320	2,281	-	-
(-) Advances received in local currency	(122)	-	-	-
Exchange purchase payables	-	-	56,428	7,805
(-) ACC - Financial Exchange	-	-	-	(1,336)
<b>TOTAL</b>	<b>112,838</b>	<b>10,050</b>	<b>112,958</b>	<b>8,741</b>

### 9 Other receivable and other liabilities

- a. Other receivables - Other** - Composed of receivable arising from export contracts (see Note 7“a”) - R\$ 86,447 (2010 - R\$ 102,113), tax credits (see Note 13“b”) - R\$ 24,744 (2010 - R\$ 32,193), Judicial deposits (see Note 14) - R\$ 36,227 (2010 - R\$ 29,687), taxes to offset - R\$ 3,952 (2010 - R\$ 1,140), marked to market positive adjustments of part of loan portfolio (see Note 6.2“c”) – R\$ 542 (2010 – R\$ 1,202) and advances, payments to be reimbursed and sundry debtors - R\$ 8,625 (2010 - R\$ 5,620).
- b. Other liabilities - Tax and Social Security** - Composed of provision for deferred income tax calculated on the positive adjustment to market value of the securities and derivative financial instruments -R\$ 64,545 (2010 – R\$ 33,130), provision for tax contingencies (see Note 14) – R\$ 34,563 (2010 – R\$ 28,816), and taxes and contributions payable on profit - R\$ zero (2010 - R\$ 7,812) and taxes and contributions payable - R\$ 5,070 (2010 - R\$ 4,770).
- c. Other liabilities - due in connection with securities dealing (Liability)** – The balance of R\$5,885 (2010 – R\$10,450) is represented by the securities loans obligations in the amount of R\$5,885 (2010 – R\$2,267). In 2010, the Bank had operations with financial assets performed on BM&F Bovespa S.A. in the amount of R\$8,183, of which financial settlement occurs on the first business day subsequent to the balance sheet date

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**d. Other liabilities - Other** - Composed of provision for payments due - R\$4,158 (2010 - R\$2,548), provision for credit risks - R\$2,614 (2010 - R\$2,236) and sundry creditors – domestic - R\$4,476 (2010 - R\$ 3,454).

### 10 Investments

These are classified as permanent assets, and are composed of Interests in subsidiaries – R\$200,059 (2010 – R\$185,968) and Other investments – R\$6,658 (2010 – R\$4,705), which are represented basically by shares of privately-held companies.

	BES Securities do Brasil S.A. - CCVM (a)	ES Serviços Financeiros DTVM S.A. (b)	BESAF - BES Ativos Financeiros Ltda.	2bCapital S.A.	R Consult Participações Ltda. (c)	TOTAL
Capital stock	75,000	6,300	8,650	6,167	205	
Shareholders' equity adjusted	189,697	3,487	6,171	2,251	800	
Net income the period	14,735	(1,760)	(1,312)	(2,101)	136	
Number of shares common	12,809,890	23,774,409	-	10,445,682	-	
Number of shares preferred	12,528,520	-	-	-	-	
Number of quota	-	-	4,325,000	-	205,000	
% Interest	100.00%	99.15%	50.00%	25.00%	100.00%	
<b>Equity in earnings of subsidiaries:</b>						
- for the year ended December 31, 2011	14,735	(1,657)	(656)	(526)	136	12,032
- for the year ended December 31, 2010	<u>38,865</u>	<u>(1,053)</u>	<u>(582)</u>	<u>(499)</u>	<u>441</u>	<u>37,172</u>
<b>Book value of investment:</b>						
- as of Dec 31, 2011	189,697	3,457	3,086	563	3,256	200,059
- as of Dec 31, 2010	<u>178,462</u>	<u>1,947</u>	<u>1,417</u>	<u>1,088</u>	<u>3,054</u>	<u>185,968</u>

(a) The result of the equity in earnings was 62.1% lower compared to 2010 results, primarily due to a reduction of 35.5% from a non-recurring result obtained by an indirect subsidiary in 2011 (R\$ 10,317) in relation to 2010 (R\$ 29,010), which is represented mainly by income from the BM&F Bovespa S.A. shares, net of taxes; (b) Increase in capital of ES Serviços Financeiros DTVM S.A. in the amount of R\$ 3,300 and (c) On January 26, 2009, the Bank acquired 70% of BES Refran Consultoria Financeira Ltda. for the total amount of R\$ 2,725, and a goodwill of R\$ 2,589 in relation to the book value of the latter was determined. This goodwill is being amortized based on the expected future profitability, up to 5 years. Management did not identify indicators of losses in the recovery value of this asset. As part of its business strategy, on December 31, 2010, the Bank acquired all the shares issued by BES Refran Consultoria Financeira Ltda., increasing from 70% to 100% its share of capital and, in turn, delivered 6.8% of its stake in the subsidiary ES Serviços Financeiros S.A. DTVM formerly BES Refran Consultoria Financeira Ltda., which the new legal name was approved on December 19, 2011.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

### 11 Funds raised

#### *a. Composition per economic activity*

	Up to 3 months	3 a 12 months	1 a 3 years	3 a 5 years	Over 5 years	December 31, 2011	December 31, 2010
Interbank Deposits (a)	331,325	-	23,944	27,901	-	383,170	259,486
Time Deposits (b)	99,109	315,478	837,190	18,260	42,116	1,312,153	1,841,496
<b>Total - Deposits</b>	<b>430,434</b>	<b>315,478</b>	<b>861,134</b>	<b>46,161</b>	<b>42,116</b>	<b>1,695,323</b>	<b>2,100,982</b>
Money Market Repo Commitments	2,238,454	-	3,313	-	-	2,241,767	1,552,010
Letters of credit for agribusiness (c)	94,601	2,736	-	-	-	97,337	128,549
Financial letters (d)	-	3,018	60,448	-	-	63,466	40,971
Securities Issued Abroad (e)	16,376	319,006	1,200	859,736	-	1,196,318	1,084,669
Borrowings (f)	-	41,276	-	-	-	41,276	-
Repass Borrowings From BNDES (g)	791	29,109	34,952	16,635	88,886	170,373	117,508
Subordinated Debts (h)	1,312	142	60,000	30,000	-	91,454	91,398
<b>Total as of December 31, 2011</b>	<b>2,781,968</b>	<b>710,765</b>	<b>1,021,047</b>	<b>952,532</b>	<b>131,002</b>	<b>5,597,314</b>	<b>-</b>
<b>% Concentration 2011</b>	<b>49.7%</b>	<b>12.7%</b>	<b>18.2%</b>	<b>17.0%</b>	<b>2.4%</b>	<b>100.0%</b>	<b>-</b>
<b>Total as of December 31, 2010</b>	<b>1,882,132</b>	<b>538,384</b>	<b>1,492,033</b>	<b>1,113,940</b>	<b>89,598</b>	<b>-</b>	<b>5,116,087</b>
<b>% Concentration 2010</b>	<b>36.8%</b>	<b>10.5%</b>	<b>29.2%</b>	<b>21.8%</b>	<b>1.7%</b>	<b>-</b>	<b>100.0%</b>

As of December 31, 2011, the funds that had been raised in Brazil and abroad, as current and long-term, had the following characteristics: **(a)** Interbank deposits with maturity in October 2012 and April 2020, indexed to the Interbank Deposit (DI) variation; **(b)** Time deposits with maturities up to April 2015, basically indexed to the Interbank Deposit (DI) variation; **(c)** Letters of credit for agribusiness issued with maturities up to November 2012 and indexed to the Interbank Deposit (DI) variation; **(d)** Financial letters issued with maturities up to October 2013, basically indexed to the Interbank Deposit (DI) variation; **(e)** Securities issued abroad, highlighting: e.1) Issuance of US\$ 150,000 (December 31, 2011 – R\$ 281,573 issued in May 2009 with 3 years maturity and rates of 5.75% p.a. and e.2) issuance of US\$ 500,000 (December 31, 2011 – R\$ 878,347) issued in March 2010 with 5 years maturity and rates of 5.625% p.a.; **(f)** Borrowings in the amount of US\$ 22,000 with maturity up to July 2012 and rates of 3.701% p.a.; **(g)** Repass borrowings (BNDES) with maturity up to March 2034, basically indexed to the variation of the Federal Government Long-Term Interest Rate (TJLP) plus interest rates up to 7.4% p.a.; and **(h)** Subordinated debts with maturities up to April 2015, basically indexed to the DI variation plus interest of 1.3% p.a., which will be calculated as the Notional Equity's Level II, in accordance with the BACEN requirements in force.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

### *b. Concentration of Deposits (includes interbank and time deposits)*

	2011		2010	
	Amount	%	Amount	%
. Main depositor	204,603	12.1%	309,714	14.7%
. 10 main depositors	1,069,890	63.1%	1,453,934	69.2%
. 20 main depositors	1,322,120	78.0%	1,762,386	83.9%
. 50 main depositors	1,571,378	92.7%	2,064,285	98.3%
. Total - Deposits	<b>1,695,323</b>	<b>100.0%</b>	<b>2,100,982</b>	<b>100.0%</b>

## 12 Shareholders' equity

**a. Capital** - Composed of 107,454,469 nominative shares, 53,727,246 of which consisting of common shares and 53,727,223 consisting of preferred shares, with no par value.

**b. Dividends** - The Bank's by-laws establishes the minimum dividend of 25% of the annual net income, adjusted as provided for in Article 202 of the Corporate Law. As for the preferred shares dividends are fixed at a value at least 10% higher than one attributed to common shares, in accordance with Paragraph I of Article 17 of Law 6404/76, with the new wording provided by Law 9457/97. Below, we show the calculation of dividends and interest on own capital for the years 2011 and 2010:

	2011	2010
a. Net income for the year	70,812	71,088
b. (-) Legal Reserve	(3,541)	(3,554)
c. Adjusted net income (a - b)	67,271	67,534
d. Interest on own capital - Gross	25,000	25,100
e. (-) Income tax - 15%	(3,750)	(3,765)
<b>f. Interest on own capital - Net (d - e)</b>	<b>21,250</b>	<b>21,335</b>
<b>i. % of the net adjusted Income</b>	<b>31.6%</b>	<b>31.6%</b>

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

In 2011, interest on own capital reached R\$25,000 (2010 – R\$25,100), corresponding to gross values of R\$ 0.221577792658 per common share and R\$ 0.243735571923 per preferred share, subject to the levy of withholding income tax at a rate of 15%. Interest accrued on capital for the second semester totaled R\$ 11,000 (2010 – R\$ 12,550) corresponding to gross values of R\$ 0.097494228769 per common share and R\$ 0.107243651646 per preferred share. For the first semester of 2011, interest on own capital reached R\$14,000, corresponding to gross values of R\$ 0.124083563888 per common share and R\$ 0.136491920277 per preferred share, subject to the levy of withholding income tax at a rate of 15%.

Interest on own capital was calculated based on the Federal Government Long-Term Interest Rate (TJLP) applicable to the shareholders' equity accounts in accordance with Law 9249 of December 26, 1995. The adoption of the payment of the aforementioned Interest on own capital, increased the Bank's profit by approximately R\$10,000 (2010 – R\$10,040) given the tax benefit obtained from it. This interest was accounted for in accordance with the BACEN Circular 2739/97 and in compliance with tax provisions.

- c. Profit Reserve** –The "Reserve for Expansion" is recorded aiming at supporting future investment plans as established in capital budget and, will be used to offset losses, if any, or increase capital. Out of the net income for the year, 5% is added in the recording of the Legal Reserve, which should not exceed 20% of capital.

### 13 Income and social contribution taxes

#### *a. Statement of calculation of income (IRPJ) and social contribution (CSLL) taxes*

	Years ended December 31			
	2011		2010	
	Income Tax	Social Contribution	Income Tax	Social Contribution
<b>Income before taxation and participation</b>	<b>114,219</b>	<b>114,219</b>	<b>89,297</b>	<b>89,297</b>
<b>Additions and exclusions on the calculations of the taxes:</b>	<b>(97,630)</b>	<b>(100,770)</b>	<b>(49,462)</b>	<b>(53,945)</b>
.Non-deductible expenses	1,638	762	5,245	762
.Non-deductible provisions	25,618	23,354	39,024	39,024
.Equity in earnings of subsidiaries	(12,756)	(12,756)	(35,372)	(35,372)
.Interest on own capital	(25,000)	(25,000)	(25,100)	(25,100)
.Profit sharing	(8,243)	(8,243)	(9,642)	(9,642)
.Adjustment to market value - securities and derivatives	(78,538)	(78,538)	(23,517)	(23,517)
Other additions and exclusions	(349)	(349)	(100)	(100)

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

	Years ended December 31			
	2011		2010	
	Income Tax	Social Contribution	Income Tax	Social Contribution
<b>Calculation Basis</b>				
<b>Total charges due in the current year</b>	<b>16,589</b>	<b>13,449</b>	<b>39,835</b>	<b>35,352</b>
Complement of IRPJ and CSLL tax credits	(4,266)	(2,107)	(9,723)	(5,303)
	1,640	985	9,916	5,949
Complement deferred tax on adjustment to market value - securities and derivatives	(19,635)	(11,781)	(5,879)	(3,527)
<b>Income Tax and Social Contribution expenses</b>	<b>(22,261)</b>	<b>(12,903)</b>	<b>(5,686)</b>	<b>(2,881)</b>

### *b. Deferred income and social contribution taxes*

	Dec 31, 2010	Complement	Realization	Dec 31, 2011
Allowance for doubtful accounts	1,862	628	(439)	2,051
Credits amortized to loss	5,465	-	-	5,465
Provision for credit risks, market and liquidity	895	550	(399)	1,046
Provision for tax risks	11,236	2,589	-	13,825
Derivatives not eliminated	12,591	1,688	(12,572)	1,707
Other tax receivable	144	684	(178)	650
<b>Total as of Dec 31, 2011</b>	<b>32,193</b>	<b>6,139</b>	<b>(13,588)</b>	<b>24,744</b>
<b>Total as of Dec 31, 2010</b>	<b>16,328</b>	<b>16,706</b>	<b>(841)</b>	<b>32,193</b>

(a) The income and social contribution tax credits amounted to R\$ 24,744 (2010 – R\$ 32,193), accounting for 4.73% (2010 – 6.76%) of the ending shareholders' equity. The recognition of these tax credits is based on the expectation of generation of future taxable income. Management, after considering the provisions for deferred income and social contribution taxes estimates that the realization of these credits will occur within five years, in the following proportion: 13.7% in the first year, 1.1% in the second year, 0.1% in the third year, 78.0% in the fourth year and 4.3% in the fifth year. As of December 31, 2011, there is no non recorded tax credits (2010 – R\$ 290) and the present value of the tax credits calculated based on the Selic rate amount to R\$ 22,698 (2010 - R\$ 29,010).

(b) The deferred income and social contribution taxes liabilities in the amount of R\$ 64,545 (2010 - R\$ 33,130) were calculated on the positive adjustments to market value of the securities and derivative financial instruments and have been recognized in the account "Other liabilities - Taxes payables".

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

### **14 Contingent liabilities and legal-tax obligations**

The Bank is involved in contingencies related to tax and social security, labor and civil nature in the normal course of its businesses. These contingencies are recognized based on the law in force, the opinion of the legal advisors, the nature and complexity of its proceedings, the loss history, and other criteria that enable management to estimate the probable cash outflow amount with sufficient certainty.

Legal obligations refer to amounts payable related to tax liabilities, the legality or constitutionality of which are subject to challenge in administrative or judicial spheres. The main proceeding is the PIS and COFINS case versus Law 9718/98 – which asserts the right of paying PIS and COFINS contributions on revenue and of not adopting the provisions of Article 3, Paragraph 1, of Law 9718, of November 27, 1998 - which established the inappropriate extension of the calculation bases of these contributions. In December 31, 2010, the legal obligation totaled R\$ 28,816, increased in R\$ 5,747 (2010 – R\$ 3,740) during year, reaching the balance of R\$ 34,563, representing the full amount being questioned and has been recognized in the account “Other liabilities – Taxes payables” (Note 9 “b”). The corresponding judicial deposit totals R\$ 34,563 (2010 – R\$ 28,184) and has been recognized in the account “Other receivables – Other” (Note 9 “a”).

BES Securities do Brasil S.A. – C.C.V.M., wholly owned subsidiary, has tax contingencies represented mainly by the charge of IRPJ and CSLL on the correction of stock exchange shares in the total amount of R\$18,267. This contingency was assessed as possible by our legal advisors and, as such, the recording of provision for the latter was not required.

Tax and social security contingencies are represented mainly by a proceeding that claims, in the administrative sphere, the application of social security charges on non-compensation amounts that the Bank does not recognize as comprising compensation for tax purposes. Labor contingencies originate from proceedings filed by ex-employees that aim to obtain supposed labor rights. There are no other contingencies of significant amount out of those that have been individually disclosed, assessed by our legal advisors as probable and possible, that should be recognized and/or disclosed.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

### 15 Related party transactions

a. The Bank's transactions are conducted within the context of a group of companies that operate in an integrated manner in the financial and capital markets. Transactions were carried out under conditions and at rates compatible with the average of those practiced with third parties and in force on the dates of the operations, considering the absence of risk, and are shown as follows:

	Assets/(Liabilities)		Income/(Expenses)	
	2011	2010	2011	2010
<b>Funds applied abroad</b>	<b>9,376</b>	<b>8,397</b>	<b>134</b>	<b>1,583</b>
Banco Espírito Santo S.A. (Lisboa)		-		1,513
BES Investimento New York	9,376	8,397	134	70
<b>Eurobonds</b>	<b>152,550</b>	<b>148,384</b>	<b>11,310</b>	<b>3,376</b>
BES Investimento Cayman	128,219	106,298	10,624	2,791
BES Finance Ltd Cayman	24,331	42,086	686	585
<b>Swaps</b>	<b>(20,666)</b>	<b>(25,327)</b>	<b>(12,856)</b>	<b>(35,711)</b>
Espírito Santo Investment Plc. (Irlanda)	(7,956)	(5,245)	(8,748)	(11,162)
Banco Espírito Santo de Investimentos S.A. (Lisboa)	(13,204)	(14,253)	(7,365)	(18,557)
BES Investimento New York	(1,398)	(5,829)	1,451	(6,286)
BES Investimento S. A. Madrid	1,892		1,806	
BES Securities do Brasil S.A. - C. C. V. M.		-		294
<b>Dividends and Interest on own capital to be received</b>	<b>3,500</b>	<b>-</b>	<b>-</b>	<b>-</b>
BES Securities do Brasil S.A. - C. C. V. M.	3,500	-	-	-
<b>Payments to be reimbursed</b>	<b>1,109</b>	<b>1,993</b>	<b>-</b>	<b>6</b>
Banco Bradesco S.A. (*)	463	1,993	-	6
2B Capital S.A.	646	-	-	-
<b>Exchange purchase payables and receivables</b>	<b>(231)</b>	<b>(4,172)</b>	<b>-</b>	<b>-</b>
BES Securities do Brasil S.A. - C. C. V. M.	(231)	(4,172)	-	-
<b>Obligations with foreign securities</b>	<b>1,894</b>	<b>-</b>	<b>-</b>	<b>-</b>
BES Investimento do Brasil S.A. - Cayman Branch	1,894	-	-	-
<b>Borrowings</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Banco Espírito Santo, S.A. (Lisboa)	-	-	-	-
<b>Option</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Espírito Santo Investment Plc. (Irlanda)	-	-	-	-
<b>Dividends and Interest on own capital to be payed</b>	<b>9,350</b>	<b>(10,668)</b>	<b>-</b>	<b>-</b>
Espírito Santo Investimentos S.A.	7,480	(8,534)	-	-
Banco Bradesco S.A. (*)	1,870	(2,134)	-	-
<b>Debtors (Creditors)</b>	<b>1,269</b>	<b>(8,183)</b>	<b>(1,248)</b>	<b>(1,929)</b>
BES Securities do Brasil S.A. - C. C. V. M.	1,269	(8,183)	(1,248)	(1,929)
<b>Sundry creditors</b>	<b>(1,548)</b>	<b>(1,562)</b>	<b>-</b>	<b>-</b>
Banco Bradesco S.A. (*)	(1,503)	(1,503)	-	-
Banco Espírito Santo, S.A. (Lisboa)	(46)	(59)	-	-
<b>Rentals receivable</b>	<b>95</b>	<b>88</b>	<b>-</b>	<b>-</b>
BES Securities do Brasil S.A. - C. C. V. M.	95	88	-	-

(\*) Considered a related party due to the fact of holding a 20% equity interest in the Bank.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

b. Compensation of key Management personnel totaled R\$6,632 in the year of 2011 (2<sup>nd</sup> semester 2011 – R\$2,665 and 2010 – R\$7,749). The Bank does not offer long-term benefits, benefits related to termination, or share-based compensation to its key Management personnel.

### 16 Other information

a. BES Investimento do Brasil S.A. - Banco de Investimento determines its operating limits in a consolidated manner, within the parameters established in the National Monetary Council (CMN) Resolution 2099 of August 17, 1994 and subsequent regulatory rules applicable thereon. We show below the notional equity and the notional equity required as of December 31, 2011:

	<u>Financial system consolidated</u>	<u>Economic- financial consolidated</u>
Reference shareholders' equity Tier I	518,516	526,790
Reference shareholders' equity Tier II	41,796	41,796
<b>Reference shareholders' equity - Total</b>	<b>560,312</b>	<b>568,586</b>
Capital allocation - credit risk	352,570	347,407
Capital allocation - market risk	23,759	23,759
Capital allocation - operational risk	22,195	26,193
<b>Required reference shareholders' equity</b>	<b>398,524</b>	<b>397,359</b>
<b>Reference shareholders' equity in excess</b>	<b>161,788</b>	<b>171,227</b>
<b>Ratio as of Dec 31, 2011 - Tier I</b>	<b>14.31%</b>	<b>14.58%</b>
<b>Ratio as of Dec 31, 2011 - Tier II</b>	<b>15.47%</b>	<b>15.74%</b>
<b>Ratio as of Dec 31, 2010 - Tier I</b>	<b>13.85%</b>	<b>14.15%</b>
<b>Ratio as of Dec 31, 2010 - Tier II</b>	<b>15.60%</b>	<b>15.91%</b>

b. Service income is composed of specialized technical advisory in the amount of R\$56,525 (2<sup>nd</sup> semester 2011 – R\$20,763 and 2010 – R\$25,867); Commission on services received abroad, R\$96 (2<sup>nd</sup> semester 2011 – R\$ nil and 2010 - R\$6,163); Brokerage fee for securities placement and intermediation, R\$ 2,023 (2<sup>nd</sup> semester 2011 – R\$ 425 and 2010 – R\$2,752) and income from guarantees provided, R\$11,135 (2<sup>nd</sup> semester 2011 – R\$5,968 and 2010 – R\$8,740) and other service income, R\$ 262 (2<sup>nd</sup> semester 2011 – R\$145 and 2010 – R\$340).

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*In thousands of Reais*

- c. Other administrative expenses are composed of financial system services - R\$ 5,875 (2<sup>nd</sup> semester 2011 – R\$ 3,312 and 2010 - R\$ 4,973); communications - R\$ 3,164 (2<sup>nd</sup> semester 2011 – R\$ 1,615 and 2010 - R\$ 2,834); third-party and Specialized technical services - R\$ 2,626 (2<sup>nd</sup> semester 2011 – R\$ 1,299 and 2010 - R\$ 2,311); rent and building fees - R\$ 3,102 (2<sup>nd</sup> semester 2011 – R\$ 1,877 and 2010 - R\$ 2,207); data processing - R\$ 1,724 (2<sup>nd</sup> semester 2011 – R\$ 886 and 2010 - R\$ 1,481); travel expenses - R\$ 1,088 (2<sup>nd</sup> semester 2011 – R\$ 613 and 2010 - R\$ 887); advertising and promotions - R\$ 858 (2<sup>nd</sup> semester 2011 – R\$ 703 and 2010 - R\$ 632); depreciation e amortization - R\$ 3,016 (2<sup>nd</sup> semester 2011 – R\$ 1,824 and 2010 - R\$ 1,835) and others - R\$ 2,049 (2<sup>nd</sup> semester 2011 – R\$ 948 and 2010 - R\$ 1,839).
- d. Tax expenses are composed of federal taxes (PIS, COFINS, IOF) - R\$8,855 (2<sup>nd</sup> semester 2011 – R\$1,483 and 2010 - R\$9,393), state taxes – R\$41 (2<sup>nd</sup> semester 2011 – R\$2 and 2010 – R\$30) and municipal taxes (ISS, IPTU) - R\$3,633 (2<sup>nd</sup> semester 2011 – R\$1,423 and 2010 - R\$ 2,343).
- e. Other operating income are composed basically of securities premiums receivable - R\$8,464 (2<sup>nd</sup> semester 2011 – R\$ 4,430 and 2010 – R\$ nil), reversal of provision for derivative credit, market and liquidity risks - R\$ 180 (2<sup>nd</sup> semester 2011 – R\$ nil and 2010 – R\$79), income from the devaluation of shares taken as a loan – R\$235 (2<sup>nd</sup> semester 2011 – R\$ 139 and 2010- R\$ 377), exchange variation of investments in foreign branches – R\$724 (2<sup>nd</sup> semester 2011 – R\$724 and 2010 – R\$ nil), income on the correction of taxes - R\$145 (2<sup>nd</sup> semester 2011 – R\$47 and 2010 – R\$235) and income from receipt of dividends and interest on own capital in the amount of R\$531 (2<sup>nd</sup> semester 2011 – R\$397 and 2010 – R\$343).
- f. Other operating expenses are composed basically of provision supplement for derivative credit, market and liquidity risks – R\$558 (2<sup>nd</sup> semester 2011 – R\$558 and 2010 – R\$876) and exchange rate devaluation of cash and cash equivalents denominated in foreign currency – R\$ nil (2<sup>nd</sup> semester 2011 – R\$ nil and 2010 – R\$15,210).
- g Non - operating income: in 2010, composed basically of income on disposal of equity investment.



**BES Investimento do Brasil S.A. - Banco de  
Investimento**

Financial statements  
December 31, 2010 and 2009  
(with independent auditors' report thereon)



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## Independent auditors' report

To  
The Shareholders and Board of Directors  
BES Investimento do Brasil S.A. - Banco de Investimento  
São Paulo - SP

We have audited the accompanying individual financial statements of BES Investimento do Brasil S.A. - Banco de Investimento ("the Bank"), which comprise the balance sheet as at December 31, 2010, and the statements of income, changes in shareholders' equity and cash flows for the year and semester then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the financial statements**

Management of the Bank is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices adopted in Brazil applicable to the institutions authorized to operate by the Central Bank of Brazil and for such internal control as management determines is necessary to enable the preparation of these 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 financial statements based on our audit. We conducted in accordance with the Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

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

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



## Opinion

In our opinion, the individual financial statements present fairly, in all material respects, the financial position of BES Investimento do Brasil S.A. - Banco de Investimento as at December 31, 2010, the results of its operations and cash flows for the year and semester then ended, in accordance with the accounting practices adopted in Brazil, applicable to the institutions authorized to operate by the Central Bank of Brazil.

São Paulo, January 27, 2011

KPMG Auditores Independentes  
CRC 2SP014428/O-6

A handwritten signature in black ink, enclosed within a large, hand-drawn oval. The signature is cursive and appears to read 'Claudio Rogelio Sertório'.

Claudio Rogelio Sertório  
Accountant CRC 1SP212059/O-0

BES Investimento do Brasil S.A. - Banco de Investimento

Balance sheets

December 31, 2010 and 2009

(In thousands of Reais)

Assets	2010	2009	Liabilities	2010	2009
<b>Current assets</b>	<b>3,527,436</b>	<b>2,586,829</b>	<b>Current liabilities</b>	<b>2,659,298</b>	<b>2,168,739</b>
<b>Cash and cash equivalents</b>	<b>2,372</b>	<b>9,272</b>	<b>Deposits</b>	<b>721,699</b>	<b>1,573,896</b>
<b>Interbank funds applied</b>	<b>61,189</b>	<b>460,149</b>	Interbank deposits	215,008	671,748
Money market	61,119	460,149	Time deposits	506,691	902,148
Interbank deposits	70	-	<b>Money market repurchase commitment</b>	<b>1,549,042</b>	<b>392,573</b>
<b>Securities and derivative financial instruments</b>	<b>3,014,082</b>	<b>1,748,777</b>	Own portfolio	1,549,042	392,573
Own portfolio	1,329,657	1,272,664	Third-party portfolio	-	-
Subject to repurchase commitments	1,395,348	403,487	<b>Resources from securities issuance</b>	<b>146,338</b>	<b>132,909</b>
Subject to guarantees	4,887	4,679	Resources from securities issuance	128,549	-
Derivative financial instruments	284,190	67,947	Securities issued abroad	17,789	132,909
<b>Loans</b>	<b>333,339</b>	<b>245,142</b>	<b>Interbranch accounts</b>	<b>-</b>	<b>1,580</b>
Private sector	334,654	246,824	Third party resources in transit	-	1,580
(Provision for doubtful loans)	(1,315)	(1,682)	<b>Repass borrowings from public sector</b>	<b>2,039</b>	<b>2,801</b>
<b>Other receivable</b>	<b>115,407</b>	<b>122,947</b>	BNDES	2,039	2,801
Foreign exchange portfolio	10,050	365	<b>Derivative financial instruments</b>	<b>161,849</b>	<b>5,707</b>
Income receivable	11,718	15,090	Derivative financial instruments	161,849	5,707
Securities clearing accounts	2,034	-	<b>Other liabilities</b>	<b>78,331</b>	<b>59,273</b>
Other	91,892	108,107	Collection of taxes	1,086	332
(Provision for other doubtful receivable)	(287)	(615)	Foreign exchange portfolio	8,741	364
<b>Other assets</b>	<b>1,047</b>	<b>542</b>	Social and statutory	10,667	16,525
Other assets	73	-	Taxes payable	39,565	14,479
Prepaid expenses	974	542	Securities clearing accounts	10,450	6,165
<b>Long- term assets</b>	<b>2,282,355</b>	<b>1,391,306</b>	Subordinated debt	1,398	1,185
<b>Interbank funds applied</b>	<b>36,266</b>	<b>-</b>	Other	6,424	20,223
Interbank deposits	36,266	-		<b>2,871,368</b>	<b>1,541,302</b>
<b>Securities and derivative financial instruments</b>	<b>1,863,366</b>	<b>1,164,314</b>	<b>Long-term liabilities</b>	<b>1,379,283</b>	<b>1,030,364</b>
Own portfolio	1,136,833	487,377	<b>Deposits</b>	<b>1,379,283</b>	<b>1,030,364</b>
Subject to repurchase commitments	194,769	-	Interbank deposits	44,478	26,310
Subject to guarantees	366,827	433,697	Time deposits	1,334,805	1,004,054
Derivative financial instruments	164,937	243,240	<b>Money market repurchase commitment</b>	<b>2,968</b>	<b>1,509</b>
<b>Loans</b>	<b>303,344</b>	<b>180,935</b>	Own portfolio	2,968	1,509
Private sector	304,609	181,557	<b>Resources from securities issuance</b>	<b>1,107,851</b>	<b>295,743</b>
(Provision for doubtful loans)	(1,265)	(622)	Resources from securities issuance	40,971	-
<b>Other receivable</b>	<b>78,276</b>	<b>45,432</b>	Securities issued abroad	1,066,880	295,743
Other	80,063	46,557	<b>Repass borrowings from public sector</b>	<b>115,469</b>	<b>72,211</b>
(Provision for other doubtful receivable)	(1,787)	(1,125)	BNDES	115,469	72,211
<b>Other assets</b>	<b>1,103</b>	<b>625</b>	<b>Derivative financial instruments</b>	<b>139,020</b>	<b>16,924</b>
Prepaid expenses	1,103	625	Derivative financial instruments	139,020	16,924
<b>Permanent assets</b>	<b>197,979</b>	<b>153,782</b>	<b>Other liabilities</b>	<b>126,777</b>	<b>124,551</b>
<b>Investments</b>	<b>190,673</b>	<b>148,600</b>	Taxes payable	34,963	33,007
Subsidiaries and affiliates - Domestic	185,968	145,717	Subordinated debts	90,000	90,000
Other investments	4,705	2,883	Other	1,814	1,544
<b>Premises and equipment</b>	<b>5,976</b>	<b>2,919</b>	<b>Deferred income</b>	<b>714</b>	<b>336</b>
Other fixed assets for own use	9,073	5,149	Deferred income	714	336
(Accumulated depreciation)	(3,097)	(2,230)	<b>Shareholders' equity</b>	<b>476,390</b>	<b>421,540</b>
<b>Intangible assets</b>	<b>219</b>	<b>318</b>	Capital - Domestic	320,000	300,000
Intangible assets	241	318	Revenue reserve	156,390	121,540
(Accumulated amortization)	(22)	-	<b>Total liabilities</b>	<b>6,007,770</b>	<b>4,131,917</b>
<b>Deferred charges</b>	<b>1,111</b>	<b>1,945</b>			
Deferred charges	3,986	4,319			
(Accumulated amortization)	(2,875)	(2,374)			
<b>Total assets</b>	<b>6,007,770</b>	<b>4,131,917</b>			

See the accompanying notes to the financial statements.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Statements of income

Periods ended December 31, 2010 and 2009

(In thousands of Reais, except for the net income period/year per share)

	<u>2010</u>		
	<u>2nd semester</u>	<u>Year</u>	<u>Year 2009</u>
<b>Financial operations income</b>	<u>155,670</u>	<u>362,899</u>	<u>352,011</u>
Loans	47,066	83,592	27,272
Securities income	224,671	433,031	311,451
Net income from derivatives financial instruments	(116,028)	(155,893)	9,549
Trade finance and foreign exchange income	(39)	2,169	3,739
<b>Financial operations expenses</b>	<u>(115,164)</u>	<u>(280,114)</u>	<u>(251,968)</u>
Deposits, money market and interbank funds	(112,403)	(274,094)	(240,356)
Loans operations, Assignment and Repass	(3,060)	(5,410)	(4,896)
Allowance for losses on doubtful receivables	299	(610)	(6,716)
<b>Net income on financial operations</b>	40,506	82,785	100,043
<b>Other operating income (expenses)</b>	<u>(314)</u>	<u>5,204</u>	<u>25,079</u>
Service fee income	25,441	44,221	37,215
Personnel expenses	(15,253)	(31,041)	(26,706)
Other administrative expenses	(10,154)	(18,863)	(19,035)
Tax expenses	(6,385)	(11,765)	(19,808)
Equity in earnings of subsidiaries	21,111	37,172	54,070
Other operating income	1,275	2,152	6,907
Other operating expenses	(16,349)	(16,672)	(7,564)
<b>Operating result</b>	40,192	87,989	125,122
<b>Non-operating result</b>	<u>344</u>	<u>1,308</u>	<u>290</u>
<b>Net income before income taxes and profit sharing</b>	40,536	89,297	125,412
<b>Income tax and social contribution</b>	<u>(2,712)</u>	<u>(8,567)</u>	<u>(23,591)</u>
Income tax	(4,712)	(15,602)	(17,808)
Social contribution	(2,296)	(8,830)	(10,274)
Deferred tax assets	4,296	15,865	4,491
<b>Profit sharing</b>	<u>(1,644)</u>	<u>(9,642)</u>	<u>(7,602)</u>
<b>Net income</b>	<u>36,180</u>	<u>71,088</u>	<u>94,219</u>
<b>Number of shares</b>	<u>107,454,469</u>	<u>107,454,469</u>	<u>105,241,964</u>
<b>Net income for the period/year per shares in R\$</b>	<u>0.34</u>	<u>0.66</u>	<u>0.90</u>

See the accompanying notes to the financial statements.

BES Investimento do Brasil S.A. - Banco de Investimento

Statements of changes in shareholders' equity

Periods ended December 31, 2010 and 2009

(In thousands of Reais)

	Capital	Capital reserves	Revenue Reserve		Retained earnings	Total
			Legal reserve	Reserve for expansion		
<b>Balances at December 31, 2008</b>	<u>150,000</u>	<u>1,598</u>	<u>14,698</u>	<u>-</u>	<u>85,787</u>	<u>252,083</u>
Transfer of profits from previous years	-	-	-	39,034	(39,034)	-
Capital increase with reserves	50,000	(1,598)	-	(1,649)	(46,753)	-
Capital increase with shares subscriptions	100,000	-	-	-	-	100,000
Net income for the year	-	-	-	-	94,219	94,219
Transfer of profits	-	-	-	64,746	(64,746)	-
Appropriations:						
Reserves	-	-	4,711	-	(4,711)	-
Dividends	-	-	-	-	(8,862)	(8,862)
Interest on own capital	-	-	-	-	(15,900)	(15,900)
<b>Balances at December 31, 2009</b>	<u>300,000</u>	<u>-</u>	<u>19,409</u>	<u>102,131</u>	<u>-</u>	<u>421,540</u>
Capital increase with reserves	11,138	-	-	(11,138)	-	-
Capital increase with shares subscriptions	8,862	-	-	-	-	8,862
Net income for the year	-	-	-	-	71,088	71,088
Appropriations:						
Reserves	-	-	3,554	42,434	(45,988)	-
Interest on own capital	-	-	-	-	(25,100)	(25,100)
<b>Balances at December 31, 2010</b>	<u>320,000</u>	<u>-</u>	<u>22,963</u>	<u>133,427</u>	<u>-</u>	<u>476,390</u>
<b>Balances at July 01, 2010</b>	<u>320,000</u>	<u>-</u>	<u>21,154</u>	<u>90,993</u>	<u>20,613</u>	<u>452,760</u>
Net income for the semester	-	-	-	-	36,180	36,180
Appropriations:						
Reserves	-	-	1,809	42,434	(44,243)	-
Interest on own capital	-	-	-	-	(12,550)	(12,550)
<b>Balances at December 31, 2010</b>	<u>320,000</u>	<u>-</u>	<u>22,963</u>	<u>133,427</u>	<u>-</u>	<u>476,390</u>

See the accompanying notes to the financial statements.

BES Investimento do Brasil S.A. - Banco de Investimento

Statements of cash flows

Periods ended December 31, 2010 and 2009

(In thousands of Reais)

	<b>2010</b>		
	<b>2nd semester</b>	<b>Year</b>	<b>Year 2009</b>
<b>Operations activities</b>			
<b>Net income</b>	36,180	71,088	94,219
<b>Adjusted net income</b>	(19,678)	(35,888)	(59,274)
Allowance for losses on doubtful receivables	299	(610)	(6,716)
Depreciations and amortizations	1,134	1,894	1,512
Equity in earnings of subsidiaries	(21,111)	(37,172)	(54,070)
<b>(Increase) decrease in operations assets</b>	(1,250,027)	(1,669,161)	(87,742)
Interbank funds applied	(36,266)	(36,266)	92,465
Securities and Derivative Financial Instruments	(1,138,437)	(1,396,685)	92,345
Loans operations	(34,124)	(210,331)	(273,889)
Other receivable	(41,083)	(24,969)	2,106
Other assets	(117)	(910)	(769)
<b>Increase (decrease) in operations liabilities</b>	732,288	1,808,240	703,562
Deposits	(229,433)	(503,278)	1,249,518
Money market and interbank funds	674,228	1,157,928	(45,032)
Resources from securities issuance	23,212	825,537	428,652
Interbranch accounts	(1,685)	(1,580)	1,340
Borrowings and repasses	40,894	42,496	(404,143)
Derivative financial instruments	220,918	278,238	(433,555)
Other liabilities	3,627	8,521	(93,167)
Deferred income	527	378	(51)
<b>Net cash provided by/used in operating activities</b>	(501,237)	174,279	650,765
<b>Investing activities</b>			
Application of securities held to maturity	54,967	(567,672)	(307,659)
Acquisition of assets and investments	(1,418)	(14,414)	(6,060)
Acquisition of others assets	(73)	(73)	-
Acquisition of premises and equipment	(3,825)	(4,169)	(947)
Investment in intangible assets	203	78	(318)
Investment in deferred charges	-	-	(60)
Dividends and interest on own capital received	7,710	9,510	13,976
Sale of assets and investments	3	3	404
Sale of premises and equipment	73	73	75
<b>Net cash provided by/used in investing activities</b>	57,640	(576,664)	(300,589)
<b>Financing activities</b>			
Capital increase	-	8,862	100,000
Increase (decrease) in subordinated debts	289	213	(512)
Interest on own capital paid	-	(12,550)	(24,762)
<b>Net cash provided by/used in financing activities</b>	289	(3,475)	74,726
<b>Increase (decrease) in cash and cash equivalents</b>	(443,308)	(405,860)	424,902
<b>Cash and cash equivalents:</b>			
Beginning of period	506,869	469,421	44,519
End of period	63,561	63,561	469,421
<b>Increase (decrease) in cash and cash equivalents</b>	(443,308)	(405,860)	424,902

See the accompanying notes to the financial statements.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

### Years ended December 31, 2010 and 2009

*(In thousands of Reais)*

#### **1 Operations**

BES Investimento do Brasil S.A. - Banco de Investimento (“the Bank”), whose corporate purpose consists of the practice of operations inherent to investment banks, resulted from the transformation of Companhia Interatlântico de Arrendamento Mercantil S.A., as resolved at the Ordinary and Extraordinary General Shareholders’ Meeting held on March 1, 2000.

BES Investimento do Brasil S.A. - Banco de Investimento is a subsidiary of Espírito Santo Investimentos S.A., with its head office in Brazil, which, in turn, is a subsidiary of Banco Espírito Santo S.A., with its head office in Portugal, whose operations are conducted in the context of a group of companies that operate in an integrated manner in the financial market. Certain operations of it have the involvement or mediation of related institutions, operating in the financial market, whose activities include the foreign exchange and securities brokerage.

#### **2 Presentation of the financial statements**

The financial statements have been prepared in accordance with accounting guidelines issued by Law 6404/76 and amendments introduced by Law 11638/07 and by Provisional Measure 449/08 (transformed into Law 11941/09), and in accordance with the rules and regulations of National Monetary Council (CMN) and of the Central Bank of Brazil (BACEN), when applicable.

The financial statements were approved by the Management on January 27, 2011.

#### **3 Significant accounting practices**

- a. Income and expenses are recognized on the accrual basis.
- b. Current and non-current assets are measured at their realization value and, when applicable, including income accrued up to the balance sheet date, less the provision for losses and adjusted at their market values, specifically in relation to the recording and accounting valuation of securities and derivative financial instruments in accordance with BACEN Circular 3068 (see Note 6.1).

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*(In thousands of Reais)*

- c. The Bank uses derivative financial instruments aiming at meeting the needs of its clients, as well as of its own needs, and to reduce its exposure to market, currency and interest rate risks, using for so the instruments available on the BM&F and the over-the-counter markets. These derivative financial instruments are evaluated to market value and the positive and negative adjustments are accounted as income or expenses, in accordance with Circular BACEN nº 3082 (see Note 6.2). The derivative financial instruments (hedge instruments) used to mitigate risks from market exposure arising from market price valuation of financial assets and liabilities (hedge object) are considered as hedge operations and, at the moment that the operation is contracted, are classified as “market risk hedge”. These operations have its gains and losses, realized or not, accounted for as income or expenses.
- d. Loan operations are classified in accordance with Management’s assessment in nine levels of risk, considering current economic conditions and past loan loss experience, as well as specific and general risks relating to operations, borrowers and guarantors, in compliance with the parameters established by BACEN Resolutions 2682 and 2697. After 60 days, the accrual of delayed loan operations are only recognized as revenue when effectively collected. H-rated (maximum risk) past-due operations remain at this level for six months, after which they are written-off against the existing allowance and controlled in memorandum accounts for at least five years, no longer being recognized in the balance sheet. Renegotiated operations are maintained, at least, at the same classification as their prior rating. The provision for doubtful loans was recorded taking into account the current economic scenario, past experience and expectations regarding the realization value of the portfolio, so that an adequate provision in an amount sufficient to cover specific and overall risks is recorded, together with the allowance calculated in accordance with the risk levels and the respective minimum percentages established by the BACEN Resolutions 2682 and 2697 (see Note 7 “b”).
- e. Impairment of assets: An impairment loss is recognized if the accounting value of an asset or of a cash-generating unit exceeds its recoverable value. Impairment losses are recognized in the income for the period. Beginning on 2008, the book value of non-financial assets, except other assets and tax credits, are reviewed at least once a year when there is any indicator of loss due to impairment.
- f. Permanent assets are stated at cost, taking the following aspects into consideration:
  - Interests in subsidiaries and affiliates are valued in accordance with the equity method of accounting. Goodwill from investment acquisition is amortized in up to five years and tested for impairment at least annually, or whenever there is evidence that it could be impaired (see Note 10).

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

*(In thousands of Reais)*

- Depreciation of premises and equipment is calculated using the straight-line method at the following annual rates: 20% for data processing systems and transport and 10% for furniture and equipment.
  - Intangible assets are basically represented by software licenses. Their amortizations are calculated through the straight line method during the term of their contracts.
  - Deferred charges, basically composed of organization and expansion expenditures and acquisition of software, is recorded using the straight-line method over a maximum period of five years. As established in the legislation in force, the balance of the deferred assets will be maintained up to its total amortization and the new acquisitions will be recorded in the intangible asset accounts.
- g.** Current and non-current liabilities are measured at their known or estimated values, plus, when applicable, the charges and monetary variations (on a pro rata diem basis) or foreign exchange variations incurred. Contingent liabilities are classified either as probable, for which provisions are recorded; as possible, for which there is disclosure but no recording; or as remote, for which the recording or disclosure are not required (see Note 14).
- h.** Provisions for Income Tax (IRPJ), Social Contribution (CSLL), PIS (Social Integration Program) and COFINS (Tax for Social Security Financing) are calculated at the rate of 15% plus 10% above a certain limit, 15%, 0.65% and 4%, respectively, considering for calculation purposes of the respective bases the legislation applicable to each tax charge (see Note 13 “a”). The Bank also complies with the accounting practice of recording tax credits from income and social contribution taxes calculated on tax loss carryforwards and temporary additions, at the same rates in force for the recording of provision (see Note 13 “b”).
- i.** The financial statements, in accordance with Brazilian accounting practices, include some accounts whose amounts are determined using estimates based on past experience, the legal and business environment, the chances of occurrence of events subject or not to the Management’s control etc. These estimates are reviewed at least semi-annually, with the aim of determining amounts that more closely approximate the future settlement values of the assets or liabilities considered.

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

(In thousands of Reais)

### 4 Cash and cash equivalents

Cash and cash equivalents, in accordance with the CMN Resolution 3604/08, comprise cash balances, bank deposits, and highly liquid short-term investments with very low risk of having their values and limits changed, with maturity equal to or shorter than 90 days. The cash and cash equivalents, presented in the Statements of Cash Flows, are as follows:

	<u>2010</u>		<u>2009</u>
	<b>2nd Semester</b>	<b>Year</b>	<b>Year</b>
Cash and cash equivalents	3,840	9,272	7,106
Money market	121,089	460,149	37,413
Interbank deposits	10,344	-	-
Funds applied abroad	371,596	-	-
Total - Interbank funds applied	503,029	460,149	37,413
<b>Beginning of period</b>	<u>506,869</u>	<u>469,421</u>	<u>44,519</u>
Cash and cash equivalents	2,372	2,372	9,272
Money market	61,119	61,119	460,149
Interbank deposits	70	70	-
Total - Interbank funds applied	61,189	61,189	460,149
<b>End of period</b>	<u>63,561</u>	<u>63,561</u>	<u>469,421</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<u>(443,308)</u>	<u>(405,860)</u>	<u>424,902</u>

### 5 Interbank funds applied

	<b>Up to 3 months</b>	<b>from 1 to 3 years</b>	<b>from 3 to 5 years</b>	<u>Total</u>	
				<b>2010</b>	<b>2009</b>
- Public securities - L.F.T.	41,112	-	-	41,112	460,149
- Public securities - N.T.N.-F.	20,007	-	-	20,007	-
Money market	61,119	-	-	61,119	-
Interbank deposits	-	-	27,939	27,939	-
Foreign currency	70	8,327	-	8,397	-
<b>Total as of 12/31/2010 - RS</b>	<u>61,189</u>	<u>8,327</u>	<u>27,939</u>	<u>97,455</u>	<u>-</u>

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

(In thousands of Reais)

	Up to 3 months	from 1 to 3 years	from 3 to 5 years	Total	
				2010	2009
- %	<u>62.8%</u>	<u>8.5%</u>	<u>28.7%</u>	<u>100.0%</u>	<u>-</u>
<b>Total as of 12/31/2009 - R\$</b>	<u>460,149</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>460,149</u>
- %	<u>100.0%</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>100.0%</u>

## 6 Securities and derivative financial instruments

### 6.1 Securities

*Composition of securities*

	Unpledged	Pledged	Total as of 12/31/2010	Unpledged	Pledged	Total as of 12/31/2009
Public securities - L.F.T.	16,903	73,986	90,889	72,816	-	72,816
Public securities - L.T.N.	779,257	194,768	974,025	105,260	-	105,260
Public securities - N.T.N.-F.	6,001	-	6,001	5,829	-	5,829
Public securities - N.T.N.B.	434,671	1,693,077	2,127,748	1,226,871	841,863	2,068,734
Debentures	365,923	-	365,923	149,414	-	149,414
Promissory notes	293,607	-	293,607	40,926	-	40,926
Investment funds quotas	195,977	-	195,977	89,554	-	89,554
Quotas of Credit Assignment						
Investment Funds (F.D.I.C.s)	154,259	-	154,259	49,505	-	49,505
Shares of publicly held companies	8,167	-	8,167	19,866	-	19,866
Eurobond	152,025	-	152,025	-	-	-
Other securities - CEPAC	59,700	-	59,700	-	-	-
<b>Total</b>	<u>2,466,490</u>	<u>1,961,831</u>	<u>4,428,321</u>	<u>1,760,041</u>	<u>841,863</u>	<u>2,601,904</u>

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

(In thousands of Reais)

### Securities portfolio per category and maturity

	2010							2009		
	Unpaid	Up to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	Above 5 years	Book value	Cost value	Book value	Cost value
Public securities - L.F.T.	-	-	89,958	931	-	-	90,889	90,821	72,816	72,752
Public securities - L.T.N.	-	324,776	497	1,342	-	-	326,615	326,610	11,679	11,684
Public securities - N.T.N.B.	-	-	154	532	2,977	-	3,663	3,598	3,645	3,655
Public securities - N.T.N.F.	-	2,666	-	197,422	19,491	1,154,319	1,373,898	1,345,402	1,328,573	1,309,264
Debentures	-	27	3,539	40,096	127,006	43,753	214,421	214,421	-	-
Promissory notes	-	-	71,596	-	-	-	71,596	71,596	-	-
Investment funds quotas	104,712	-	-	-	-	-	104,712	104,712	6,617	6,617
Eurobond	-	41,132	110,893	-	-	-	152,025	152,025	-	-
Shares of publicly held companies	8,167	-	-	-	-	-	8,167	8,167	19,866	19,629
<b>Total Trading Securities (b.1)</b>	<b>112,879</b>	<b>368,601</b>	<b>276,637</b>	<b>240,323</b>	<b>149,474</b>	<b>1,198,072</b>	<b>2,345,986</b>	<b>2,317,352</b>	<b>1,443,196</b>	<b>1,423,601</b>
Debentures	-	2,724	8,206	47,590	59,265	33,717	151,502	151,502	149,414	149,414
Promissory notes	-	-	222,011	-	-	-	222,011	222,011	40,926	40,926
Investment funds quotas	91,265	-	-	-	-	-	91,265	91,265	82,937	82,937
Quotas of Credit Assignment Investment Funds (F.D.I.C.s)	-	-	-	8,441	130,603	15,215	154,259	154,259	49,505	49,505
Other securities - CEPAC	59,700	-	-	-	-	-	59,700	59,700	-	-
<b>Total Available for Sale (b.1)</b>	<b>150,965</b>	<b>2,724</b>	<b>230,217</b>	<b>56,031</b>	<b>189,868</b>	<b>48,932</b>	<b>678,737</b>	<b>678,737</b>	<b>322,782</b>	<b>322,782</b>
Public securities - L.T.N.	-	-	-	647,410	-	-	647,410	647,410	93,581	93,581
Public securities - N.T.N.B.	-	-	-	-	2,338	-	2,338	2,338	2,184	2,184
Public securities - N.T.N.F.	-	-	-	753,850	-	-	753,850	753,850	740,161	740,161
<b>Total Held to maturity (b.2)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,401,260</b>	<b>2,338</b>	<b>-</b>	<b>1,403,598</b>	<b>1,403,598</b>	<b>835,926</b>	<b>835,926</b>
<b>Total as of Dec 31, 2010 - RS</b>	<b>263,844</b>	<b>371,325</b>	<b>506,854</b>	<b>1,697,614</b>	<b>341,680</b>	<b>1,247,004</b>	<b>4,428,321</b>	<b>4,399,687</b>	<b>-</b>	<b>-</b>
- %	<u>6.0%</u>	<u>8.4%</u>	<u>11.4%</u>	<u>38.3%</u>	<u>7.7%</u>	<u>28.2%</u>	<u>100.0%</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total as of Dec 31, 2009 - RS</b>	<b>124,748</b>	<b>13,177</b>	<b>141,244</b>	<b>895,215</b>	<b>348,722</b>	<b>1,078,799</b>	<b>-</b>	<b>-</b>	<b>2,601,904</b>	<b>2,582,309</b>
- %	<u>4.8%</u>	<u>0.5%</u>	<u>5.4%</u>	<u>34.4%</u>	<u>13.4%</u>	<u>41.5%</u>	<u>-</u>	<u>-</u>	<u>100.0%</u>	<u>-</u>

**b.1** Trading securities and securities available for sale - The book value corresponds to the market value of these securities as of the balance sheet date. The market value was obtained through the collection of prices on the market as of the balance sheet date. In case there is no liquidity or price quotation to calculate the market value of a certain security, the values are estimated based on dealer quotations, pricing models or price quotations for securities that present similar features. The positive adjustment for the trading securities in the amount of R\$ 28,634 (2009 - R\$ 19,595), obtained between the cost - R\$ 2,317,352 (2009 - R\$ 1,423,601) and market value - R\$ 2,345,986 (2009 - R\$ 1,443,196), was recorded in a specific account in the statement of income. The cost value and the market value of the securities available for sale totaled R\$ 678,737 (2009 - R\$ 322,782).

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## Notes to the financial statements

*(In thousands of Reais)*

- b.2.** Securities held to maturity - Classified due to Management's intention and capacity of the Bank of holding them up to maturity, proved based on cash flow projections, in accordance with the BACEN requirements. These securities are measured at the cost of acquisition, plus income accrued up to the balance sheet date, was maintained. The market value of these securities corresponded to R\$ 1,406,849 (2009 - R\$ 846,322) as of the balance sheet date.

### **6.2** *Derivative financial instruments*

The Bank uses derivative financial instruments aiming at meeting the needs of its clients, as well as of its own needs, and to reduce its exposure to market, currency and interest rate risks, using for so the instruments available on the BM&F and the over-the-counter markets. The risk management and monitoring involved are carried out by an independent area by means of control policies, establishment of operation strategies, determination of limits and constant monitoring of the portfolios contracted through specific techniques, which are consistent with the guidelines established by Management.

#### *a. Risk management*

The area of Planning, Control, and Risk Management (DPCGR) is responsible for the management and monitoring of market, liquidity and credit risks, and maintains an integrated and independent structure in such manner to meet the guidelines established by Management. The Bank adopts as a principle strategies that aim at minimizing the risks involved in its operations and that are adherent to its risk management policy and to the goals proposed.

**Market risk** - It refers to the chances of a portfolio enduring loss due to fluctuation in the rates, mismatches in the terms, currencies and indices of the asset and liability portfolio held by the companies. In the meantime the risk management is carried out through daily monitoring of the exposure levels in comparison with the limits established, using instruments such as VaR (Value at Risk), Monte Carlo Simulation, sensitivity analysis and stress testing. The methodology for the determination of VaR is based on the parametric model, with a 98% confidence interval for the time range of five days and volatility calculated through the EWMA methodology using a 0.94 lambda. The capital requirement for the coverage of risks - supplementing the monitoring, control and market risk management structure - is calculated daily in compliance with the regulations of the Central Bank of Brazil.

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*(In thousands of Reais)*

**Liquidity risk** - The liquidity strategy and control are decided by the Treasury department, which meets daily before the beginning of the activities of the Bank, aiming to evaluate the various interest, dollar and stock exchange, domestic and overseas market behaviors, as well as to establish the strategies for the day. The Bank manages the liquidity risk by concentrating its portfolio in high quality and liquidity assets, whose positions are monitored carefully in order to reach a balanced management with respect to the exposure to currency and terms. Additionally, the Bank uses the projected cash flow for liquidity risk control in compliance with the BACEN Resolution 2804, adopting assumptions of maturity cash flow of financial operations, payment flow of expenses; the level of late payment in the portfolios, if any, and the anticipated settlement of liabilities for a minimum period of 365 days.

**Credit risk** - Refers to the risk related to a potential loss for the non fulfillment of future obligations (of the principal and charges) by a customer with whom a direct or indirect financial relationship is maintained. The credit risk management is carried out through the monitoring of the quality of the credit risks in our portfolio, which involves a high level of discipline and control in the analyses and operations performed, preserving the integrity and independence of the processes. The Bank has a credit policy approved by Management, in which the objectives that aim the security, quality and liquidity in the application of funds, agility and profitability of the business, established in order to mitigate the risks inherent to any loan, as well as to establish the operating and/or loan granting limits. The DPCGR and the Credit and Risk Committee assume, for the execution of the credit policy, a very important role, which consists of deciding on business proposals and analyses performed by the credit analysts. The Bank's methodology includes a process that attributes ratings to customers for different risk segments. This risk classification is based on the intrinsic profile of each client and has a direct correlation with the chances of default regarding his/her obligations with the Bank.

**Operating risk** - The Compliance area is responsible for the management of the operating risk of the Bank. It maintains an independent structure which is able to identify, evaluate and monitor the risks defined in the BACEN Resolution 3380. As this area is considered an essential activity for the generation of added value, actions were developed aiming the implementation of an operating risk management structure that include the management model, the operating risk categories and policy, the documentation and storage procedures, the operating risk management reports and the disclosure process to comply with the aforementioned Resolution.

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(In thousands of Reais)

### b. Derivatives

The derivative financial instruments are represented by futures, forward, options and swap contract operations, registered at the Futures and Commodities Exchange (BM&F Bovespa S.A.) or at the Clearing House for the Custody and Financial Settlement of Securities (CETIP) or at the Brazilian Company for Custody and Settlement (CBLC), involving prefixed rates, interbank market (DI), exchange variation or price indexes. These derivative financial instruments had their values recorded in memorandum accounts and the adjustments/differences in equity accounts, as shown below:

Contracts	2010			2009		
	Market Value	Cost Value		Market Value	Cost Value	
	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)
DI	32,794,679	850	850	3,811,747	53	53
DI - HEDGE	-	-	-	1,116	-	-
DDI	764,079	(8,447)	(8,447)	1,368,114	618	618
DDI - HEDGE	-	-	-	46,993	(14)	(14)
DOLAR	600,746	(5,710)	(5,710)	547,545	142	142
<b>Future - Purchase commitments</b>	<b>34,159,504</b>	<b>(13,307)</b>	<b>(13,307)</b>	<b>5,775,515</b>	<b>799</b>	<b>799</b>
DI	(1,177,476)	(3,487)	(3,487)	(4,566,077)	(3,290)	(3,290)
DI - HEDGE	(29,254)	(4)	(4)	(15,679)	(2)	(2)
DDI	(806,979)	7,799	7,799	(117,514)	(20)	(20)
DDI - HEDGE	(9,503)	8	8	(17,274)	(9)	(9)
DOLAR	(92,879)	581	581	(132,103)	(30)	(30)
DOLAR - HEDGE	-	-	-	(41,789)	(9)	(9)
IND	-	-	-	(10,378)	(11)	(11)
<b>Future - Sale commitments</b>	<b>(2,116,091)</b>	<b>4,897</b>	<b>4,897</b>	<b>(4,900,814)</b>	<b>(3,371)</b>	<b>(3,371)</b>

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## Notes to the financial statements

(In thousands of Reais)

Contracts	2010			2009		
	Market Value	Cost Value	Net Exposure Asset (Liability)	Market Value	Cost Value	Net Exposure Asset (Liability)
	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)
PRÉ	687,165	62,095	60,911	250,197	47,267	42,360
DI	1,948,194	331,409	293,661	1,560,275	231,711	250,647
IGPM	12,480	893	785	10,470	-	-
IPCA	972	13	5	-	-	-
EURO	7,017	-	-	26,277	-	-
DOLAR	2,108,217	-	-	582,225	15,966	1,322
LIBOR	1,146,872	-	20,789	854,988	-	24,764
<b>Swaps – Asset position</b>	<b>5,910,917</b>	<b>394,410</b>	<b>376,151</b>	<b>3,284,432</b>	<b>294,944</b>	<b>319,093</b>
PRÉ	(14,820)	-	-	-	-	-
DI	(1,850,055)	-	-	(168,990)	-	-
IGPM	(12,479)	-	-	(10,469)	(89)	(177)
IPCA	(969)	-	-	-	-	-
EURO	(17,230)	(1,352)	(1,448)	(8,279)	(156)	(538)
DOLAR	(2,611,197)	(76,571)	(69,959)	(2,002,966)	-	-
LIBOR	(1,113,08)	(25,328)	-	(802,474)	(3,445)	-
<b>Swaps – Liability position</b>	<b>(5,619,758)</b>	<b>(103,251)</b>	<b>(71,407)</b>	<b>(2,993,178)</b>	<b>(3,690)</b>	<b>(715)</b>
PRÉ	1,129,429	-	-	274,713	2,163	2,846
<b>Forward – Asset position</b>	<b>1,129,429</b>	<b>-</b>	<b>-</b>	<b>274,713</b>	<b>2,163</b>	<b>2,846</b>
EURO	(9,351)	(660)	(1,023)	(17,849)	-	-
DOLAR	(1,224,910)	(104,172)	(166,719)	(260,739)	(6,038)	(19,099)
<b>Forward – Liability position</b>	<b>(1,234,261)</b>	<b>(104,832)</b>	<b>(167,742)</b>	<b>(278,588)</b>	<b>(6,038)</b>	<b>(19,099)</b>
<b>Forward – Asset position</b>	<b>-</b>	<b>4,065</b>	<b>4,108</b>	<b>-</b>	<b>-</b>	<b>-</b>
IDI	-	-	11	-	-	-
IND	-	-	-	-	50	93
DOLAR	-	3,851	8,304	-	2,021	28,374
Ações	-	42	26	-	-	-
<b>Purchase with call option</b>	<b>-</b>	<b>3,893</b>	<b>8,341</b>	<b>-</b>	<b>2,071</b>	<b>28,467</b>
IDI	-	-	419	-	1,999	2,654
DI	-	-	-	-	-	1,540
DOLAR	-	16,932	13,847	-	2	116
<b>Purchase with put option</b>	<b>-</b>	<b>16,932</b>	<b>14,266</b>	<b>-</b>	<b>2,001</b>	<b>4,310</b>

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

(In thousands of Reais)

Contracts	2010			2009		
	Market Value		Cost Value	Market Value		Cost Value
	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)	Reference Value	Net Exposure Asset (Liability)	Net Exposure Asset (Liability)
IDI	-	-	(1,425)	-	(9)	(367)
DOLAR	-	(349)	(1,556)	-	(1,955)	(32,196)
Ações	-	(8)	(3)	-	-	-
<b>Sales with call option</b>	<b>-</b>	<b>(357)</b>	<b>(2,984)</b>	<b>-</b>	<b>(1,964)</b>	<b>(32,563)</b>
IDI	-	(62,243)	(59,857)	-	(890)	(1,728)
DI	-	-	-	-	-	(695)
DOLAR	-	(359)	(351)	-	-	-
<b>Sales with put option</b>	<b>-</b>	<b>(62,602)</b>	<b>(60,208)</b>	<b>-</b>	<b>(890)</b>	<b>(2,423)</b>
<b>Obligations for sale to end to receive/(deliver)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(40)</b>	<b>(40)</b>

The exposure to credit risk in the futures contracts is mitigated due to the daily settlement in cash. The swap contracts have a credit risk in case the other party does not have the capacity or willingness to comply with the contractual obligations. As of December 31, 2010 the total exposure to credit risk in swaps which is referred to in Art. 1 Item III of the BACEN Circular 2770, totaled R\$ 1,369,352 (2009 - R\$ 798,908).

For the measurement of market values the Bank adopted the following criteria: for the Futures operations it uses the stock exchange quotations, for the Options operations it uses own pricing models based on parameters from stock exchange prices and quotations and for the Swap and Forward operations it estimates the cash flows of each of its legs discounted at present value, in accordance with the respective interest curves, which were obtained based on the BM&F Bovespa and/or CETIP prices.

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## Notes to the financial statements

(In thousands of Reais)

### c. Derivatives designed as hedge instruments

As of December 31, 2010 the derivatives instruments and respective portfolio hedged are as follows:

Hedge object	Risk	Hedge	2010		2009	
			Derivative financial instruments	Total Portfolio Hedged	Derivative financial instruments	Total Portfolio Hedged
Loans	Interest rate	Future	30,420	28,139	-	-
Receivables arising from export contracts	Exchange	Future	10,170	9,918	87,509	85,965
<b>Total (a)</b>			<b>40,590</b>	<b>38,057</b>	<b>87,509</b>	<b>85,965</b>
Securities Issued Abroad	Exchange	Future	44,495	-	-	-
Securities Issued Abroad	Exchange	Swap	1,082,701	1,084,669	-	-
<b>Total (b)</b>			<b>1,127,196</b>	<b>1,084,669</b>	<b>-</b>	<b>-</b>

(a) Marked to market positive adjustments of Loans object of hedge amounts to R\$ 1,202 (2009 - R\$ 3,820) and have been recognized in the account "Other credits - Others". (note 9 "a").

(b) Marked to market positive adjustments of securities issued abroad object of hedge amounts to R\$ 29,726 (2009 - R\$ zero) and have been recognized in the account "Resources from securities issuance".

### d. Maturity dates of the derivative financial instruments

	Up to 30 days	from 31 a 180 days	from 181 a 360 days	Over 360 days	Total 2010	Total 2009
Future - Purchase commitments	31,808,821	751,469	613,369	985,845	34,159,504	5,775,515
Future - Sale commitments	(151,671)	(423,446)	(131,676)	(1,409,298)	(2,116,091)	(4,900,814)
Swaps	4,485	155,338	86,617	44,719	291,159	291,254
Forward	(1,333)	(27,173)	(57,524)	(18,802)	(104,832)	(3,875)
Options	(59,762)	17,628	-	-	(42,134)	1,218
Obligations for sale to end to deliver	1,929	2,136	-	-	4,065	(40)
<b>TOTAL - Dec 31, 2010</b>	<b>31,602,469</b>	<b>475,952</b>	<b>510,786</b>	<b>(397,536)</b>	<b>32,191,671</b>	<b>-</b>
<b>TOTAL - Dec 31, 2009</b>	<b>27,585</b>	<b>1,132,431</b>	<b>268,385</b>	<b>(265,143)</b>	<b>-</b>	<b>1,163,258</b>

# BES Investimento do Brasil S.A. - Banco de Investimento

## Notes to the financial statements

(In thousands of Reais)

### 7 Loans

The loan portfolio totaled R\$ 741,376 (2009 - R\$ 528,403) as of the balance sheet date. If the balance of R\$ 615,368 (2009 - R\$ 372,548) of the sureties and guarantees granted recorded in memorandum accounts was included, the portfolio would total R\$ 1,356,744 (2009 - R\$ 900,951).

#### a. Composition of the loan portfolio per activity sector and per maturity

	Up to 3 months	from 3 a 12 months	from 1 a 3 years	from 3 a 5 years	Above de 5 years	Total 2010	Total 2010
Loans - Industry (notes 6.2 "b" and 9 "a")	129,200	18,212	32,204	34,050	7,902	221,568	125,066
Loans - Commerce (notes 6.2 "b" and 9 "a")	1,433	718	34,975	4,562	-	41,688	7,352
Loans - Other Services	60,548	118,833	47,360	7,273	5,455	239,469	220,488
Financing - Industry	558	1,430	3,654	14,354	68,871	88,867	53,336
Financing (export) - Industry	209	3,513	43,949	-	-	47,671	20,087
Financing (export) - Other Services	-	-	-	-	-	-	2,052
<b>Loans</b>	<b>191,948</b>	<b>142,706</b>	<b>162,142</b>	<b>60,239</b>	<b>82,228</b>	<b>639,263</b>	<b>428,381</b>
Receivables arising from export contracts:							
- Industry (notes 6.2 "b" and 9 "a")	525	8,992	21,769	-	9,884	41,170	100,022
- Commerce	40,618	20,325	-	-	-	60,943	-
<b>Other receivable - Other</b>	<b>41,143</b>	<b>29,317</b>	<b>21,769</b>	<b>-</b>	<b>9,884</b>	<b>102,113</b>	<b>100,022</b>
<b>Total as of Dec 31,2010 - R\$</b>	<b>233,091</b>	<b>172,023</b>	<b>183,911</b>	<b>60,239</b>	<b>92,112</b>	<b>741,376</b>	<b>-</b>
- %	31.5%	23.2%	24.8%	8.1%	12.4%	100.0%	-
<b>Total as of Dec 31,2009 - R\$</b>	<b>14,969</b>	<b>320,628</b>	<b>119,202</b>	<b>11,487</b>	<b>62,117</b>	<b>-</b>	<b>528,403</b>
- %	2.8%	60.7%	22.5%	2.2%	11.8%	-	100.0%

#### b. Rating of the loan portfolio per risk level

The Central Bank Resolution 2682 of December 21, 1999 introduced the criteria for the rating of loans and lease operations and for the recording of allowance for doubtful loans. These allowances are now based on an analysis of the client/operation risk.

The following table shows the composition of the loan portfolio and the recording of allowances for doubtful loans at their corresponding risk levels, in accordance with Resolution 2682.

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## Notes to the financial statements

(In thousands of Reais)

Risk Level	Loan portfolio	2010			Loan portfolio	2009	
		Provision				Provision	
		Outstanding balance	Minimum	Accounting		Outstanding balance	Minimum
AA	598,817	-	-	431,121	-	-	
A	69,693	349	349	17,891	89	89	
B	8,762	88	96	10,805	108	172	
C	47,519	1,426	2,550	57,337	1,720	2,659	
D	16,585	1,659	1,659	11,249	1,125	1,125	
<b>TOTAL</b>	<b>741,376</b>	<b>3,522</b>	<b>4,654</b>	<b>528,403</b>	<b>3,042</b>	<b>4,045</b>	

### c. Allowance for doubtful loans

The balance of the allowance for loan losses amounted to R\$ 4,654 (2009 - R\$ 4,045), corresponding to 0.6% of the loan portfolio, above the minimum required by Resolution 2682. During the year ended December 31, 2010 there were no operations amortized to loss (2009 - R\$ 13,663). There was no recovery of credits in the years ended December 31, 2010 and 2009. Loans renegotiated during the year ended December 31, 2010 totaled R\$ 45,382 (2009 - R\$ 63,738).

## 8 Foreign exchange portfolio

	Other receivables		Other liabilities	
	2010	2009	2010	2009
Exchange purchases pending settlement	7,769	252	-	-
Exchange sales pending settlement	-	-	2,272	113
Exchange sale receivables	2,281	113	-	-
Exchange purchase payables	-	-	7,805	251
(-) ACC - Financial Exchange	-	-	(1,336)	-
<b>Total</b>	<b>10,050</b>	<b>365</b>	<b>8,741</b>	<b>364</b>

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## Notes to the financial statements

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### 9 Other receivable and other liabilities

- a. **Other receivables - Other** - Composed of receivable arising from export contracts (see Note 7“a”) - R\$ 102,113 (2009 - R\$ 100,022), tax credits (see Note 13“b”) - R\$ 32,193 (2009 - R\$ 16,328), Judicial deposits (see Note 14) - R\$ 29,687 (2009 - R\$ 20,518), taxes to offset - R\$ 1,140 (2009 - R\$ 6,256), marked to market adjustments of part of loan portfolio (see Note 6.2“c”) - R\$ 1,202 (2009 - R\$ 3,820) advances, payments to be reimbursed and sundry debtors - R\$ 5,620 (2009 - R\$ 7,721).
- b. **Other liabilities - Tax and Social Security** - Composed of provision for deferred income tax calculated on the positive adjustment to market value of the securities and derivative financial instruments -R\$ 33,130 (2009 - R\$ 23,723), provision for tax contingencies (see Note 14) - R\$ 28,816 (2009 - R\$ 20,732), and taxes and contributions payable on profit - R\$ 7,812 (2009 - R\$ zero) and taxes and contributions payable - R\$ 4,770 (2009 - R\$ 3,031).
- c. **Securities clearing accounts (Liability)** – The balance of R\$ 10,450 (2009 - R\$ 6,165) is represented by financial asset operations performed on BM&F Bovespa S.A. in the amount of R\$ 8,183 (2009 - R\$ 2,482), of which financial settlement occurs on the first business day subsequent to the balance sheet date, and by the securities loans obligations in the amount of R\$ 2,267 (2009 - R\$ 3,683).
- d. **Other liabilities - Other** - Composed of provision for payments due - R\$ 2,548 (2009 - R\$ 3,832), provision for credit risks - R\$ 2,236 (2009 - R\$ 1,439), sundry creditors - R\$ 3,454 (2009 - R\$ 3,392) and BNDES funds to release to customers - R\$ zero (2009 - R\$ 13,104).

### 10 Investments

These are classified as permanent assets, composed of Interests in subsidiaries - R\$ 185,968 (2009 - R\$ 145,717) and of “Other investments” - R\$ 4,705 (2009 - R\$ 2,883), which are represented basically by non-listed company shares.

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## Notes to the financial statements

(In thousands of Reais)

	BES Securities do Brasil S.A. - CCVM (e)	ES Serviços Financeiros DTVM S.A. (a,d)	BESAF - BES Ativos Financeiros Ltda.	2bCapital S.A. (b)	BES Refran Consultoria Financeira Ltda. (c,d)	Total
Capital stock	75,000	3,000	4,000	6,167	205	
Shareholders' equity adjusted	178,462	1,947	2,834	4,352	664	
Net income the period	38,865	(1,053)	(1,164)	(1,521)	630	
Number of shares common	12,809,890	2,795,999	-	10,445,682	-	
Number of shares preferred	12,528,520	-	-	-	-	
Number of quota	-	-	2,000,000	-	205,000	
% Interest	100.0%	93.2%	50.0%	25.0%	100.0%	
<b>Equity in earnings of subsidiaries:</b>						
- 2nd semester 2010	21,806	(731)	(69)	(201)	306	21,111
- year 2010	38,865	(1,053)	(582)	(499)	441	37,172
- year 2009	<u>54,994</u>	<u>-</u>	<u>(291)</u>	<u>(472)</u>	<u>(161)</u>	<u>54,070</u>
<b>Book value of investment:</b>						
- as of Dec 31,2010	178,462	1,947	1,417	1,088	3,054	185,968
- as of Dec 31,2009	<u>141,231</u>	<u>-</u>	<u>1,999</u>	<u>428</u>	<u>2,059</u>	<u>145,717</u>

(a) Entity constituted on September 21, 2009 and approved by Central Bank on November 23, 2009;

(b) Former Espirito Santo Capital Brasil S.A., which the new legal name was approved on January 21, 2010;

(c) On January 26, 2009, the Bank acquired 70% of Refran Consultoria Financeira Ltda. for the total amount of R\$ 2,725, and a goodwill of R\$ 2,589 in relation to the book value of the latter was determined. This goodwill is being amortized based on the expected future profitability, in up to 5 years. Management did not identify indicators of losses in the recovery value of this asset;

(d) As part of its business strategy, on December 31, 2010, the Bank acquired all the shares issued by BES Refran Consultoria Financeira Ltda., increasing from 70% to 100% its share of capital and, in turn, delivered 6.8% of its stake in the subsidiary ES Serviços Financeiros S.A. DTVM; and

# BES Investimento do Brasil S.A. - Banco de Investimento

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(In thousands of Reais)

(e) The result of the equity was 29.3% lower compared to 2009 results, primarily due to a reduction of 38.9% from a non-recurring result obtained by an indirect subsidiary in 2010 (R\$ 29,010) in relation to 2009 (R\$ 47,481), which is represented mainly by income from the sale of BM&F Bovespa S.A. shares, net of taxes.

### 11 Funds raised

	Up to 3 months	from 3 a 12 months	from 1 a 3 years	from 3 a 5 years	Above de 5 years	Total 2010	Total 2009
Interbank Deposits (a)	79,708	135,300	28,887	-	15,591	259,486	698,058
Time Deposits (b)	<u>141,444</u>	<u>365,247</u>	<u>1,105,729</u>	<u>223,939</u>	<u>5,137</u>	<u>1,841,496</u>	<u>1,906,202</u>
<b>Total - Deposits</b>	<u>221,152</u>	<u>500,547</u>	<u>1,134,616</u>	<u>223,939</u>	<u>20,728</u>	<u>2,100,982</u>	<u>2,604,260</u>
Money Market Repo Commitments	1,549,042	-	2,968	-	-	1,552,010	394,082
Letters of credit for agribusiness (c)	93,301	35,248	-	-	-	128,549	-
Financial letters (d)	-	-	40,971	-	-	40,971	-
Securities Issued Abroad (e)	16,785	1,004	274,824	792,056	-	1,084,669	428,652
Repass Borrowings From BNDES (f)	609	1,430	33,654	12,945	68,870	117,508	75,012
Subordinated Debts (g)	1,243	155	5,000	85,000	-	91,398	91,185
<b>TOTAL as of Dec 31, 2010 - RS</b>	<u>1,882,132</u>	<u>538,384</u>	<u>1,492,033</u>	<u>1,113,940</u>	<u>89,598</u>	<u>5,116,087</u>	<u>-</u>
- %	<u>36.8%</u>	<u>10.5%</u>	<u>29.2%</u>	<u>21.8%</u>	<u>1.7%</u>	<u>100.0%</u>	<u>-</u>
<b>TOTAL as of Dec 31, 2009 - RS</b>	<u>1,099,785</u>	<u>1,003,578</u>	<u>1,315,719</u>	<u>92,209</u>	<u>81,900</u>	<u>-</u>	<u>3,593,191</u>
- %	<u>30.6%</u>	<u>27.9%</u>	<u>36.6%</u>	<u>2.6%</u>	<u>2.3%</u>	<u>-</u>	<u>100.00%</u>

As of December 31, 2010, the funds that had been raised in Brazil and abroad, as current and long-term, had the following characteristics: (a) Interbank deposits with maturity in October 2012 and April 2020, indexed to the Interbank Deposit (DI) variation; (b) Time deposits with maturities up to April 2015, basically indexed to the Interbank Deposit (DI) variation and; (c) Letters of credit for agribusiness issued with maturities up to June 2011 and indexed to the Interbank Deposit (DI) variation; (d) Financial letters issued with maturities up to October 2013, basically indexed to the Interbank Deposit (DI) variation; (e) Securities issued abroad, highlighting: c.1) Issuance of US\$ 150,000 (December 31,2010 - R\$ 240,125) issued in May 2009 with 3 years maturity and rates of 5.75% p.a. and c.2) issuance of US\$ 500,000 (December 31,2010 - R\$ 806,925) in March 2010 with 5 years maturity and rates of 5.625% p.a.; (f) Repass borrowings (BNDES) with maturity up to March 2034, basically indexed to the variation of the Federal Government Long-Term Interest Rate (TJLP) plus interest rates up to 7.4% p.a. and (g) Subordinated debts with maturities up to April 2015, basically indexed to the DI variation plus interest of 1.3% p.a., which will be calculated as the Notional Equity's Level II, in accordance with the BACEN requirements in force.

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## Notes to the financial statements

(In thousands of Reais)

### 12 Shareholders' equity

- a. Capital** - Composed of 107,454,469 nominative shares, 53,727,246 of which consisting of common shares and 53,727,223 consisting of preferred shares, with no par value.

On April 04,2010, it was approved an increase in capital in the amount of R\$ 20,000, being R\$ 11,138 through incorporation of reserves and R\$ 8,862 with subscription of shares, though issuance of 2,212,505 nominative shares, with no par value, being 1,106,253 ordinary shares and 1,106,252 preference shares, approved by the Central Bank on July 08,2010.

- b. Dividends** - The Bank's by-laws establishes the minimum dividend of 25% of the annual net income, adjusted as provided for in Article 202 of the Corporate Law. As for the preferred shares dividends that are at least 10% higher than those attributed to common, in accordance with Clause I of Article 17 of Law 6404/76, with the new wording provided by Law 9457/97. Below, we demonstrate the calculation of dividends and interest on capital for the years 2010 and 2009:

	2010	2009
a. Net income for the year	71,088	94,219
b. (-) Legal Reserve	<u>(3,554)</u>	<u>(4,711)</u>
c. Adjusted net income (a - b)	67,534	89,508
d. Interest on own capital - Gross	25,100	15,900
e. (-) Income tax - 15%	<u>(3,765)</u>	<u>(2,385)</u>
f. Interest on own capital - Net (d - e)	21,335	13,515
g. Dividends	<u>-</u>	<u>8,862</u>
h. Total Interest on own capital (Net) and Dividends	<u>21,335</u>	<u>22,377</u>
i. % of the net adjusted Income	<u>31.6%</u>	<u>25.0%</u>

In 2010, interest on own capital reached R\$ 25,100, corresponding to a gross of R\$ 0.222464103828 per common share and R\$ 0.244710514211 per preferred share, subject to the levy of withholding income tax at a rate of 15%. Interest accrued on capital for the second quarter totaled R\$ 12,550 corresponding to a gross amount of R\$ 0.111232051914 per common share and R\$ 0.122355257105 per preferred share.

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Interest on own capital was calculated based on the shareholders' equity accounts and is limited to the variation in the Federal Government Long-Term Interest Rate (TJLP) in term of law 9,249 of December 26, 1995. The adoption of Interest on own capital payment, increased the Bank's profit in approximately R\$ 10,040 (2009 - R\$ 6,360) considering the tax benefit obtained from it. This interest was accounted for in compliance with BACEN Circular 2739/97 in compliance with fiscal regulations.

- c. Profit Reserve** – In accordance with Resolution 3605/08 of the Central Bank of Brazil, the balance of the account of retained earnings as of 12/31/09 was transferred to “Reserves for Expansion” account. This reserve was recorded in order to facilitate future investment plans as established in capital budget and, will be used to offset losses, if any, or to increase the capital. From net income of the period, 5% is added in Legal Reserve that does not exceed 20% of capital.

### 13 Income and social contribution taxes

#### a. Statement of calculation of income (IR) and social contribution (CS) taxes

	2010		2009	
	Income Tax	Social Contribution	Income Tax	Social Contribution
<b>Income before taxation and participation</b>	<b>89,297</b>	<b>89,297</b>	<b>125,412</b>	<b>125,412</b>
<b>Additions and exclusions on the calculations of the taxes:</b>	<b>(49,462)</b>	<b>(53,945)</b>	<b>(118,844)</b>	<b>(121,841)</b>
.Non-deductible expenses	5,245	762	4,663	1,666
.Non-deductible provisions	39,024	39,024	25,922	25,922
.Equity in earnings of subsidiaries	(35,372)	(35,372)	(47,970)	(47,970)
.Interest on own capital	(25,100)	(25,100)	(15,900)	(15,900)
.Profit sharing	(9,642)	(9,642)	(7,602)	(7,602)
.Adjustment to market value - securities and derivatives	(23,517)	(23,517)	(77,787)	(77,787)
.Other additions and exclusions	(100)	(100)	(170)	(170)
<b>Calculation Basis</b>	<b>39,835</b>	<b>35,352</b>	<b>6,568</b>	<b>3,571</b>
<b>Total charges due in the current year</b>	<b>(9,723)</b>	<b>(5,303)</b>	<b>(1,578)</b>	<b>(536)</b>
Complement of IRPJ and CSLL tax credits	9,916	5,949	1,404	842
Complement deferred tax on adjustment to market value - securities and derivatives	(5,879)	(3,527)	(14,827)	(8,896)
<b>Income Tax and Social Contribution expenses</b>	<b>(5,686)</b>	<b>(2,881)</b>	<b>(15,001)</b>	<b>(8,590)</b>

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## Notes to the financial statements

(In thousands of Reais)

### b. Deferred income and social contribution taxes

	Dec 31,2009	Complement	Realization	Dec 31,2010
Allowance for doubtful accounts	7,083	244	-	7,327
Provision for credit risks, market and liquidity	576	319	-	895
Provision for tax risks	7,748	3,488	-	11,236
Derivatives not eliminated	921	11,670	-	12,591
Profit sharing	-	650	(650)	-
Other tax receivable	-	335	(191)	144
<b>Total</b>	<b>16,328</b>	<b>16,706</b>	<b>(841)</b>	<b>32,193</b>

(a) The income and social contribution tax credits amounted to R\$ 32,193, accounting for 6.76% of the ending shareholders' equity. The recognition of these tax credits is based on the expectation of generation of future taxable income. Management, after considering the provisions for deferred income and social contribution taxes estimates that the realization of these credits will occur within five years, in the following proportion: 44.33% in the first year, 1.90% in the second year, 17.56% in the third year, 0.01% in the fourth year and 36.20% in the fifth year. As of December 31, 2010, there is no unrecorded tax credits and the present value of the tax credits calculated based on the Selic rate amount to R\$ 29,010 (2009 - R\$ 14,990). (b) The provisions for deferred income and social contribution taxes in the amount of R\$ 33,130 (2009 - R\$ 23,723) were calculated on the positive adjustments to market value of the securities and derivative financial instruments and have been recognized in the account "Other liabilities - Taxes payable".

## 14 Contingent liabilities and legal-tax obligations

The Bank is involved in contingencies related to tax and social security, labor and civil nature in the normal course of its businesses. These contingencies are recognized based on the law in force, the opinion of the legal advisors, the nature and complexity of its proceedings, the loss history, and other criteria that enable management to estimate the probable cash outflow with sufficient certainty.

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## Notes to the financial statements

*(In thousands of Reais)*

Legal obligations refer to amounts payable related to tax liabilities, the legality or constitutionality of which are subject to challenge in administrative or judicial spheres. The main proceeding is the PIS and COFINS' case versus Law 9718/98 - which asserts the right of paying the PIS and COFINS contributions on revenue and of not adopting the provisions of Article 3, Paragraph 1, of Law 9718, of November 27, 1998 - which established the inappropriate extension of the calculation bases of these contributions. As of December 31, 2010, the legal obligations total R\$ 28,816 (2009 - R\$ 20,732), representing the full amount being questioned and has been recognized in the account "Other liabilities - Taxes payables" (Note 9 "b"). The corresponding judicial deposit totals R\$ 28,184 (2009 - R\$ 20,518) and has been recognized in the account "Other receivable - Other" (Note 9 "a").

BES Securities do Brasil S.A. - C.C.V.M., a wholly owned subsidiary, has tax contingencies represented mainly by the charge of IRPJ and CSLL on the valuation of stock exchange shares in the total amount of R\$ 18,267. This contingency was classified as possible by our legal advisors and, as such, no provision was recognized.

Tax and social security contingencies are represented mainly by a proceeding that claims, in the administrative sphere, the application of social security charges on non-compensation amounts that the Bank does not recognize as comprising compensation for tax purposes. Labor contingencies originate from proceedings filed by ex-employees that aim to obtain supposed labor rights. There are no other contingencies of significant amount out of those that have been individually assessed by our legal advisors as probable and possible, that should be recognized and/or disclosed.

### 15 Related party transactions

(a) The Bank's transactions are conducted within the context of a group of companies that operate in an integrated manner in the financial and capital markets. Transactions were carried out under conditions and at rates compatible with the average of those practiced with third parties, considering the absence of risk, in force on the dates of the operations, and shown as follows:

	<u>Assets/(Liabilities)</u>		<u>Income/(Expenses)</u>	
	2010	2009	2010	2009
<b>Interbank deposits</b>	<b>(28,887)</b>	<b>(178,465)</b>	<b>(15,432)</b>	<b>(17,288)</b>
BES Securities do Brasil S.A. - C. C. V. M.	(28,887)	(26,310)	(2,577)	(4,219)
Banco Bradesco S.A. (*)	-	(152,155)	(12,855)	(13,069)

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## Notes to the financial statements

(In thousands of Reais)

	<u>Assets/(Liabilities)</u>		<u>Income/(Expenses)</u>	
	2010	2009	2010	2009
<b>Time deposits</b>	<b>(75,710)</b>	<b>(39,912)</b>	<b>(5,024)</b>	<b>(2,915)</b>
Espírito Santo Investimentos S.A.	(6,941)	(4,997)	(537)	(456)
Gespar Participações Ltda	(65,276)	(33,149)	(4,154)	(1,893)
Espírito Santo Financial Holding S.A.	-	(595)	(24)	(125)
E.S. Capital - Sociedade de Capital de Risco, S.A.	-	-	-	(103)
2B Capital S.A.	(2,519)	-	(184)	-
BES Ativos Financeiros Ltda.	(974)	(1,112)	(121)	(332)
Espírito Santo Ativos Imobiliários Ltda.	-	(59)	(4)	(6)
<b>Money market repurchase commitment</b>	<b>(391,165)</b>	<b>(19,505)</b>	<b>(12,787)</b>	<b>(416)</b>
BES Securities do Brasil S.A. - C. C. V. M.	(29,008)	(19,505)	(2,427)	(416)
ES Serviços Financeiros DTVM S.A.	(140)	-	(95)	-
Banco Espírito Santo S.A. (Lisboa)	-	-	(6,919)	-
E.S. Capital – Sociedade de Capital de Risco, S.A.	(2,968)	-	(311)	-
Avistar – Lisboa	-	-	(208)	-
Banco Bradesco S.A. (*)	(359,049)	-	(2,827)	-

	<u>Assets/(Liabilities)</u>		<u>Income/(Expenses)</u>	
	2010	2009	2010	2009
<b>Funds applied abroad</b>	<b>8,397</b>	-	<b>1,583</b>	-
Banco Espírito Santo S.A. (Lisboa)	-	-	1,513	-
BES Investimento New York	8,397	-	70	-
<b>Eurobonds</b>	<b>148,384</b>	-	<b>3,376</b>	-
BES Investimento Cayman	106,298	-	2,791	-
BES Finance Ltd Cayman	42,086	-	585	-
<b>Swaps</b>	<b>(25,327)</b>	<b>(3,016)</b>	<b>(35,711)</b>	<b>(1,219)</b>
Espírito Santo Investment Plc. (Irlanda)	(5,245)	553	(11,162)	4,138
Banco Espírito Santo de Investimentos S.A. (Lisboa)	(14,253)	(3,321)	(18,557)	(5,109)
BES Investimento New York	(5,829)	(248)	(6,286)	(248)
BES Securities do Brasil S.A. - C. C. V. M.	-	-	294	-
<b>Dividends and Interest on own capital to be received</b>	-	<b>7,710</b>	-	-
BES Securities do Brasil S.A. - C. C. V. M.	-	7,710	-	-
<b>Payments to be reimbursed</b>	<b>1,993</b>	<b>2,035</b>	<b>6</b>	<b>109</b>
Banco Bradesco S.A. (*)	1,993	2,035	6	109
<b>Exchange purchase payables and receivables</b>	<b>(4,172)</b>	<b>(138)</b>	-	-
BES Securities do Brasil S.A. - C. C. V. M.	(4,172)	(138)	-	-
<b>Borrowings</b>	-	-	-	<b>4,963</b>
Banco Espírito Santo, S.A. (Lisboa)	-	-	-	4,963
<b>Option</b>	-	-	-	<b>(2,308)</b>
Espírito Santo Investment Plc. (Irlanda)	-	-	-	(2,308)
<b>Dividends and Interest on own capital to be payed</b>	<b>(10,668)</b>	<b>16,002</b>	-	-
Espírito Santo Investimentos S.A.	(8,534)	12,802	-	-

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	<u>Assets/(Liabilities)</u>		<u>Income/(Expenses)</u>	
	2010	2009	2010	2009
Banco Bradesco S.A. (*)	(2,134)	3,200	-	-
<b>Debtors (Creditors)</b>	<b>(8,183)</b>	<b>(1,984)</b>	<b>(1,929)</b>	<b>(3,108)</b>
BES Securities do Brasil S.A. - C. C. V. M.	(8,183)	(1,984)	(1,929)	(3,108)
<b>Sundry creditors</b>	<b>(1,562)</b>	<b>(1,656)</b>	-	<b>(170)</b>
Banco Bradesco S.A. (*)	(1,503)	(1,503)	-	-
Banco Espírito Santo, S.A. (Lisboa)	(59)	(153)	-	(170)
<b>Rentals receivable</b>	<b>88</b>	-	-	-
BES Securities do Brasil S.A. - C. C. V. M.	88	-	-	-

(\*) Bradesco owns 20% of the Bank, and, as such, is considered as related party.

(b) Compensation of key Management personnel totalized R\$ 7,749 (2009 - R\$ 5,963) in the year of 2010. The Bank does not offer long-term benefits related to severance pay, post-employment benefits or share-based compensation to its key Management personnel.

## 16 Other information

(a) BES Investimento do Brasil S.A. - Banco de Investimento determines its operating limits in a consolidated manner, within the parameters established in the National Monetary Council (CMN) Resolution 2099 of August 17, 1994 and the subsequent regulatory rules applicable. We show below the notional equity and the notional equity required as of December 31, 2010:

	<u>Financial system consolidated</u>	<u>Economic-financial consolidated</u>
Reference shareholders' equity Tier I	475,959	481,728
Reference shareholders' equity Tier II	60,043	60,043
<b>Reference shareholders' equity - Total</b>	<b>536,002</b>	<b>541,771</b>
Capital allocation - credit risk	335,595	328,653
Capital allocation - market risk	36,135	36,135
Capital allocation - operational risk	6,175	9,814
<b>Required reference shareholders' equity</b>	<b>377,905</b>	<b>374,602</b>
<b>Reference shareholders' equity in excess</b>	<b>158,097</b>	<b>167,169</b>
<b>Ratio as of Dec 31, 2010 - Tier I</b>	<b>13.85%</b>	<b>14.15%</b>

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	<b>Financial system consolidated</b>	<b>Economic-financial consolidated</b>
<b>Ratio as of Dec 31, 2010 - Tier II</b>	<b>15.60%</b>	<b>15.91%</b>
<b>Ratio as of Dec 31, 2009 - Tier I</b>	<b>19.30%</b>	<b>19.77%</b>
<b>Ratio as of Dec 31, 2009 - Tier II</b>	<b><u>22.88%</u></b>	<b><u>23.42%</u></b>

(b) Service fees income is composed basically of: specialized technical advisory of R\$ 25,867 (2009 – R\$ 14,340); Commission on services received abroad of R\$ 6,163 (2009 - R\$ 11,893); Brokerage of R\$ 2,752 (2009 – R\$ 5,040); Guarantees provided of R\$ 8,740 (2009 – R\$ 3,087) and income from credit operations services – R\$ 340 (2009 – R\$ 2,164).

(c) Other administrative expenses are composed of: Financial system services - R\$ 4,973 (2009 - R\$ 7,426); Communications - R\$ 2,834 (2009 - R\$ 2,216); Third-party and Specialized technical services - R\$ 2,311 (2009 - R\$ 1,692); Rent and building fees - R\$ 1,937 (2009 - R\$ 1,600); Data processing - R\$ 1,481 (2009 - R\$ 1,198); Travel expenses - R\$ 823 (2009 - R\$ 882); Depreciation and amortization - R\$ 1.835 (2009 - R\$ 1,451) and others - R\$ 2,669 (2009 - R\$ 2,570).

(d) Tax expenses are composed of: Federal taxes (PIS, COFINS, IOF) - R\$ 9,393 (2009 - R\$ 17,824), Municipal taxes (ISS, IPTU) - R\$ 2,343 (2009 - R\$ 1,952) and others - R\$ 30 (2009 - R\$ 31).

(e) Other operating income - Composed basically by the reversal of provision for credit risks on derivative instruments - R\$ 79 (2009 - R\$ 4,320), by the income from the devaluation of shares taken as a loan - R\$ 377 (2009 - R\$ 1,244), update on tax revenue - R\$ 235 (2009 - R\$ zero) and by the receipt of dividends and interest on shareholders' equity of R\$ 343 (2009 - R\$ 1,036).

(f) Other operating expenses - Composed basically of provision for credit risks on derivative instruments - R\$ 876 (2009 - R\$ 5,732), exchange rate devaluation of cash and cash equivalents denominated in foreign currency - R\$ 15,210 (2009 - R\$ zero) and expenses related to the payment of labor contributions (REFIS) - R\$ 151 (2009 - R\$ 1,212).

(g) Non - operating income: Composed basically of income related to investment disposal of R\$ 1,308 (2009 - R\$ 302).

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